# COUNCIL TAX REVALUATION: COPING WITH REGIONAL EFFECTS

## A Paper For The ALG

**July 2003**

new policy institute

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# SUMMARY

## Scope and purpose

1. The subject of this paper is the forthcoming revaluation of domestic properties across England for the purposes of establishing their liability for council tax. The revaluation will take place in 2005 and its results will affect council tax bills from 2007.

2. Revaluation will almost inevitably re-shape the council tax system. At the moment, the Government is keeping its options open on what shape the system will take from 2007. The overall purpose of this paper is to shed light on the likely consequences of some of the possible options, providing results for the individual London boroughs and comparing outcomes for London with those for the eight other English regions. The paper also addresses the more specific question of how one might decide what the levels of council tax ought to be region by region and whether London might be paying too much (or too little), both now and in the future.

## The effects of a basic revaluation

3. By 'basic revaluation' we mean a system from 2007 in which the present, eight band national council tax system is just rolled forward to take account of the effect of house price inflation since 1991. We foresee the main effects of such an approach as follows:

   - Since house prices in London have risen faster than house prices nationally, most properties in London will go up by one band. Therefore, most council tax bills in London will rise while, the amount of Revenue Support Grant paid to London by central government will fall by some £320m a year.
   - Within London, the biggest increases in average bill will fall upon people currently in band D, up by more than 20% in inner London and more than 10% in outer London. By contrast, those currently in band H will face no increase whatsoever (because they are already in the top band), while those in band G on average will fare better than those in bands A to F.
   - Across northern England, although basic revaluation will cause bills to fall on average, properties now in band A will see no fall because they are already in the bottom band.

4. We believe that these distributional impacts within regions (and local authority areas), whereby properties in higher bands tend to do better than those in lower bands, will widely be judged unacceptable. We expect this judgement to be made not just in London but in northern and indeed other regions too.

## The principle of 'horizontal equity'

5. But should London be paying more council tax in total and receiving less Revenue Support Grant? While aggregate measures, such as the share of the adult population, properties, or income, do not suggest anything obviously amiss with the present level, such measures are insufficient because they take no account of how the overall burden of council tax in an area is shared among the taxpayers who live there.

6. To deal with this, it is necessary to go below regional totals, to compare the outcomes for sub-groups of people who are in the same circumstances as one-another but live in different regions. This is what we mean by the principle of 'horizontal equity'. While the exact way that it is put into effect can vary, going below the regional totals is essential for any meaningful comparison of overall regional outcomes.

7. We apply the horizontal equity principle by comparing average net household income by band between regions. At present, average income in each band is close to the England average in most regions, implying that the present arrangements conform fairly well to the horizontal equity principle. Maintaining at least this degree of conformity after revaluation should become a goal.

8. A basic revaluation, however, would worsen horizontal equity across the country. For London and the South West in particular, average income in each of the bands A to G range would be significantly lower than the national average for that band. This indicates that revaluation would result in a greater level of inequity between regions with council tax payers in London and the South West penalised heavily.

### Revaluation with regional bands

9. Does a system of regional council tax bands do better? At present, each council tax band applies to the same range of property values across the whole of England - though not Wales and Scotland. The principle of horizontal equity can be applied straightforwardly, however, to determine a set of value ranges for each major region. Our analysis of such a regional revaluation shows that it does indeed maintain more or less the current degree of horizontal equity.

### Conclusions

10. Public perception is a critical component in the success or otherwise of any taxation system. The future of council tax rests in part on the Government's ability to ensure that the post-revaluation system is perceived to be fair. We conclude that a basic revaluation would be unfair to certain regions and unfair, too, to many people in low bands across the country. By contrast, although a regional eight band council tax system using the current multipliers is unlikely to be the complete answer, we believe that it is a more sensible and equitable basis on which to proceed than the existing national framework. The principle of horizontal equity appears to be a practical way of assessing the rightness or otherwise of particular regional schemes.

11. There are also two other, wider points arising from our analysis here:

- First, with the council tax system, there is always more than one way of achieving a particular outcome. For example, regional banding is an instance of a transparent way of proceeding; but similar results could probably be had by non-transparent means, for example, through changes to the way in which central government distributes Revenue Support Grant.
- Second, with changes to the council tax system, even simple ones, the devil is in the detail. What look like purely 'technical' questions can have big and wide-ranging effects. As a result, politicians, both local and national, will need to be closely involved if they and those they represent are not to face some nasty surprises in the not very distant future.

# 1. BASIC REVALUATION AND A 'REVISION' VARIANT

1.1. In the first part of the paper, we present and comment on our forecast of the effects of a basic council tax revaluation that rolls the present system forward to take account of house price inflation since the original valuations were established in 1991.[i] We also present the results for a minimum revision of the system that creates two extra bands and increases slightly the size of the difference in council tax between those in the biggest homes and those in the smallest.

## Basic revaluation

1.2. The band limits for basic revaluation have been raised by the percentage (95%) necessary to leave Assumed National Council Tax (ANCT) unchanged at the level set by government for 2003/04 (£1,037). The band limits and multipliers are as follows:

***Table 1.1***
***Basic Revaluation:***
***Band Limits (£000s) and Multipliers***

| | A | B | C | D | E | F | G | H |
|---|---|---|---|---|---|---|---|---|
| **Upper band limit (now)** | £40 | £52 | £68 | £88 | £120 | £160 | £320 | - |
| **Upper band limit (post revaluation)** | £78 | £101 | £133 | £172 | £234 | £312 | £624 | - |
| **Multiplier (unchanged)** | 6/9 | 7/9 | 8/9 | 9/9 | 11/9 | 13/9 | 15/9 | 18/9 |

1.3. Exhibit 1 summarises the effect of such a revaluation. The effects differ both between and within regions driven by differences in average house price inflation between 1991 and 2002. As the following table shows, there are big variations both within and between regions. Increases across London have been higher than elsewhere.

***Table 1.2***
***Local Authorities with the Lowest/Highest % House Price Change, 1991 to 2002, by Region***

| | LA with lowest increase (and %) | | LA with highest increase (and %) | |
|---|---|---|---|---|
| **North East** | Hartlepool | 36% | Newcastle upon Tyne | 83% |
| **North West** | Blackburn with Darwen | 23% | Manchester | 95% |
| **Yorkshire & The Humber** | Kingston upon Hull | 16% | York | 87% |
| **East Midlands** | Derbyshire | 59% | Northamptonshire | 96% |
| **West Midlands** | Stoke-on-Trent | 29% | Telford and Wrekin | 124% |
| **Eastern** | Peterborough | 72% | Thurrock | 109% |
| **South East** | Isle of Wight | 27% | Brighton and Hove | 165% |
| **South West** | Plymouth | 77% | Bournemouth | 125% |
| **Inner London** | City of London | 99% | Lambeth | 182% |
| **Outer London** | Havering | 100% | Newham | 170% |

1.4. One important consequence of the regional disparities in house price inflation is that it increases the extent to which properties in some regions will be concentrated in certain bands. The contrast is sharpest between London and the three northern regions. After revaluation, 90% of properties in the north will be in bands A to C, with almost all of the remainder being in bands D and E. In London, just 25% will be in bands A to C but 50% will be in bands D and E.

1.5. This means that after a basic revaluation, 75% of Londoners would be paying more council tax than all but the 10% of people in the north in the largest properties. While average income is certainly higher in London, it is not the case that 75% of Londoners are better off than 90% of those in the north.

1.6. The following table shows the percentage increase in the house price index for each of the London boroughs. It should be noted that local-authority level data on house price inflation is only available from 1995. These indices are therefore a combination of a London-wide figure for the period 1991 to 1995 with local authority specific figures thereafter. The approximation inherent in this is probably insignificant as far as the London-wide results are concerned; borough-level results should, however, be treated with more caution. By way of comparison, the average increase across England over the period was about 90%.

***Table 1.3***
***London Boroughs: % Increase in House Price Index: 2002 (Q2) compared with 1991***

| INNER LONDON | % | OUTER LONDON | % |
|---|---|---|---|
| Camden | 138 | Barking and Dagenham | 104 |
| City of London | 99 | Barnet | 119 |
| City of Westminster | 150 | Bexley | 106 |
| Greenwich | 125 | Brent | 157 |
| Hackney | 181 | Bromley | 110 |
| Hammersmith and Fulham | 151 | Croydon | 119 |
| Islington | 147 | Ealing | 130 |
| Kensington and Chelsea | 163 | Enfield | 112 |
| Lambeth | 182 | Haringey | 143 |
| Lewisham | 142 | Harrow | 131 |
| Southwark | 146 | Havering | 100 |
| Tower Hamlets | 167 | Hillingdon | 111 |
| Wandsworth | 158 | Hounslow | 125 |
| | | Kingston upon Thames | 132 |
| | | Merton | 144 |
| | | Newham | 170 |
| | | Redbridge | 126 |
| | | Richmond upon Thames | 126 |
| | | Sutton | 115 |
| | | Waltham Forest | 146 |

## Evaluation: Revenue Support Grant and the share of council tax

1.7. The natural starting point, at least for local authorities themselves, is to look at the effects on Revenue Support Grant (RSG). Inner and Outer London each lose about £160m a year, reflecting the fact that because house price inflation in London has been above the national average.

1.8. No council wants to see its RSG fall, but what support is there for the argument that, post-revaluation, London would be paying too much council tax and receiving too little RSG compared with the rest of the country? The next table compares London's share of council tax, both before and after revaluation, against a range of other measures. The key points are:

- Revaluation increases London's share of council tax from 16.6% to 18.3%.

- 16.6% is greater than its share of both properties (14.5%) and the adult population in 2001 (again, 14.5%). So the burden of council tax is, even now, greater than it would be if the tax were raised on a per capita basis.
- 18.3% is above its share of net income after housing costs (17.5%) and just above its share of net income before housing costs (18.1%).

**Table 1.4**
**Yardsticks for assessing the council tax burden[ii]**

| | Share of properties | | Share of council tax | | Share of income | | |
|---|---|---|---|---|---|---|---|
| | Actual properties | Discounted properties | CT Taxbase (pre) | CT Taxbase (post) | Net household income 2000/1 | Net household income 2000/1 (ahc) | Taxpayers' Income 2000/1 |
| **North East** | 5.3% | 5.2% | 4.4% | 4.2% | 4.7% | 4.7% | 3.8% |
| **North West** | 14.0% | 13.9% | 12.6% | 11.7% | 12.4% | 12.5% | 11.3% |
| **Yorkshire & The Humber** | 10.1% | 10.1% | 9.0% | 8.3% | 9.2% | 9.4% | 8.1% |
| **East Midlands** | 8.5% | 8.5% | 7.8% | 7.5% | 7.9% | 8.1% | 7.4% |
| **West Midlands** | 10.5% | 10.5% | 9.9% | 9.6% | 9.0% | 9.1% | 9.0% |
| **Eastern** | 10.9% | 11.0% | 11.4% | 11.4% | 11.7% | 11.8% | 11.8% |
| **South East** | 16.0% | 16.1% | 18.0% | 18.4% | 18.1% | 18.1% | 20.2% |
| **South West** | 10.2% | 10.2% | 10.4% | 10.6% | 8.8% | 8.8% | 9.3% |
| **Inner London** | 5.5% | 5.4% | 6.2% | 7.1% | | | 8.2% |
| **Outer London** | 9.1% | 9.1% | 10.4% | 11.3% | | | 10.9% |
| **London** | 14.6% | 14.5% | 16.6% | 18.3% | 18.1% | 17.5% | 19.1% |
| **England** | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

1.9. What should we make of this? If council tax were broadly proportionate to income, London's council tax share would be roughly equal to its income share. But council tax is far from being proportionate to income, with households in the bottom fifth paying about 8% of their net income through the tax, compared with 2% for households in the top fifth. This makes it less progressive than income tax – but more progressive than a flat tax levied uniformly per capita or per property.

1.10. Looked at like this, a region's share of total council tax should lie somewhere between its share of people or properties and its share of income. At present, London's council tax share meets this condition but after revaluation it no longer does so, exceeding two of the three income measures. These concerns are also applicable to other regions including the South East and South West.

## Evaluation: 'horizontal equity'

1.11. A different, although connected, way of judging how much council tax Londoners should pay is to compare the average income of households in a particular band, both pre- and post-revaluation. The basic idea behind this is that households with similar incomes should be paying similar amounts of council tax wherever they are in the country. This is the principle which we call 'horizontal equity' and which we use later to help guide the design of an alternative scheme for revaluation. In making such comparisons, it seems appropriate to ignore variations that are due to local decisions about service and council tax levels. As a result, the principle can be examined by reference to the average income by region within each band.

1.12. The next table shows the average net household income by band, both pre and post revaluation, for London and for England as a whole.[iii] Two points should be noted:

- At the moment, band average incomes in London range around the England averages by about 10% both above and below. For the three most numerous bands in London, (C, D and E) this range is less than 5%.
- By contrast, after revaluation, London band average incomes are between 5% and 20% below the England average (excluding band H). As a result, council tax will represent a greater share of income for people in any given band in London than for people in that band in other parts of the country.

***Table 1.5***
***Average Net Household Income by Band, London and England: Pre- And Post-Revaluation***

| | A | B | C | D | E | F | G | H |
|---|---|---|---|---|---|---|---|---|
| **PRE-REVALUATION** | | | | | | | | |
| **London** | £250 | £300 | £380 | £470 | £580 | £740 | £900 | £1,830 |
| **England** | £270 | £340 | £390 | £460 | £560 | £670 | £910 | £1,520 |
| **London as percentage** | 92% | 87% | 96% | 103% | 103% | 110% | 99% | 121% |
| **POST-REVALUATION** | | | | | | | | |
| **London** | £250 | £290 | £340 | £400 | £490 | £610 | £810 | £1,310 |
| **England** | £290 | £360 | £400 | £440 | £530 | £640 | £860 | £1,240 |
| **London as percentage** | 86% | 80% | 85% | 91% | 93% | 95% | 94% | 105% |

## Evaluation: the distribution of council tax increases

1.13. The figures in the second part of the regional summary for Exhibit 1 show that the increased burden borne by Londoners under revaluation is not shared equally. The biggest increases in average bill – 22% in inner London and 11% in outer London – fall upon those currently in band D. By contrast, those currently in band H face no increase whatsoever.

1.14. The 22% rise reflects the fact that the majority of those in inner London now in band D will move up one band, with a minority remaining where they are and a few even moving up two bands. This pattern is the same in each of the bands A to F in inner London: most people will therefore find themselves moving up a band.

1.15. But not everyone in inner London moves up a band. Among those now in band G, only about half do so. This is because the range of house prices covered by G effectively makes it a double band. Those now in H see no rise at all, because they are already in the highest band. Against the background of an unsatisfactory overall outcome for London, it is very difficult to see how one could defend the fact that those now in the top two bands come out best.

1.16. There is a counterpart to this problem in the north of England, where those now in band A - the majority in the north – see no fall in their bills because they are already in the bottom band. As a result, while revaluation favours the north overall, the majority of people living there see no benefit because it all goes to the higher bands. In fact, it can even be worse than this since in local authority areas where spending is above the standard level set by government, actual council tax bills will rise slightly even when assumed national council tax (ANCT) remains unchanged.

### A 'revision' variant

1.17. What happens if we try to address these problems by making a few slightly more radical changes to the system? The problem in the north can be dealt with by splitting band A and attaching a lower multiplier to the new band A1. At the other end, splitting band G into two creates a more even spacing of bands. The new band G2 is given the multiplier previously attached to H, while H gets a new higher multiplier, again in line with the more or less regular progression elsewhere in the system. The band limits and multipliers are as follows:

***Table 1.6***
***Basic Revaluation:***
***Band Limits (£000s) and Multipliers***

| | A1 | A2 | B | C | D | E | F | G1 | G2 | H |
|---|---|---|---|---|---|---|---|---|---|---|
| **Upper band limit (now)** | £40 | £40 | £52 | £68 | £88 | £120 | £160 | £320 | £320 | - |
| **Upper band limit (post revaluation)** | £40 | £78 | £101 | £133 | £172 | £234 | £312 | £437 | £624 | - |
| **Multiplier (now)** | 6/9 | 6/9 | 7/9 | 8/9 | 9/9 | 11/9 | 13/9 | 15/9 | 15/9 | 18/9 |
| **Multiplier (post revaluation)** | 5/9 | 6/9 | 7/9 | 8/9 | 9/9 | 11/9 | 13/9 | 15/9 | 18/9 | 22/9 |

1.18. The results are set out in Exhibit 2. Again, but this time by chance, there is almost no change in ANCT. The results show that:

- current band A households outside London now on average now enjoy a reduction in their bills – although those in London (especially inner London) continue to face significant increases;
- within London, those currently in bands G and H would face increases at least as large as those in band D;
- London's share of total council tax, at 18.3% already too high even under basic revaluation, rises yet further, to 18.7%.

### Sensitivity to where the band limits are set

1.19. A point that emerges from our analysis is that the precise level at which the band limits are set can make a big difference to the detailed outcomes. This is important because the setting of the band limits is liable to be seen as a 'technical' detail only – yet this is not so. The variant just examined is a good example of this problem: leaving all other details the same but splitting band A not at £40,000 (as above) but at £60,000, increases London's RSG loss to around £450m.

1.20. The following table illustrates this further, showing a selection of statistics for the basic revaluation (Exhibit 1) and for two variants, with band limits uplifted by 75% and 125%. There are two main points:

- London as a whole does better with higher band limits (greater uplift), losing less RSG.

- Properties currently in band A in the north see a fall in bills if band limits are set lower. However, the lower ANCT (which drives the good result) also means that band H properties everywhere see falls in their bills.

***Table 1.7***
***Basic Revaluation and Two Variants: Selected Statistics***

| | Band uplift | ANCT | London RSG | Band A. Av. Bill in NE | Band D. Av. Bill in London | Band H. Av. Bill in London |
|---|---|---|---|---|---|---|
| **Basic revaluation** | +95% | £1,037 | -£324m | +1% | +16% | 0% |
| **Basic variant 1** | +75% | £988 | -£343m | -4% | +17% | -5% |
| **Basic variant 2** | +125% | £1,099 | -£267m | +6% | +12% | +6% |

## Our conclusions

1.21. Basic revaluation results in an increased council tax burden falling disproportionately on the shoulders of those in the bottom and middle bands. We also believe that other regions would regard the basic revaluation as unsatisfactory, since although many of them tend to gain RSG, the benefits of that gain do not go to the very many households currently in band A.

1.22. In London, the revision variant is still not satisfactory. Compared with basic revaluation, London residents in the biggest properties do pay more – but those in the lower bands pay no less. The reductions enjoyed elsewhere in the country by those in band A1 do not apply in London – because there are no London properties in that band.

1.23. The problem here may be that, while most councils across England would dislike the basic revaluation because of the way it leaves band A households with nothing, many might favour the 'revision' variant. "It might not be perfect but it is not too bad" is how it could very well appear. For those who don't share that view, this poses a twin challenge:

- to devise alternatives to the basic revaluation and the obvious 'do minimum' alternative; and
- to identify a set of criteria by which such solutions can be judged, and found satisfactory across the country as a whole.

1.24. In what follows, therefore, we proceed on the assumption that basic revaluation and the obvious extension of it are unsatisfactory. In part 2, we identify a series of issues and questions that need addressing if a new system is to be designed. In part 3, we develop the concept of 'ability to pay' and its manifestations 'vertical equity' and 'horizontal equity'. In part 4, we set out some possible alternatives and in part 5 we touch briefly on the question of 'cliff edges'.

1.25. Finally, we note – and stress – that apparently technical decisions like where the bands limits are set have implications both in the aggregate (e.g. for RSG) as well as differentially across bands. In our view, 'technical' decisions with distributional implications are properly political decisions.

# 2. CHANGING THE TAX: FIVE SETS OF DECISIONS

2.1. If we conclude that the basic revaluation is unsatisfactory, there are five sets of decisions or choices that need to be made in order to change it. They are:

- Are we just changing the parameters of the system (e.g. the multipliers or the number of bands) or are we going to change the structure of it too?
- Are changes going to be transparent to the public or are they going to be understood by experts only?
- How far can we base any reformed system on principles?
- Do we prefer fewer changes to more changes?
- If we are going for a sub-national structure, should we go for regions?

### Parameters and/or structure

2.2. At present, a single, integrated council tax system determines both how much each individual household should pay and (given government's assessment of each local authority's spending share) how much RSG each council should receive. The three elements of principle within the system that lead to this result are:

1. that equal property value means equal band;
2. that equal band means equal tax (subject to local decisions about setting different spending level from that identified nationally); and
3. that government grant is based on the same system as determines distribution of local burden.

2.3. Changing the parameters, for example by increasing the number of bands, does not in itself undermine or even modify the way the council tax system works in any fundamental way – although this can, nevertheless, have wide-ranging effects and should not therefore be regarded as purely technical decisions which need not concern politicians.

2.4. By contrast, structural changes modify one or more of the three principles. For example:

- sub-national bands would mean abandoning (or at least modifying) element (1);
- sub-national multipliers would mean abandoning (or at least modifying) element (2);
- continuing, after revaluation, to allocate grant on the current basis while using the new bands to determine the distribution of the resulting tax burden between households in the local authority area would mean abandoning (3).

2.5. The council tax system would still be recognisable if we abandoned any one of the three principle elements. However, to abandon two or even all three elements would in effect represent the abandonment of a coherent or meaningful national system in anything but name.

### Open/transparent versus closed/technical

2.6. Any changes to the system open up a second set of choices: are they to be clear and comprehensible to the public or are they to be less transparent? For example:

- sub-national bands and sub-national multipliers (i.e. changes to elements (1) and/or (2)) are publicly visible and comprehensible;
- changes to the system on which grant is allocated (3) is visible only to the experts.

2.7. Another possible difference between 'visible' and 'invisible' approaches is that they can work on different timetables. So sub-national bands would probably be set once every ten years whereas grant allocation is performed annually and could therefore be 'adjusted' annually too.

### Principle and pragmatism

2.8. The third set of decisions is about how far the council tax system should be based on general principles as opposed to ad hoc or pragmatic judgements. In practice, all decisions have to have a mix of the principled and the pragmatic – the choice is really only about the balance between the two.

2.9. The current system illustrates this point. Although there are some strong principles underlying it, the parameters of the present system like the multipliers have no real basis to them, apart perhaps from the vague idea that more valuable properties should usually pay a bit more. As a result, it is not just new elements of the system that stand in need of principles to shape them but some of the existing elements too.

### More or fewer changes?

2.10. There is also a set of decisions about whether to prefer fewer changes all else being equal. One could, for example, move to a more fine-grained system, with say 20 smaller bands with smaller multiplier steps between them. This could be very little different on paper from a much more cautious approach, of which the revision variant in part 1 is a good example. But more numerous changes would make it harder for people to recognise what was happening - - which could be an advantage or a disadvantage

### Sub-national groupings

2.11. Are Government Office Regions the only option for sub-national divisions with the council tax? Some observations:

- Regional banding is to the benefit of low price areas in high price regions – and to the detriment of high price authorities in low price regions.
- Variations in house price inflation within regions mean that they may not be the best grouping of local authorities.
- Regions may not yet be real to people – but their profile is developing. Reliable data, e.g. on incomes, is available at region level to help set regional bands etc.
- A regional system is still a reasonably comprehensible and manageable one –at most nine variants, one per region, and in practice fewer since some adjacent regions are quite similar to one-another. By contrast a local authority specific system is neither comprehensible nor manageable.

2.12. A big question, however, is whether some sub-regions may be desirable.

## Our conclusions

2.13. Our view on these choices, and which informs the kind of options we have set out in this paper, is as follows.

- First, changes are needed to both parameters and structure. This conclusion rests on the results of part 1, which suggest that changes to parameters are unlikely to be enough to produce a satisfactory outcome in London and other regions, such as the South West and the South East.
- Second, transparent changes are preferred, as are changes based on principle. This is partly as an aid to understanding – fewer changes, too, aids that - bur partly too because the system already has many arbitrary elements within it.
- Third, regions are the preferred sub-national unit, with London treated as a whole (partly pragmatic, due to data limitations but also to do with concerns of avoiding unacceptable ‘cliff edge’ problems within London).

2.14. We stress that these choices have influenced the design and selection of the options we present here. Different choices, especially around transparency, principle and the use of regions as the sub-national unit, would lead to quite different looking outcomes from those presented here – although the actual effects could, if desired, be quite similar.

# 3. THE CONCEPT OF 'ABILITY TO PAY'

3.1. 'Ability to pay' is a suggestive and attractive concept, to which we think there is both popular and political attachment – but it is also unclear and possibly open to contradictory interpretations. The question here is how far it can be given precise shape and used as a principle to underpin changes to the council tax system.

3.2. We suggest that there are at least four, more specific, manifestations of the idea, namely:

- 'absolute' affordability/unaffordability of the tax;
- the growth of council tax since its introduction, rising faster not just than prices but also earnings;
- 'vertical' equity, that is, the extent to which the amount of council tax paid varies according to a household's income; and
- 'horizontal' equity, that is, the extent to which the amount of council tax paid varies across the country for similar households on the same income.

## Absolute affordability/unaffordability and the growth of council tax since 1993

3.3. There are undoubtedly households where council tax is likely to be unaffordable. Obviously, council tax benefit is intended to deal with this problem – and in many cases does so – but there are plenty of exceptions. This is partly a problem of the non-claiming of the benefit – recent figures from the Department of Work and Pensions suggest that in 2000/01, less than half the owner occupiers who were entitled to the benefit actually claimed it. – but it is not just that. For low earning households, council tax is higher than income tax, with data showing that it already accounts for more than 10% of income in some cases.

3.4. This problem is exacerbated by the seemingly relentless rise in council tax since its introduction 10 years ago: a rise of almost 100% over the period, compared with rises of 50% in wages and salaries and just 30% in prices. The rise in council tax may be an understandable long term attempt by government to restore the amount of locally-raised revenue to levels last seen before their collapse at the end of the poll tax episode. It is, however, surely doing increasing damage to the credibility and acceptability of the council tax.

3.5. Taken together, these raise a number of issues some (but not all) of which are beyond the scope of this study. They are:

- the challenge of raising the take-up of council tax benefit (outside the scope of this study);
- the need to relax the way that council tax benefit is restricted to the band E amount (beyond the scope of this study, but informed by it);
- the question of whether, as part of the revaluation exercise, something structural (that is, inherent to the tax, rather than external to it via council tax benefit) should be done to lessen its burden on low – but not very low – income households.

3.6. In our view, this last point, which can be addressed by altering the ratios, or multipliers, that relate the tax in any particular band to the tax in band D, is a priority. There are, of course, political arguments for this (which not everyone will therefore share), based on attachment to the principle that taxes should at least be proportional. But there are practical arguments too, to do both with sound local government finances and continued public acceptance of the tax. Local income tax, either instead of, or in addition to, council tax is another possibility, although as that lies beyond the scope of this report, it has not been investigated.

## 'Vertical' equity

3.7. By 'vertical equity' we mean the extent to which the proportion of income paid on council tax remains the same at different incomes. Although council tax tends to rise with income – because the higher a household's income, the more valuable on average is the property it lives in – it is nevertheless a regressive tax in the sense that on average the share it represents of income falls as income rises. Since it is not an income tax itself, these relationships are only observed on average. Using data for 2000/01:

- After allowing for the effects of council tax benefit, , the council tax actually paid represented 5½% of net household income among the bottom one fifth of households, 3½% among the middle fifth and 2% among the top fifth.
- Restricting attention to those who actually paid council tax in full or part, the comparable figures are 9%, 4% and 2%.

3.8. Our analysis shows that while adjusting the multipliers can alter vertical equity, the effect of doing so is neither direct nor clean since, at the level of the individual household, there is only a fuzzy relationship between income and property value. It is important to note, though, that the basic revaluation, far from decreasing vertical inequity in London, actually increases it as a result of properties becoming more bunched into middle and higher bands.

## 'Horizontal' equity

3.9. By 'horizontal' equity we mean the extent to which the amount of council tax paid is the same across the country for households on the same income. A drawback with it is that it can only be used to refer to the average amount of council tax paid by a group of households (since there is great variation between income and property value at the level of the individual household). Nevertheless, despite this, we believe that this is an important concept which can provide principle on which to help design a system of regional bands.

3.10. Since we are not interested in this study in variations due to local decisions about council tax, it is enough to look at average income by band, with the incomes of single adult households adjusted upwards by 25% to reflect the fact that their tax is lower due to the single person discount. The following table, based on analysis of two years worth of official data shows the average income of households in each band in each region, expressed as a percentage of the England average for the band in question. The final column gives the regional average. A figure below 100% implies that the corresponding band/region is currently over-taxed (its income is low) and a figure above 100% implies the opposite.

**Table 3.1**
**Net Household Income by Band and Region as % of England: Existing Situation[iv]**

| | A | B | C | D | E | F | G | H | Total |
|---|---|---|---|---|---|---|---|---|---|
| **North East** | 98% | 97% | 106% | 102% | 97% | -* | -* | -* | 99% |
| **North West** | 103% | 105% | 104% | 101% | 98% | 92% | 101% | -* | 102% |
| **Yorkshire & the Humber** | 100% | 107% | 99% | 97% | 101% | 89% | 131% | -* | 101% |
| **East Midlands** | 101% | 106% | 103% | 105% | 101% | 91% | 99% | -* | 102% |
| **West Midlands** | 99% | 102% | 99% | 108% | 95% | 95% | 106% | -* | 101% |
| **Eastern** | 97% | 102% | 105% | 102% | 98% | 107% | 106% | -* | 102% |
| **London** | 92% | 87% | 96% | 103% | 103% | 110% | 99% | 120% | 99% |
| **South East** | 102% | 99% | 102% | 98% | 103% | 103% | 100% | 95% | 101% |
| **South West** | 95% | 92% | 91% | 89% | 94% | 82% | 79% | -* | 91% |

3.11. The measure of income used in this table does not take account of housing costs - that is, it is more like a 'before housing costs' measure than an 'after housing costs' one (which is what is commonly used in studies of poverty). While our measure is the one that conforms to what people would ordinarily understand as net income, it should be noted that this is not the measure that presents London's situation in the most favourable light, since its income 'before housing costs' is higher, relative to the rest of the country, than its income 'after housing costs'.

3.12. No importance should be attached to small differences between band/region figures; we would, however, expect the region totals to be more robust. Looking at these totals, all regions bar one lie within 3 percentage points of the England average. The exception is the South West, where incomes are 9% below the England average. Looking at London:

- In each of bands A to C, incomes in London are below the average for the band for England as whole; in band B, indeed, markedly so.
- In each of bands D to F, incomes in London are slightly higher than the average for the corresponding band for England as a whole.
- Only in band H are London incomes much higher than the England average.

3.13. There are certainly figures for individual bands in particular regions which show that horizontal equity is by no means fully adhered to in the present situation. Besides the bottom three bands in London, we would point to the bottom two bands in the North East (covering the majority of dwellings in that region), the bottom band in the Eastern region, as well as the whole of the South West. Allowing for the caveats, the current council tax system conforms fairly well to the principle of horizontal equity.

### 'Horizontal' equity: income and/or wealth?

3.14. However, while the principle of 'horizontal equity' may be accepted, its application exclusively to <u>income</u> is likely to be challenged. "Surely", it will be said, "it should be extended to include wealth as well as income?" For most people, the capital tied up in the value of their home is by far the largest element of their wealth. Council tax, based on the nominal value of the property, at least in part captures that. If a subsequent revaluation moves away from horizontal equity based on income, it may only be doing so because housing wealth has grown much more sharply in London and across the south than elsewhere.

3.15. In our view, however, there are two reasons why council tax should not be seen as a tax on housing wealth and therefore why horizontal equity should not be extended to wealth as well as, or even instead of, income.

3.16. First, while they may very well be some good arguments for taxing the capital gain resulting from house price inflation, capital gains are almost invariably taxed at the point when those gains are realised, either through the sale of the asset (capital gains tax) or through its transfer to another person, usually on death (inheritance tax). In the former case, this means there is a proper valuation of the asset reached through sale. In both cases, there is usually (although especially in the latter case, by no means always) money available at the point of sale or transfer, out of which the tax can be paid. And in both cases too, a liability to tax arises because the person who owned the asset has done something with it, that is, either sold it or given it away. None of these conditions apply in the case of a tax levied on an unrealised capital gain.

3.17. Second, a substantial minority of taxpayers rent the property in which they live and therefore do not enjoy the capital gain that is supposedly being taxed. For England as a whole this is a 30% minority. For London, it is nearer 40%. Renting is the predominant mode of tenure in the lower bands, which in the case of London have to be understood as including both band C (where it accounts for half of all tenures) and band D (where it accounts for a third). In view of this, we can see no merit in the argument that council tax is, or should be, a wealth tax when it falls upon a substantial minority who do not own the wealth in question, who are typically already on lower incomes and who (because of the regressive nature of council tax) are already over-taxed compared with their better-off neighbours.

3.18. In summary, a true tax on housing wealth would be structured quite differently, falling upon the property owner rather than the person dwelling there, with payment (or an assessment for payment) taking place only occasionally, usually as a result of 'something having happened'. Such a tax is not at all suitable as the basis, either in principle or practice, for funding local government services. We therefore conclude that the principle of horizontal equity for council tax should not be extended to housing wealth but should be restricted to income only.

## Our conclusions

3.19. The discussion of ability to pay has identified a number of key issues to be addressed in the design of a reformed council tax system. They include:

- Whether any preferred/proposed system should by design seek to reduce council tax on low income council tax payers who are not entitled to council tax benefit.
- Whether any preferred/proposed system should also seek to increase the multipliers on top properties, at least to ensure that such properties share equally in any overall increase in council tax paid.
- Whether a regional system should – or even can - be designed so as (as far as possible) to ensure inter-regional horizontal equity.

3.20. The final part of this paper discusses the third of these, namely how far it is possible to construct a council tax system that attains or preserves inter-regional horizontal equity.

# 4. A POSSIBLE EIGHT BAND REGIONAL SOLUTION

### 'Horizontal equity' following basic revaluation and revision

4.1. We have already seen that the principle of horizontal equity is more or less adhered to for most regions in the council tax system as it is presently configured. So how well does it fare following basic revaluation?

4.2. As the next table shows, the answer is "not very well", for what is immediately apparent is how much horizontal equity worsens across the country. Thus, for London and the South West the average income for all bands in the A to G range is significantly lower than the national average. This indicates that revaluation would result in a greater level of inequity between regions with council tax payers in London and the South West heavily penalised and the North West, Yorkshire and the East Midlands all gaining substantially.

***Table 4.1***
***Net Household Income by band and region as % of England (see Exhibit 1)***
***Post-Revaluation With Eight Bands***

| | A | B | C | D | E | F | G | H | Total |
|---|---|---|---|---|---|---|---|---|---|
| North East | 96% | 111% | 113% | 116% | 117% | | | | 101% |
| North West | 104% | 111% | 112% | 116% | 111% | 110% | 107% | | 107% |
| Yorkshire & the Humber | 103% | 108% | 109% | 118% | 112% | 122% | 138% | | 106% |
| East Midlands | 100% | 106% | 108% | 114% | 110% | 100% | 105% | | 104% |
| West Midlands | 99% | 100% | 104% | 112% | 104% | 102% | 113% | | 102% |
| Eastern | 94% | 99% | 104% | 105% | 104% | 110% | 110% | | 102% |
| London | 86% | 80% | 85% | 91% | 93% | 95% | 94% | 105% | 91% |
| South East | 98% | 95% | 100% | 99% | 104% | 104% | 101% | 99% | 100% |
| South West | 90% | 87% | 89% | 90% | 95% | 85% | 80% | | 89% |

4.3. As the 10 band revision option simply involves splitting two bands, the measure of horizontal equity as we calculate it is identical to that for the basic revision shown above.

### A regional scenario with unchanged multipliers

4.4. Exhibit 3 shows the outcome of a regional solution that broadly maintains the current levels of horizontal equity. The design is simple: regional bands have been set in line with regional house price inflation. Compared with now, this means band limits up by:

- 55% in the North East and the North West
- 50% in Yorkshire and the Humber;
- 75% in the two Midland regions;
- 95% in the Eastern region;
- 100% in the South West;
- 105% in the South East;
- 135% in London.

4.5. The figures in exhibit 3 show this to be a much less extreme outcome, not just for London but in other regions too. Regional banding constrains the average increase in council tax bill in all regions to less than 10%. The more detailed distributional effects are also much more benign, with average bills by current band nowhere rising by as much as 10%.

4.6. The next table shows the impact on 'horizontal equity'. While there is a slight widening in horizontal inequity between the eight regions (other than the South West) compared with the present situation, it is certainly far more satisfactory by this yardstick than the basic revaluation.

***Table 4.2***
***Net Household Income (2001) by Band and Region as a % of England (see Exhibit 3)***
***Post-Revaluation With Regional Bands***

| | A | B | C | D | E | F | G | H | Total |
|---|---|---|---|---|---|---|---|---|---|
| North East | 97% | 95% | 104% | 101% | 96% | | | | 98% |
| North West | 102% | 103% | 103% | 100% | 96% | 91% | 96% | | 101% |
| Yorkshire & the Humber | 101% | 105% | 99% | 96% | 96% | 91% | 113% | | 100% |
| East Midlands | 100% | 105% | 103% | 105% | 102% | 93% | 98% | | 102% |
| West Midlands | 99% | 101% | 99% | 104% | 96% | 94% | 102% | | 100% |
| Eastern | 98% | 103% | 105% | 103% | 100% | 108% | 108% | | 103% |
| London | 95% | 93% | 97% | 102% | 103% | 108% | 101% | 120% | 100% |
| South East | 105% | 101% | 102% | 99% | 104% | 105% | 102% | 100% | 102% |
| South West | 95% | 92% | 91% | 89% | 93% | 84% | 80% | | 91% |

## Our conclusions

4.7. While this eight band regional model is not a complete solution, it does go a considerable way towards addressing the issue of horizontal inequity and is therefore a fairer council tax model than those resulting from basic revaluation or from splitting bands within a unified, national system (both of which increase the problems of horizontal inequity between regions). However, it is also clear that further work is required:

- First, to improve horizontal equity between regions. For example, in itself, this solution does nothing to reduce the extent to which the South West continues to have an overly high council tax level on the horizontal equity principle. While it is not the purpose of this paper to explore solutions to the South West's problem, it is worth noting that setting that region's council tax bands at a higher level would make an impact upon it.
- Second, it remains the case that those in the middle bands (the great majority of inner London residents) lose by more than those in the upper bands, with those in H not losing at all. In that sense, it continues to exhibit what is one of the main flaws of basic revaluation.
- Third, it offers no gain generally for households in band, A which includes the highest proportion of low income households.

4.8. There are potential solutions around for these problems But regional banding – or something that produces a similar effect - has to be an integral part of any solution if that solution is to stand a chance of commanding public support and acceptance.

# 5.SOME COMMENTS ON 'CLIFF EDGES'

5.1. By 'cliff edges' we mean the phenomenon of identical houses on the opposite side of the road, which, by virtue of being in different local authority areas, pay very different amounts of council tax.

5.2. In one sense, 'cliff edge' problems have always been present with the council tax. Little more than a cursory examination of the data on council tax is required to find quite some striking examples, even on the 2003/4 figures, for example, Camden and Westminster (100% difference), Richmond and Wandsworth (almost 120%) or Salford versus Trafford (35%).

5.3. On preliminary estimates, the scale of the biggest of these variations is far greater than would arise as a result of any regional CT bands, where we calculate that the maximum difference between adjacent regions would be about 15%, effectively half a band. Moreover, the 'edge' itself would be far less sharp. At the moment, there really are places where the contrast is between opposite sides of the same road. With regional bands, the sharpest contrasts would probably be between nearby towns or cities that were in different regions, for example, Northampton (in the East Midlands) and Milton Keynes (in the South East).

5.4. The 'cliff-edge' problem that would arise from a regional CT system would, however, be different from the Richmond/Wandsworth problem in one crucial respect: it would be due to central government rather than local government. Differences such as exist at the moment are arguably healthy, since they allow people to compare their own authority against others. Differences due to the fact that different properties would be in different bands would not be so readily explicable – or possibly acceptable.

5.5. Reaching any settled conclusion on the problem that would arise from a sub-national system therefore is unavoidably a matter of judgement about incommensurable things:

- on the one hand, the fact that the scale of the 'cliff edge' due to regional bands would be less than the scale of the cliff edges surrounding low-spending authorities; and
- on the other, the fact that the differences would be due to central government, rather than local government, where differences, if electors feel sufficiently strongly, can be reduced by action through the ballot box.

5.6. Our provisional conclusion is that cliff edges arising from regional bands are not going to be a major problem. First, the scale is quite small and will not be apparent once it is all bundled into the actual council tax. Second, the fact that it is not 'opposite sides of the same street' but towns or villages some miles apart across an artificial boundary really does draw the sting. And third, the fact that the problem is 'particular' (Milton Keynes versus Northampton) means that it does not have the potential to become a more generalised political issue.

5.7. Neither of these last two points, however, would not apply if London were divided into inner and outer: not only would the cliff edge divide the opposite sides of the same street but it would also apply across a wide and well-understood area. A continuous cliff edge within London may be worth avoiding.

# APPENDIX: EXHIBITS

# EXHIBIT 1: BASIC REVALUATION

***Band limits rise in line with average prices (95%) so as to leave ANCT unchanged (at £1,037)***

| *Regional Summary I* | Average Band D | | RSG change | Average Bill | |
|---|---|---|---|---|---|
| | *Pre* | *Post* | | *Pre* | *Post* |
| **North East** | £1,145 | £1,151 | £43m | £801 | £762 |
| **North West** | £1,120 | £1,126 | £154m | £841 | £788 |
| **Yorkshire & The Humber** | £1,061 | £1,063 | £120m | £790 | £733 |
| **East Midlands** | £1,102 | £1,105 | £55m | £846 | £815 |
| **West Midlands** | £1,054 | £1,054 | £59m | £830 | £803 |
| **Eastern** | £1,120 | £1,120 | £2m | £980 | £979 |
| **South East** | £1,124 | £1,122 | -£77m | £1,057 | £1,080 |
| **South West** | £1,114 | £1,112 | -£34m | £943 | £959 |
| **Inner London** | £982 | £991 | -£163m | £911 | £1,051 |
| **Outer London** | £1,138 | £1,128 | -£161m | £1,088 | £1,173 |
| **England** | £1,101 | £1,101 | £0m | £919 | £919 |

| *Regional Summary II* | Change in Average Bill by Current Band | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *Existing Band A* | *Existing Band B* | *Existing Band C* | *Existing Band D* | *Existing Band E* | *Existing Band F* | *Existing Band G* | *Existing Band H* |
| **North East** | 1% | -11% | -10% | -9% | -13% | -11% | -3% | -1% |
| **North West** | 0% | -11% | -10% | -9% | -12% | -10% | -2% | -1% |
| **Yorkshire & The Humber** | 0% | -12% | -12% | -10% | -14% | -11% | -3% | -2% |
| **East Midlands** | 0% | -6% | -5% | -5% | -6% | -6% | -1% | -1% |
| **West Midlands** | 0% | -5% | -5% | -3% | -4% | -4% | -1% | -1% |
| **Eastern** | 0% | -1% | 0% | 1% | 0% | 0% | 0% | 0% |
| **South East** | 1% | 2% | 2% | 4% | 2% | 2% | 1% | 0% |
| **South West** | 1% | 2% | 1% | 3% | 2% | 2% | 1% | 0% |
| **Inner London** | 10% | 16% | 15% | 22% | 17% | 15% | 10% | 1% |
| **Outer London** | 4% | 9% | 7% | 11% | 8% | 6% | 4% | -1% |
| **England** | 0% | -3% | -1% | 3% | 0% | 1% | 2% | 0% |

| London Boroughs | RSG (millions) | | Band D | | Of which GLA | | Average Bill | |
|---|---|---|---|---|---|---|---|---|
| | Pre | Post | Pre | Post | Pre | Post | Pre | Post |
| **INNER LONDON** | | | | | | | | |
| **Camden** | £146.3 | £137.4 | £1,154 | £1,142 | £221 | £212 | £1,150 | £1,263 |
| **City of London** | £68.7 | £68.6 | -£799 | -£778 | £65 | £62 | -£772 | -£762 |
| **City of Westminster** | £131.4 | £119.1 | £831 | £852 | £221 | £212 | £919 | £1,049 |
| **Greenwich** | £183.3 | £177.3 | £1,078 | £1,072 | £221 | £212 | £911 | £984 |
| **Hackney** | £217.0 | £202.8 | £1,125 | £1,116 | £221 | £212 | £914 | £1,106 |
| **Hammersmith and Fulham** | £104.6 | £94.9 | £1,088 | £1,084 | £221 | £212 | £1,111 | £1,263 |
| **Islington** | £165.5 | £155.5 | £1,044 | £1,046 | £221 | £212 | £983 | £1,124 |
| **Kensington and Chelsea** | £64.3 | £54.6 | £1,095 | £1,089 | £221 | £212 | £1,295 | £1,435 |
| **Lambeth** | £205.2 | £184.8 | £991 | £1,007 | £221 | £212 | £861 | £1,064 |
| **Lewisham** | £199.4 | £189.2 | £1,053 | £1,053 | £221 | £212 | £850 | £959 |
| **Southwark** | £243.2 | £232.8 | £1,002 | £1,007 | £221 | £212 | £805 | £914 |
| **Tower Hamlets** | £269.4 | £258.0 | £923 | £945 | £221 | £212 | £770 | £931 |
| **Wandsworth** | £129.0 | £112.5 | £683 | £734 | £221 | £212 | £663 | £821 |
| **OUTER LONDON** | | | | | | | | |
| **Barking and Dagenham** | £113.9 | £112.7 | £1,040 | £1,033 | £221 | £212 | £836 | £851 |
| **Barnet** | £118.9 | £110.6 | £1,165 | £1,153 | £221 | £212 | £1,244 | £1,315 |
| **Bexley** | £99.9 | £97.1 | £1,115 | £1,106 | £221 | £212 | £1,027 | £1,055 |
| **Brent** | £174.6 | £160.6 | £1,065 | £1,065 | £221 | £212 | £999 | £1,165 |
| **Bromley** | £90.2 | £84.6 | £1,002 | £998 | £221 | £212 | £1,040 | £1,085 |
| **Croydon** | £146.5 | £138.1 | £1,102 | £1,094 | £221 | £212 | £1,045 | £1,113 |
| **Ealing** | £161.5 | £150.5 | £1,108 | £1,101 | £221 | £212 | £1,077 | £1,184 |
| **Enfield** | £155.9 | £150.6 | £1,119 | £1,110 | £221 | £212 | £1,060 | £1,110 |
| **Haringey** | £162.8 | £152.8 | £1,243 | £1,220 | £221 | £212 | £1,125 | £1,249 |
| **Harrow** | £86.4 | £78.3 | £1,220 | £1,202 | £221 | £212 | £1,264 | £1,378 |
| **Havering** | £84.8 | £83.3 | £1,256 | £1,245 | £221 | £212 | £1,171 | £1,182 |
| **Hillingdon** | £111.2 | £106.2 | £1,147 | £1,137 | £221 | £212 | £1,129 | £1,183 |
| **Hounslow** | £120.7 | £113.7 | £1,174 | £1,161 | £221 | £212 | £1,110 | £1,201 |
| **Kingston upon Thames** | £43.3 | £37.3 | £1,218 | £1,200 | £221 | £212 | £1,253 | £1,368 |
| **Merton** | £67.2 | £58.1 | £1,138 | £1,127 | £221 | £212 | £1,111 | £1,252 |
| **Newham** | £270.2 | £257.8 | £992 | £1,005 | £221 | £212 | £760 | £921 |
| **Redbridge** | £120.4 | £112.5 | £1,073 | £1,069 | £221 | £212 | £1,032 | £1,128 |
| **Richmond upon Thames** | £28.0 | £21.6 | £1,363 | £1,335 | £221 | £212 | £1,517 | £1,611 |
| **Sutton** | £74.1 | £70.0 | £1,092 | £1,084 | £221 | £212 | £1,046 | £1,105 |
| **Waltham Forest** | £151.0 | £141.3 | £1,190 | £1,173 | £221 | £212 | £977 | £1,100 |
| **GLA** | £774.1 | £734.4 | | | | | | |

# EXHIBIT 2: REVALUATION VARIANT: BANDS A AND G SPLIT

***Band limits rise in line with average prices (95%); ANCT happens to remain unchanged (at £1,037); band A and G split with multipliers of 5/9, 18/9 and 22/9 being attached to A1, G2 and H.***

| Regional Summary I | Average Band D | | RSG change | Average Bill | |
|---|---|---|---|---|---|
| | *Pre* | *Post* | | *Pre* | *Post* |
| North East | £1,145 | £1,156 | £69.8m | £801 | £738 |
| North West | £1,120 | £1,129 | £212.2m | £841 | £768 |
| Yorkshire & The Humber | £1,061 | £1,064 | £170.4m | £790 | £709 |
| East Midlands | £1,102 | £1,106 | £76.4m | £846 | £803 |
| West Midlands | £1,054 | £1,055 | £73.0m | £830 | £796 |
| Eastern | £1,120 | £1,120 | -£15.1m | £980 | £987 |
| South East | £1,124 | £1,121 | -£136.1m | £1,057 | £1,098 |
| South West | £1,114 | £1,112 | -£46.8m | £943 | £965 |
| Inner London | £982 | £994 | -£209.0m | £911 | £1,091 |
| Outer London | £1,138 | £1,126 | -£194.8m | £1,088 | £1,191 |
| England | £1,101 | £1,102 | £0.0m | £919 | £919 |

| Regional Summary II | Change in Average Bill by Current Band | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *Existing Band A* | *Existing Band B* | *Existing Band C* | *Existing Band D* | *Existing Band E* | *Existing Band F* | *Existing Band G* | *Existing Band H* |
| North East | -6% | -10% | -9% | -9% | -13% | -10% | 3% | 21% |
| North West | -8% | -10% | -10% | -8% | -12% | -9% | 4% | 21% |
| Yorkshire & The Humber | -9% | -12% | -12% | -10% | -14% | -11% | 2% | 20% |
| East Midlands | -6% | -6% | -5% | -5% | -6% | -6% | 7% | 21% |
| West Midlands | -6% | -5% | -4% | -3% | -4% | -4% | 9% | 21% |
| Eastern | -3% | -1% | 0% | 1% | 0% | 0% | 13% | 22% |
| South East | -1% | 2% | 2% | 3% | 2% | 2% | 15% | 22% |
| South West | -1% | 2% | 1% | 3% | 2% | 2% | 14% | 22% |
| Inner London | 10% | 17% | 16% | 23% | 17% | 15% | 32% | 24% |
| Outer London | 4% | 8% | 7% | 11% | 7% | 6% | 21% | 21% |
| England | -6% | -3% | -1% | 3% | 0% | 1% | 15% | 22% |

| London Boroughs | RSG (millions) | | Band D | | Of which GLA | | Average Bill | |
|---|---|---|---|---|---|---|---|---|
| | Pre | Post | Pre | Post | Pre | Post | Pre | Post |
| INNER LONDON | | | | | | | | |
| Camden | £146.3 | £133.0 | £1,154 | £1,140 | £221 | £210 | £1,150 | £1,320 |
| City of London | £68.7 | £68.5 | -£799 | -£716 | £65 | £62 | -£772 | -£726 |
| City of Westminster | £131.4 | £109.6 | £831 | £870 | £221 | £210 | £919 | £1,154 |
| Greenwich | £183.3 | £176.7 | £1,078 | £1,071 | £221 | £210 | £911 | £990 |
| Hackney | £217.0 | £202.2 | £1,125 | £1,115 | £221 | £210 | £914 | £1,112 |
| Hammersmith and Fulham | £104.6 | £91.2 | £1,088 | £1,084 | £221 | £210 | £1,111 | £1,321 |
| Islington | £165.5 | £153.4 | £1,044 | £1,046 | £221 | £210 | £983 | £1,154 |
| Kensington and Chelsea | £64.3 | £44.5 | £1,095 | £1,091 | £221 | £210 | £1,295 | £1,589 |
| Lambeth | £205.2 | £182.7 | £991 | £1,007 | £221 | £210 | £861 | £1,084 |
| Lewisham | £199.4 | £188.7 | £1,053 | £1,052 | £221 | £210 | £850 | £962 |
| Southwark | £243.2 | £231.6 | £1,002 | £1,007 | £221 | £210 | £805 | £925 |
| Tower Hamlets | £269.4 | £257.2 | £923 | £946 | £221 | £210 | £770 | £942 |
| Wandsworth | £129.0 | £108.4 | £683 | £744 | £221 | £210 | £663 | £860 |
| OUTER LONDON | | | | | | | | |
| Barking and Dagenham | £113.9 | £112.7 | £1,040 | £1,031 | £221 | £210 | £836 | £850 |
| Barnet | £118.9 | £105.7 | £1,165 | £1,150 | £221 | £210 | £1,244 | £1,360 |
| Bexley | £99.9 | £96.7 | £1,115 | £1,104 | £221 | £210 | £1,027 | £1,059 |
| Brent | £174.6 | £159.4 | £1,065 | £1,064 | £221 | £210 | £999 | £1,177 |
| Bromley | £90.2 | £81.3 | £1,002 | £999 | £221 | £210 | £1,040 | £1,114 |
| Croydon | £146.5 | £136.1 | £1,102 | £1,093 | £221 | £210 | £1,045 | £1,129 |
| Ealing | £161.5 | £148.4 | £1,108 | £1,100 | £221 | £210 | £1,077 | £1,203 |
| Enfield | £155.9 | £149.0 | £1,119 | £1,109 | £221 | £210 | £1,060 | £1,125 |
| Haringey | £162.8 | £151.3 | £1,243 | £1,217 | £221 | £210 | £1,125 | £1,268 |
| Harrow | £86.4 | £76.4 | £1,220 | £1,198 | £221 | £210 | £1,264 | £1,405 |
| Havering | £84.8 | £82.6 | £1,256 | £1,242 | £221 | £210 | £1,171 | £1,189 |
| Hillingdon | £111.2 | £105.2 | £1,147 | £1,135 | £221 | £210 | £1,129 | £1,194 |
| Hounslow | £120.7 | £112.5 | £1,174 | £1,159 | £221 | £210 | £1,110 | £1,217 |
| Kingston upon Thames | £43.3 | £36.0 | £1,218 | £1,196 | £221 | £210 | £1,253 | £1,393 |
| Merton | £67.2 | £56.4 | £1,138 | £1,126 | £221 | £210 | £1,111 | £1,277 |
| Newham | £270.2 | £257.7 | £992 | £1,004 | £221 | £210 | £760 | £920 |
| Redbridge | £120.4 | £111.7 | £1,073 | £1,068 | £221 | £210 | £1,032 | £1,137 |
| Richmond upon Thames | £28.0 | £17.7 | £1,363 | £1,324 | £221 | £210 | £1,517 | £1,673 |
| Sutton | £74.1 | £69.1 | £1,092 | £1,083 | £221 | £210 | £1,046 | £1,118 |
| Waltham Forest | £151.0 | £141.1 | £1,190 | £1,172 | £221 | £210 | £977 | £1,100 |
| GLA | £774.1 | £724.6 | | | | | | |

# EXHIBIT 3: REGIONAL BANDS

***Band limits rise in line with regional house price inflation leaving ANCT almost unchanged (£1,033).***

| ***Regional Summary I*** | Average Band D | | RSG change | Average Bill | |
|---|---|---|---|---|---|
| | *Pre* | *Post* | | *Pre* | *Post* |
| **North East** | £1,145 | £1,139 | -£3.2 | £801 | £804 |
| **North West** | £1,120 | £1,115 | -£12.6 | £841 | £846 |
| **Yorkshire & The Humber** | £1,061 | £1,056 | -£6.4 | £790 | £793 |
| **East Midlands** | £1,102 | £1,098 | £6.4 | £846 | £842 |
| **West Midlands** | £1,054 | £1,049 | -£8.4 | £830 | £834 |
| **Eastern** | £1,120 | £1,115 | £11.1 | £980 | £976 |
| **South East** | £1,124 | £1,120 | £20.5 | £1,057 | £1,051 |
| **South West** | £1,114 | £1,108 | -£1.1 | £943 | £944 |
| **Inner London** | £982 | £983 | -£47.8 | £911 | £952 |
| **Outer London** | £1,138 | £1,133 | £41.3 | £1,088 | £1,066 |
| **England** | £1,101 | £1,096 | £0.0 | £919 | £919 |

| ***Regional Summary II*** | Change in Average Bill by Current Band | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *Existing Band A* | *Existing Band B* | *Existing Band C* | *Existing Band D* | *Existing Band E* | *Existing Band F* | *Existing Band G* | *Existing Band H* |
| **North East** | 0% | 0% | 0% | 1% | 0% | 0% | 1% | -1% |
| **North West** | 0% | 0% | 0% | 2% | 1% | 1% | 2% | -1% |
| **Yorkshire & The Humber** | 0% | -1% | 0% | 3% | 1% | 2% | 2% | -1% |
| **East Midlands** | 0% | -1% | -1% | 0% | -1% | -1% | 0% | -1% |
| **West Midlands** | 0% | 0% | 0% | 2% | 1% | 2% | 1% | -1% |
| **Eastern** | 0% | -1% | -1% | 0% | 0% | 0% | 0% | -1% |
| **South East** | 0% | -1% | -1% | 0% | -1% | -1% | 0% | -1% |
| **South West** | 0% | 0% | 0% | 1% | 0% | 0% | 0% | -1% |
| **Inner London** | 2% | 5% | 4% | 7% | 5% | 5% | 3% | 0% |
| **Outer London** | 0% | -1% | -2% | -2% | -3% | -3% | -1% | -1% |
| **England** | 0% | 0% | 0% | 1% | 0% | 0% | 0% | -1% |

| London Boroughs | RSG (millions) | | Band D | | Of which GLA | | Average Bill | |
|---|---|---|---|---|---|---|---|---|
| | Pre | Post | Pre | Post | Pre | Post | Pre | Post |
| **INNER LONDON** | | | | | | | | |
| **Camden** | £146.3 | £146.0 | £1,154 | £1,148 | £221 | £220 | £1,150 | £1,154 |
| **City of London** | £68.7 | £69.0 | -£799 | -£939 | £65 | £64 | -£772 | -£846 |
| **City of Westminster** | £131.4 | £128.5 | £831 | £835 | £221 | £220 | £919 | £951 |
| **Greenwich** | £183.3 | £184.8 | £1,078 | £1,071 | £221 | £220 | £911 | £890 |
| **Hackney** | £217.0 | £210.5 | £1,125 | £1,120 | £221 | £220 | £914 | £1,006 |
| **Hammersmith and Fulham** | £104.6 | £102.1 | £1,088 | £1,084 | £221 | £220 | £1,111 | £1,152 |
| **Islington** | £165.5 | £163.5 | £1,044 | £1,042 | £221 | £220 | £983 | £1,014 |
| **Kensington and Chelsea** | £64.3 | £60.7 | £1,095 | £1,091 | £221 | £220 | £1,295 | £1,351 |
| **Lambeth** | £205.2 | £195.5 | £991 | £1,000 | £221 | £220 | £861 | £963 |
| **Lewisham** | £199.4 | £198.2 | £1,053 | £1,049 | £221 | £220 | £850 | £862 |
| **Southwark** | £243.2 | £241.3 | £1,002 | £1,000 | £221 | £220 | £805 | £826 |
| **Tower Hamlets** | £269.4 | £264.9 | £923 | £932 | £221 | £220 | £770 | £837 |
| **Wandsworth** | £129.0 | £123.6 | £683 | £701 | £221 | £220 | £663 | £718 |
| **OUTER LONDON** | | | | | | | | |
| **Barking and Dagenham** | £113.9 | £117.0 | £1,040 | £1,029 | £221 | £220 | £836 | £779 |
| **Barnet** | £118.9 | £122.8 | £1,165 | £1,160 | £221 | £220 | £1,244 | £1,205 |
| **Bexley** | £99.9 | £104.7 | £1,115 | £1,108 | £221 | £220 | £1,027 | £961 |
| **Brent** | £174.6 | £170.1 | £1,065 | £1,063 | £221 | £220 | £999 | £1,055 |
| **Bromley** | £90.2 | £96.2 | £1,002 | £990 | £221 | £220 | £1,040 | £981 |
| **Croydon** | £146.5 | £150.5 | £1,102 | £1,095 | £221 | £220 | £1,045 | £1,008 |
| **Ealing** | £161.5 | £162.8 | £1,108 | £1,103 | £221 | £220 | £1,077 | £1,062 |
| **Enfield** | £155.9 | £160.4 | £1,119 | £1,113 | £221 | £220 | £1,060 | £1,010 |
| **Haringey** | £162.8 | £161.5 | £1,243 | £1,235 | £221 | £220 | £1,125 | £1,142 |
| **Harrow** | £86.4 | £87.3 | £1,220 | £1,215 | £221 | £220 | £1,264 | £1,250 |
| **Havering** | £84.8 | £90.6 | £1,256 | £1,260 | £221 | £220 | £1,171 | £1,095 |
| **Hillingdon** | £111.2 | £115.5 | £1,147 | £1,143 | £221 | £220 | £1,129 | £1,074 |
| **Hounslow** | £120.7 | £122.4 | £1,174 | £1,169 | £221 | £220 | £1,110 | £1,085 |
| **Kingston upon Thames** | £43.3 | £43.9 | £1,218 | £1,213 | £221 | £220 | £1,253 | £1,241 |
| **Merton** | £67.2 | £65.9 | £1,138 | £1,132 | £221 | £220 | £1,111 | £1,133 |
| **Newham** | £270.2 | £265.3 | £992 | £997 | £221 | £220 | £760 | £827 |
| **Redbridge** | £120.4 | £122.1 | £1,073 | £1,067 | £221 | £220 | £1,032 | £1,009 |
| **Richmond upon Thames** | £28.0 | £29.5 | £1,363 | £1,361 | £221 | £220 | £1,517 | £1,493 |
| **Sutton** | £74.1 | £76.9 | £1,092 | £1,085 | £221 | £220 | £1,046 | £1,000 |
| **Waltham Forest** | £151.0 | £149.2 | £1,190 | £1,183 | £221 | £220 | £977 | £1,001 |
| **GLA** | £774.1 | £773.3 | | | | | | |

# ENDNOTES

[i] The analysis of the likely effects of revaluation rests on a model that combines three sources of data: first, the number of properties in each council tax band in each of the 150 'upper tier' local authorities across England; second, the average increase in property prices in each of these authorities, between 1991 and spring 2002 (from the Land Registry); and third, the financial 'settlement' between central and local government for 2003/4. For the purposes of this analysis we have excluded the effect of floors and ceilings within the grant distribution system.

[ii] 'Net household income' is an NPI calculation using data from the government's dataset, *Households Below Annual Income*. It includes all benefits and tax credits but is before council tax (net of any council tax benefit is deducted. It is unequivalised. Net household income after housing costs is the above figure less the normal definition of housing costs.

[iii] The analysis of horizontal and vertical equity is based on an analysis of two years worth of data from the government *Households Below Average Income* series, 1999/00 and 2000/01. In this analysis, incomes of single adult households increased by 25% to reflect the fact that their council tax is lower due to the single person discount. This gives an overall sample of almost 50,000 households, 6,300 of whom are in London.

[iv] In these and similar tables, values based on few observations are omitted because they are particularly unreliable.