Working Paper 80

Council tax in London
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Contents

Executive summary

The London Finance Commission recommended the devolution of the full suite of property taxes – including council tax, business rates and stamp duty – in 2013[1]. Having been recommissioned by the Mayor of London in 2016 to recommend improvements to tax and public spending arrangements in light of new circumstances, this paper supports the Commission by looking at the operation of the council tax system in London. It looks at the issues the tax raises for London and considers some potential options for reform of the tax.

Issues with council tax
The paper highlights a number of issues with council tax. These include:

- Regressive tax

  Council tax is regressive by design. This means that those in lower valued housing will always pay a greater proportion of the value of their house in tax than those in more expensive housing. For example, on average across London in 2015-16, someone in a Band A house will pay over 0.5 per cent of the value of their house in council tax. That compares with around 0.1 per cent for someone with a Band H house. To put that in context, someone in a property worth £165,000 in London would pay – on average – £871 in council tax in 2015-16, compared with a council tax bill of £2,614 for someone in a house worth over £3 million. So, despite the house costing 18 times more, the council tax bill is only three times as much.

- Spatial inequality

  The second aspect of unfairness and council tax concerns the differences in the level of tax paid across boroughs. Some boroughs have much higher rates of council tax than other boroughs for houses of similar value. For instance, in 2015-16, a Band D property in Wandsworth had a council tax charge of £683. That compares with a council tax bill of £1,675 (nearly two-and-a-half times higher) for a Band D property in the neighbouring borough of Kingston-upon-Thames.

  This 'unfairness' is exacerbated by the difference in house prices across London. For example, a Band H property in Westminster worth over £10 million paid less in council tax (£1,345) than a Band C property worth around £240,000 in Harrow (£1,359) in 2015-16.

  Some argue that the difference in council tax across boroughs is due to differences in efficiencies between boroughs; the more efficient a borough, the lower the council tax. However, the variance in council tax across London is much greater than the variance across any other region of England. This would suggest that there is more to the differences in council tax than just efficiencies – encompassing other things like funding and other sources of income for example.

- Inefficient use of property

  Given the way the council tax system currently operates, there are real issues with the way the tax impacts on the efficiency of the use of property and, therefore, land across London.

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[1] London Finance Commission (2013). Raising the capital, May 2013.

In essence the tax, as currently constructed, encourages the inefficient use of property across London.

The Mirrlees Review (which looked into the UK's tax system) suggested that an annual tax on the 'consumption of housing services' could be beneficial for a number of reasons. One of the benefits of an annual tax on the consumption of housing – in essence the 'use' of a house – is that it provides an incentive to use housing efficiently. That is, households are encouraged to use housing in a way which means the value they attach to the consumption of housing services is proportionate to the tax paid. Therefore, with an annual tax on the consumption of housing, there would be an incentive against keeping property empty or even under-occupied or under-used. Such a tax could act as a considerable spur to the efficient use of housing across London; those with significant tax bills would consider whether the current configuration of the property best meet their needs.

While council tax is an annual tax on housing because the tax rates are based on property prices that existed in 1991, the tax rates are largely unrelated to current property prices. As a result, the drive to efficiency from an annual housing tax is lost.

As a consequence, it can be argued that the existing council tax system provides an incentive for the inefficient use of property across London. This is exacerbated by the spatial distribution of house price growth since 1991, which generally means (because of the situation that existed in 1991 and subsequent house price growth) that inner London properties tend to be taxed less than outer London properties.

This inbuilt bias to the inefficient use of land is also exacerbated by the contrast between the residential property tax – council tax – with the commercial property tax – business rates. On many measures, commercial property is taxed to a greater degree than residential property. All other things equal this means that the existing tax system is incentivising the use of land for housing at the expense of commercial use. This distortion occurs to the greatest extent in central London – particularly in Westminster and City of London. By way of an example, a residential flat in One Hyde Park will pay under £1,500 per year in council tax, compared with the Rolex shop on the ground floor (one-third of the size) which is estimated to pay £240,000 per year in business rates[2]. It is far from obvious why such a situation should exist – rather than both being treated equally for the purposes of taxation.

Other potential benefits from reform

Given these issues with council tax, this paper has considered a number of potential reforms to the tax. The paper finds that as well as potentially dealing with the issues above, reform of council tax could be beneficial for a number of other reasons.

- Ability to automatically 'capture' land value gains due to public sector investment

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[2] Apartment C.08.1 at One Hyde Park would be in Band H using the Valuation Office Agency's council tax band finder (see: http://cti.voa.gov.uk/cti/inits.asp) and would pay £1,338 in council tax in 2016-17. It also had a gross internal area of approximately 835m^2 (see: http://www.rightmove.co.uk/new-homes-for-sale/property-34919601.html). In comparison, the Valuation Office Agency estimated the Rolex shop in the same building had an internal area of 285m^2 and a rateable value of £500,000 using the draft 2017 valuation list (see: https://www.tax.service.gov.uk/view-my-valuation/detail/2017/8072293000). This suggests that the business rates bill would be approximately £240,000 in 2017.

First is the ability to 'internalise' the land value gains from any future public sector investment. If the council tax system were reformed to be more in line with current property prices – and frequent revaluations were in place – then any increase in property prices derived from a new transport scheme or improvements to the public realm (for example) should feed through into increased tax receipts automatically. This is without the need for any 'additional' taxes or measures. Long-term, this could be a very significant benefit – particularly to London – from reform of this tax.

- Increased macroeconomic stability

  Another potential benefit of reform – which may be more directly relevant to central government than perhaps 'London government' per se – is increased macroeconomic stability. Again on the assumption that a reformed system involved a tax more closely related to current property prices and with frequent revaluations (to maintain that link), then there are two ways this effect might feed through.

  One would be through increased house prices leading to increased taxes and so dampening economic activity. Similarly this could also act as an 'automatic stabiliser' that works in reverse should there be a fall in house prices. That is, if house prices fell, this would lead to lower taxes and, therefore, more economic activity.

  The other effect would be through potentially reducing the incentive to speculation. If individuals knew that any increase in the house price would result in an increase in tax (through a reformed council tax system) then there would, arguably, be less incentive to speculate on house prices than currently exists. Overall these effects could be argued to lead to less volatile house prices and so a less volatile macro-economy.

Range of reforms considered
The paper analyses a range of potential reforms to council tax, looking at the impact on individual boroughs and households across London. The options range from what might be considered as more 'practical' reforms right through to more progressive reforms. The paper summarises the results from all these different variant options.

- Flat tax rate

  For the purposes of this summary, the results from the 'flat rate tax' variant are set out here. This option deals with most of the issues identified with the current system (like the regressive nature of the tax, the spatial inequality and the efficiency of the tax). If the reformed system allowed for frequent revaluations, it would also benefit from the other benefits outlined above (such as the automatic capture of higher land values and increased macroeconomic stability).

  This paper estimates that a flat rate tax of about 0.2 per cent of a property's price would be sufficient to raise the same amount of tax as today's council tax system. Estimates suggest this would lead to almost four in every five households across London seeing a reduction in their council tax bill. For context, someone in a £500,000 home would pay £1,000 per year under this system; someone in a £1 million home would pay £2,000. The paper analyses the distribution of winners and losers from the potential reforms. For the flat rate tax option, the maps show that – perhaps unsurprisingly – the main boroughs to 'lose' from this potential change (in the sense of seeing higher council tax charges) are those with currently

low council tax and/or where property prices are very high: Westminster, Wandsworth and Kensington & Chelsea for example.

Under this system, around 80,000 households would pay £5,000 per year or more for council tax. This is the equivalent of about 2.2 per cent of all households in London. This simply illustrates how many houses are estimated to be worth more than £2.5 million in London (as that would generate a council tax bill of £5,000).

With any reform there would also be a number of practical or other issues to deal with. For instance, if the system were reformed in order to move to a London-wide tax (rather than rates varying by borough), then there would likely be some need for a redistribution mechanism between boroughs – like that being considered for business rates. The frequency of revaluations would also need consideration just as with business rates.

Similarly, a reformed system could lead to some significant changes in council tax bills. As a result, there would probably be a need for any changes to be phased in over a period of transition. The business rates system has transitional schemes (which are effective after revaluation points) and there are examples of big changes in property tax bills being deferred through equity stakes (as in Denmark).

1. Introduction

GLA Economics is producing a series of research papers examining options for greater fiscal devolution in London to inform the second London Finance Commission (LFC2). The research examines a number of areas including stamp duty land tax and a possible new tourism levy, among others. As part of this wider project, this paper focuses on council tax in London.

In May 2013, the LFC published its report arguing for greater fiscal independence for the capital in order to invest and cater for growth[3]. The report recommended that this could be achieved by relaxing restrictions on borrowing for capital investment within prudential rules, and devolving certain revenue streams, including the full suite of property taxes. Specifically, the Commission[4] stated:

> *"We recommend that council tax be retained as a local tax but that London government should be given the power and be required to hold periodic revaluations (undertaken by the Valuation Office, according to national practice), to determine the number of bands, to set the ratio of tax from band to band and to set the tax rate."*

With this in mind, this paper looks at the operation of the council tax system in London. It begins with a look at how council tax currently is managed in London and how Scotland, Wales and Northern Ireland have managed and changed their own council tax (or domestic rates in Northern Ireland) systems. International examples of residential property taxes are also provided in Appendix 1.

However, as will become apparent in Chapter 3, there are a number of problems with council tax ranging from the way that it impacts on the efficiency of use of property to its perceived lack of fairness. Given these issues (and other benefits coming from changing the tax), Chapter 4 presents seven potential options for reforming council tax. To illustrate the potential impact of these reforms, this paper also looks at the distributional impact on specific areas and groups. Detailed modelling results and the methodology are discussed in greater depth in Appendices 2, 3 and 4. However, with any reforms to council tax, there are some practical issues such as transitional relief and the frequency of revaluations going forward that need further consideration. These are discussed in the final chapter.

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[3] Raising the Capital, The report of the London Finance Commission, May 2013.
[4] Raising the Capital, The report of the London Finance Commission, May 2013, pg. 67.

2. Background

Summary

Council tax is a local tax in that it is set and collected by local authorities and is one of the main sources of local government funding. All occupiers of residential properties are liable for council tax. Properties are assigned to one of eight council tax bands based on 1991 property values, with higher bands paying more in tax. There are differences in the council tax systems of Scotland, Wales and Northern Ireland compared with England.

All occupiers of residential property in Great Britain are liable for council tax at varying rates set by their local authorities, with a system of concessions and reliefs in place to support those less able to pay. Council tax is one of the few taxes in the UK that is administrated and collected by local government and, therefore, one of the main sources of funding for local authorities together with business rates and central government grants.

Properties are classified into one of eight bands based on an assessment of their value by the Valuation Office Agency in 1991. Each band has a different level of tax payable which is set by local authorities to raise enough revenue to cover the cost of local services not met by other sources of funding. As such, council tax rates vary between local authorities reflective of different funding requirements. In practice, local authorities set the council tax rate for Band D, with the remaining bands established through ratios to that of Band D. These ratios were established when the tax was originally introduced.

The current banding thresholds, the associated ratios to Band D and average tax rates payable across all London boroughs[5] in 2015-16 are shown in Table 2.1.

Table 2.1: Council tax bands in England during 2015-16

Band	1991 property values	Tax rate relative to Band D	Average tax payable in London in 2015-16 (including GLA precept)
A	Up to £40,000	6/9	£871
B	£40,001 to £52,000	7/9	£1,017
C	£52,001 to £68,000	8/9	£1,162
D	£68,001 to £88,000	1	£1,307
E	£88,001 to £120,000	11/9	£1,598
F	£120,001 to £160,000	13/9	£1,888
G	£160,001 to £320,000	15/9	£2,179
H	£320,001 and above	2	£2,614

Source: Institute for Fiscal Studies, London Councils

There were 3.5 million residential properties in London in 2015-16. As can be seen in Figure 2.1, more than half of properties in London (52.6 per cent) were in Bands C and D. London had a different distribution of dwellings than that for England as a whole, with London having a larger proportion of properties in higher bands. For example, two-in-three properties across England

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[5] This is a simple average of council tax across London, which is set individually by the 33 London boroughs. As such, these figures are not what a household actually pays

(66 per cent) were in Bands A–C whereas, in comparison, this was 44.3 per cent in London. Similarly, 4.1 per cent of dwellings were in Bands G and H in England, but the proportion for London was almost twice as large at 7.7 per cent.

Figure 2.1: Percentage of properties by council tax band in London in 2015-16
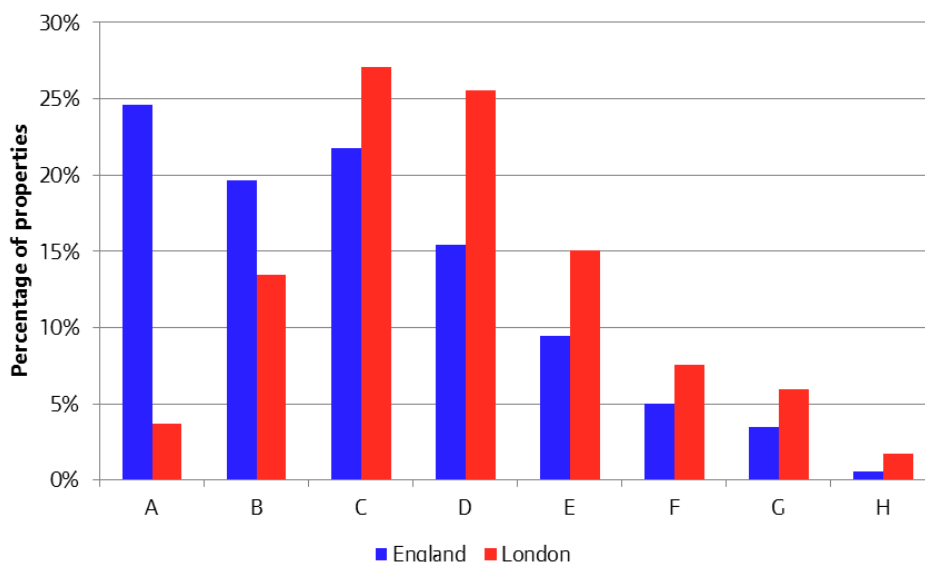
Source: DCLG Council Taxbase statistics

The distribution of properties by council tax band varies when looking spatially across London. Map 2.1 shows the percentage of properties in each middle super output area (MSOA) by council tax band in London in 2015-16. The percentage of dwellings is used here instead of the number to account for the fact that MSOAs have varying amounts of properties. Overall, Map 2.1 shows that there is a greater share of lower band properties in east London, particularly in the boroughs of Newham and Tower Hamlets. Meanwhile, there is a higher share of higher band properties in central London and heading south west, like the boroughs of Kensington & Chelsea and Kingston-upon-Thames.

Map 2.1: Percentage of properties by council tax band and London MSOA in 2015-16

Band A

Band B

Band C

Band D

Band E

Band F

Band G   Band H

Legend

0% to 10%	20% to 30%	40% to 50%
10% to 20%	30% to 40%	50% to 60%

60% to 70%	80% to 90%
70% to 80%	90% to 100%
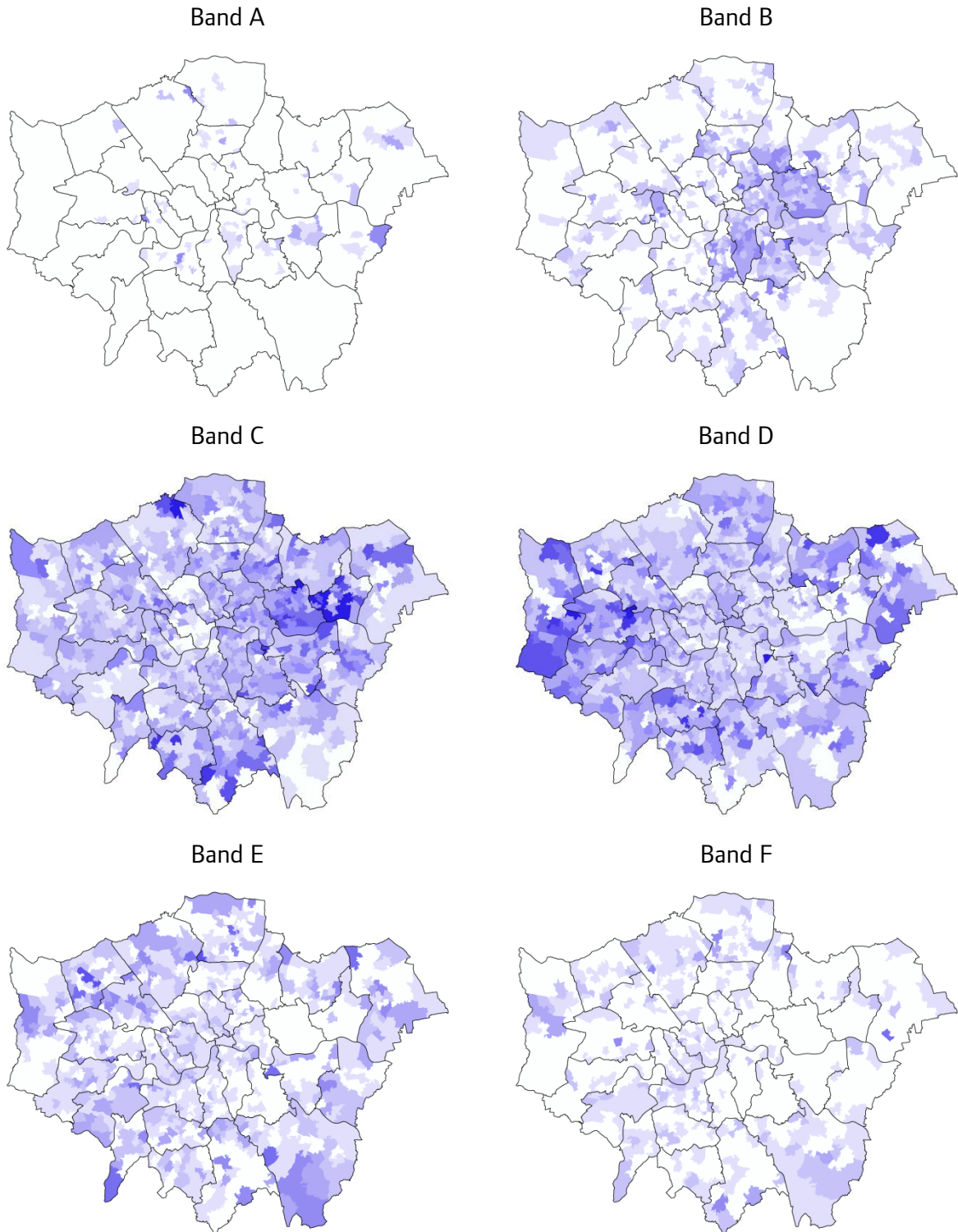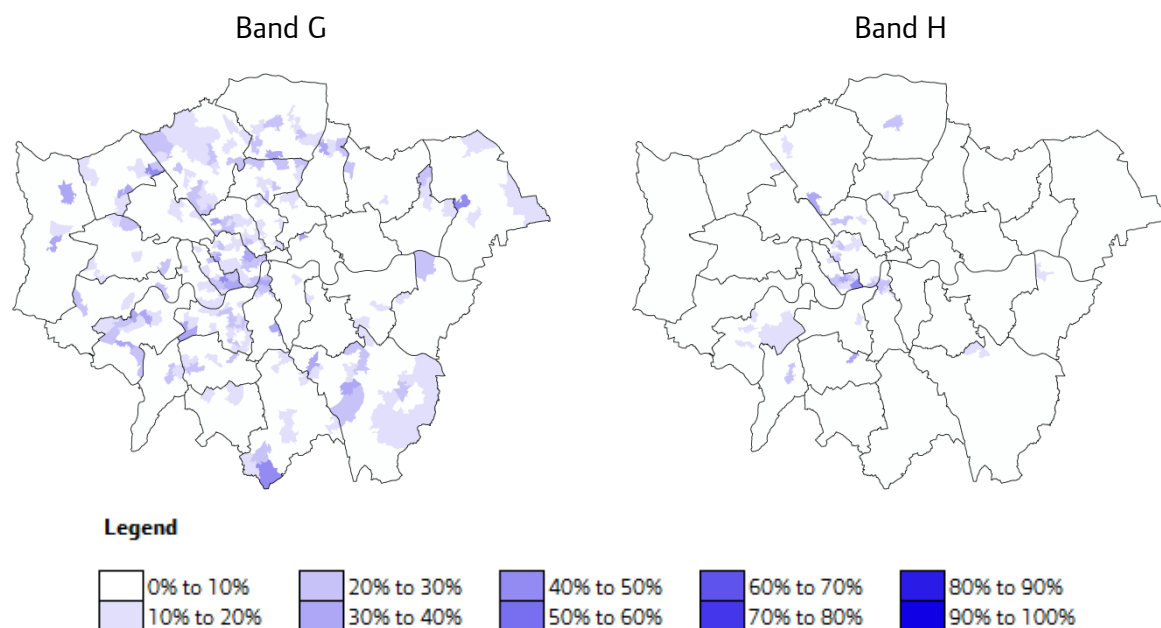
Source: Valuation Office Agency Stock of Properties

Since 2011-12, councils have set their annual tax increases at or below a centrally determined level. If they wish to increase council tax above this level, a referendum is triggered (the costs for which are borne locally)[6].

Overall, council tax raised £3,529 million across London in 2015-16[7]. Figure 2.2 shows that the majority of this (almost two-thirds) was raised by Band C, D and E. In contrast, only 13.3 per cent was raised by Bands G and H.

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[6] London Finance Commission (2013). Raising the capital, pg. 66.
[7] London Councils (2016). Council tax monitor, 2015-16.

Figure 2.2: Percentage of council tax raised by each band in London in 2015–16
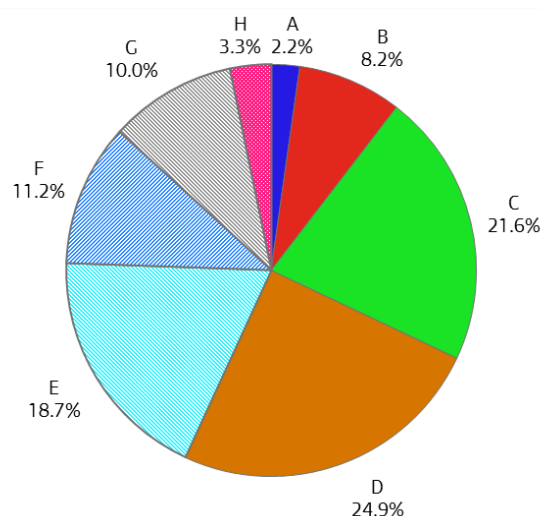
Source: DCLG Council Taxbase, London Councils Council Tax Monitor, GLA Economics calculations

Moreover, the distribution of revenue by band varies by borough (Figure 2.3). For instance, Kensington & Chelsea raised over half of its revenue (55.3 per cent) from Bands G and H alone while, in comparison, Barking & Dagenham raised 80.1 per cent of its revenue from Band A, B and C.

Figure 2.3: Percentage of council tax raised by each band and London borough in 2015-16
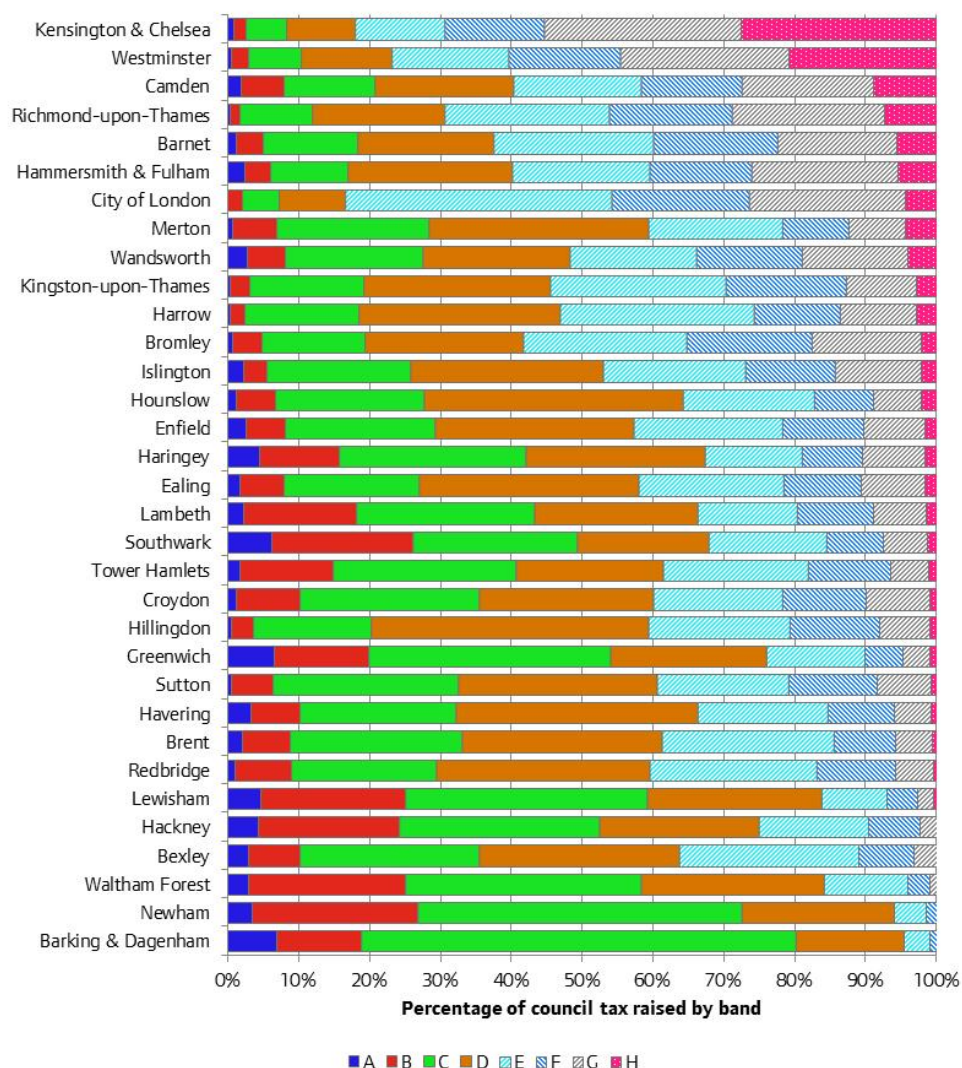
Source: DCLG Council Taxbase, London Councils Council Tax Monitor, GLA Economics calculations

In April 2013, the government announced a series of changes to council tax benefits to give local authorities greater control over council tax support. This was introduced alongside a 10 per cent cut in central government funding (essentially grants were reduced by 10 per cent of what the government expected council tax benefit expenditure to be).

In addition, from April 2016, local authorities can increase council tax by up to 2 per cent as part of the adult social care precept[8]. Although optional, the money raised from the precept is ring-fenced solely for adult social care and was similarly brought in alongside further cuts to central government funding. Therefore, this raises the amount that council tax can increase annually before a referendum is called (see above).

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[8] DCLG (2016).
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/501343/ASC_requirement_for_information_final_version.pdf

Council tax in Scotland, Wales and Northern Ireland

There are differences in the council tax systems of Scotland, Wales and Northern Ireland compared with England. The main differences relate to the council tax band thresholds as shown in Table 2.2, but recent reforms mean that these systems also differ in terms of valuation dates, council tax rates and the number of council tax bands. This section briefly discusses these systems in turn.

Table 2.2: Council tax bands across England, Scotland and Wales

Band	England 1991 prices	Scotland 1991 prices	Wales 2003 prices
A	Up to £40,000	Up to £27,000	Up to £44,000
B	£40,001 to £52,000	£27,001 to £35,000	£44,001 to £65,000
C	£52,00 0 to £68,000	£35,001 to £45.000	£65,001 to £91,000
D	£68,001 to £88,000	£45,001 to £58,000	£91,001 to £123,000
E	£88,001 to £120,000	£58,001 to £80,000	£123,001 to £162,000
F	£120,001 to £160,000	£80,001 to £106,000	£162,001 to £223.000
G	£160,001 to £320,000	£106,001 to £212,000	£223,001 to £324,000
H	£320,0001 and over	£212,001 and over	£324,001 to £424,000
I	..	..	£424,001 and over

Source: Valuation Office Agency (2016). Understanding how council tax bands are assessed. Available at: https://www.gov.uk/guidance/understand-how-council-tax-bands-are-assessed; and Scottish Government (2016). Council tax and local taxation. Available at: http://www.gov.scot/Topics/Government/local-government/17999/counciltax

Scotland

The council tax system in Scotland works in the same way as that for England, but has always been separate in terms of the legal framework. That is, there are eight bands and local authorities set council tax rates for Band D (within government restrictions) with the other bands calculated as a proportion of Band D using ratios shown in Table 2.1. Since April 2007, the Scottish Government has worked with local authorities to freeze council tax, but this is due to end from April 2017. In addition, since April 2013, local authorities in Scotland have been permitted to levy a 100 per cent premium on properties which have been empty for more than 12 months subject to protections for homes subject to probate or which have been marketed but remain unsold.

In light of the issues with council tax – discussed in the next chapter - the Scottish Government set up the Commission on Local Tax Reform to identify ways that council tax could be improved. They concluded that the "the present council tax system must end" and that "any reform of local tax has to continue to include recurrent tax on domestic property"[9]. They also noted that local taxation should minimise complex support systems, should be flexible (i.e. be subject to frequent revaluations) and take into consideration household income.

Following this report, the Scottish Government announced reforms to council tax which will be brought in from April 2017[10]. These include changing the way council tax is calculated for Bands E-H so that they pay proportionally more, improving council tax relief for those on income support and increasing the child allowance within the council tax reduction scheme. The old and

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[9] Commission on Local Tax Reform (2015). Volume 1, just change: a new approach to local taxation, December 2015, pg.80.
[10] Scottish Government (2016). Council tax reform, 2 March 2016. Available at: http://news.scotland.gov.uk/News/Council-tax-reform-2347.aspx

new council tax rates are shown in Table 2.3. Overall, these new council tax rates are expected to raise an additional £100 million per annum which the Scottish Government has earmarked for investment in schools[11].

Table 2.3: Council tax rates in Scotland before and after reform in 2016-17

Band	Before reform		After reform		Average difference in tax rates
	Ratio to Band D	Average tax rate	Ratio to Band D	Average tax rate	
A	0.67	£766	0.67	£766	£0
B	0.78	£894	0.78	£894	£0
C	0.89	£1,021	0.89	£1,021	£0
D	1.00	£1,149	1.00	£1,149	£0
E	1.22	£1,404	1.31	£1,505	£101
F	1.44	£1,660	1.63	£1,873	£213
G	1.67	£1,915	1.96	£2,252	£337
H	2.00	£2,298	2.45	£2,815	£517

Note: the figures in the last column are slightly different to those announced by the Scottish Government and this is likely due to different Band D tax rates being used. Source: Scottish Government

Other proposals previously proposed by other Scottish political parties are detailed by the Resolution Foundation[12].

Wales

Although Wales has a similar council tax system to England, it has had different council tax band thresholds to account for property prices in Wales generally being lower. For example, Band D referred to properties valued between £51,001 and £66,000 in 1991 prices for Wales, compared with £68,001 to £88,000 in England[13].

However, in April 2005, the Welsh Government reformed council tax by introducing a ninth band (Band I) and revalued properties so that they were based on 2003 property prices. To enact these changes, the Local Government Finance Act 1992 which set out the original council tax system was amended as part of the Local Government Act 2003[14]. The Welsh Government's submission to the Lyons Inquiry set out the process and timeline for when these reforms were to be enacted[15]. The UK Government postponed the planned revaluation scheduled for 2015 in December 2010 and decisions on this are now devolved to the Welsh government.

In early 2016, the Plaid Cymru party pledged to reform council tax if elected. Their plans involved decreasing council tax for Bands A-D, whilst increasing council tax for Bands E-I. Although this reform is not significantly developed, they suggested that "council tax [would be]

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[11] Ibid.

[12] Corlett, A (2016). Battle of the bands, the prospect of council tax reform in Scotland and beyond, Resolution Foundation Briefing Note.

[13] Local Government Finance Act 1992.

[14] See sections 77 and 78 of the Local Government Act 2003.

[15] Welsh Government (2006). Welsh Government submission to the Lyons Inquiry into local government, 9 March 2006. Available at: http://gov.wales/topics/localgovernment/publications/lyons/?lang=en

more closely related to the value of the house so that everybody pays the same percentage of their current house value by band"[16].

Meanwhile, the Housing (Wales) Act 2014 granted local authorities the ability to apply a premium of up to 100 per cent on second homes and empty homes which had been unoccupied for more than one year. No such premium for second homes exists in England and the long-term empty premium is capped at 50 per cent and is limited to properties which have been unoccupied for more than two years.

Northern Ireland

Northern Ireland does not have a council tax like England, Scotland and Wales. Instead there is a domestic rates system which is similar to that which council tax replaced in England in the early 1990s. Domestic rates are based on the capital or market value of properties which is then multiplied by a domestic tax rate.

The domestic tax rate is made up of two components. The first is the domestic district rate which is set by local authorities to pay for local services. The second is the domestic regional rate which is set by the NI Assembly and is the same rate for all properties across Northern Ireland and used to pay for regional services. As such, domestic rates can vary across Northern Ireland reflective of different domestic district rates. Meanwhile, valuations for domestic properties are based on 2005 prices and are capped at £400,000 (even though the property value may be above this amount) for the purpose of rate calculations[17].

In 2016-17, the average domestic rate in Northern Ireland was 0.76 per cent of the rateable capital value of the property[18]. That consisted of a regional rate of 0.41 per cent and an average district rate of 0.35 per cent.

For comparison, non-domestic rates in Northern Ireland are calculated in a similar way to domestic rates, though rateable values are based on 2001 prices. Acknowledging the different valuation dates, the average non-domestic tax rate was 56.4 per cent of rateable values[19].

A comparison of residential property taxes in other countries besides the UK is given in Appendix 1.

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[16] Johnson, I (2016). An explanation of Plaid Cymru's plan to reform council tax by Head of Policy, Ian Johnson, 23 March 2016. Accessed on 12 September 2016. Available at: https://www.partyof.wales/the-slate/2016/03/23/an-explanation-of-plaid-cymrus-plans-to-reform-council-tax-by-head-of-policy-ian-johnson/?force=1

[17] NI Direct (2016). A guide to rates. Accessed on 12 September 2016. Available at: https://www.nidirect.gov.uk/articles/how-rate-bills-are-calculated

[18] Department of Finance (2016). Poundages 2016-17. Available at: https://www.finance-ni.gov.uk/articles/poundages-2016-2017

[19] Ibid.

3. Issues with the current council tax system

Summary

Council tax is widely considered as an inefficient tax. While an annual consumption tax on housing services can promote an efficient use of property, council tax is not reflective of current property prices so this efficiency gain is lost. Housing is also taxed at a lower rate than commercial property which may contribute towards an inefficient use of land in London as the tax system effectively 'subsidises' housing over non-residential property.

It is also regressive in nature in that more expensive properties pay proportionally less council tax. Moreover, as council tax is set individually by local authorities, there are substantial differences in tax rates across London boroughs which are perceived to be unfair by many Londoners.

Subsequently, there are a number of potential benefits from reforming council tax. For instance, moving to a flat rate tax system would result in a fairer, less regressive tax and improve spatial equality. Tying council tax to current property prices (and frequent revaluations thereafter) could encourage a more efficient use of housing, which could have potentially very positive dynamic impacts for London's housing market. It could help to dampen the appreciation in house prices and create a more stable macroeconomic environment, while also enabling the public sector to directly (and automatically) benefit from any uplift in property values as a result of infrastructure investments.

It is generally accepted that optimal tax policy should try to minimise distorting the behaviour of individuals unless that is explicitly the policy's intention[20]. However, there are a number of apparent inefficiencies in the English council tax system which suggests that it is not an optimal tax. These inefficiencies are discussed in this chapter.

Unfairness

One aspect of optimal tax policy is that it should be fair. However, there are two main criticisms of council tax in this regard. The first is that council tax is regressive by design; and the second is that there is significant spatial variation in rates of council tax charged by different local authorities.

A regressive tax

One of the criticisms of council tax is that it is regressive by design. Despite a Band H property being worth at least eight times the value of a Band A dwelling in 1991 prices, it only pays three times the amount of council tax. This can be seen in Figure 3.1 which shows an estimate of the average level of council tax in London as a percentage of property prices by council tax band[21].

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[20] Mirrlees, J et al. (2011). Tax by design, Mirrlees Report. Available at: https://www.ifs.org.uk/publications/5353
[21] These estimates are produced by first taking the mid-point of the property price thresholds for each council tax band in 1991 prices (see Table 2.1). The exceptions are Bands A and H where instead it has been assumed the property prices are £30,000 and £400,000 respectively in 1991 prices. These assumed property prices were then uprated to 2015 prices using the seasonally adjusted London house price index from Nationwide (Q2 1991 to Q2 2015). The average council tax rate across London in 2015-16 was then divided by the assumed property price in 2015 prices for each council tax band to produce an estimate of the effective rate of council tax.

It shows that council tax is approximately 0.5 per cent of a property's value in Band A, compared with 0.1 per cent of a property's value in Band H[22].

Figure 3.1: Effective rate of council tax as a percentage of property value by band in London in 2015-16
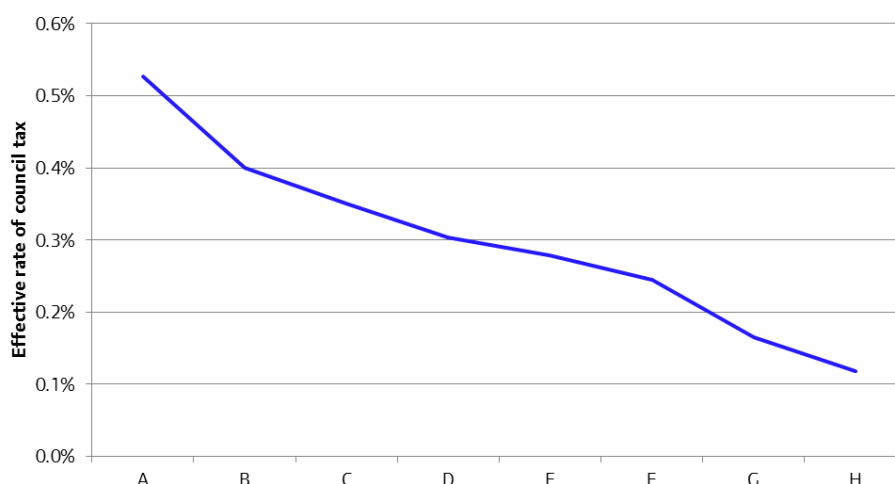
Source: Nationwide House Prices Index, London Councils Council Tax Monitor, GLA Economics calculations

To put that in context, someone in a property worth £165,000 in London would pay, on average, £871 in council tax in 2015-16. That compares with a council tax bill of £2,614 for someone in a house worth over £3 million. This means that despite the house costing 18 times more, the council tax bill is only three times as much.

Spatial inequality

As well as being regressive, there are significant differences in council tax rates across local authorities and this spatial inequality could appear to be unfair (Table 3.1). Some boroughs have much higher rates of council tax than other boroughs for similar properties. For instance, Band D council tax rates in 2015-16 varied from £673 in Westminster to £1,675 in Kingston-upon-Thames – almost two-and-a-half times larger. Differences also occur across bands. For example, the council tax for a Band H property in Westminster worth over £10 million paid less in council tax in 2015-16 (£1,345) than a Band C property worth around £240,000 in Harrow (£1,359). In fact, in 17 out of the 20 outer London boroughs, a Band D council taxpayer will pay a higher rate of council tax than a Band H council taxpayer in Wandsworth and Westminster.

Table 3.1: Council tax rates by band and London borough in 2015-16

Borough	A	B	C	D	E	F	G	H
Barking & Dagenham	£888	£1,036	£1,184	£1,332	£1,628	£1,924	£2,219	£2,663
Barnet	£931	£1,087	£1,242	£1,397	£1,708	£2,018	£2,328	£2,794
Bexley	£964	£1,124	£1,285	£1,446	£1,767	£2,088	£2,409	£2,891
Brent	£903	£1,053	£1,204	£1,354	£1,655	£1,956	£2,257	£2,708
Bromley	£883	£1,031	£1,178	£1,325	£1,620	£1,914	£2,209	£2,650
Camden	£891	£1,040	£1,189	£1,337	£1,634	£1,931	£2,229	£2,674
City of London	£629	£734	£839	£943	£1,153	£1,363	£1,572	£1,887

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[22] This analysis ignores the effects of council tax reductions and how property values are distributed within each band.

City of Westminster	£448	£523	£598	£673	£822	£972	£1,121	£1,345
Croydon	£978	£1,141	£1,303	£1,466	£1,792	£2,118	£2,444	£2,933
Ealing	£903	£1,054	£1,204	£1,355	£1,656	£1,957	£2,258	£2,710
Enfield	£930	£1,085	£1,240	£1,395	£1,705	£2,015	£2,326	£2,791
Greenwich	£851	£992	£1,134	£1,276	£1,560	£1,843	£2,127	£2,552
Hackney	£862	£1,006	£1,150	£1,293	£1,581	£1,868	£2,156	£2,587
Hammersmith & Fulham	£682	£796	£909	£1,023	£1,250	£1,477	£1,705	£2,046
Haringey	£986	£1,151	£1,315	£1,479	£1,808	£2,137	£2,466	£2,959
Harrow	£1,020	£1,190	£1,359	£1,529	£1,869	£2,209	£2,549	£3,059
Havering	£1,009	£1,178	£1,346	£1,514	£1,850	£2,187	£2,523	£3,028
Hillingdon	£939	£1,095	£1,251	£1,408	£1,721	£2,034	£2,347	£2,816
Hounslow	£917	£1,069	£1,222	£1,375	£1,680	£1,986	£2,291	£2,750
Islington	£851	£993	£1,134	£1,276	£1,560	£1,843	£2,127	£2,552
Kensington & Chelsea	£718	£838	£958	£1,078	£1,317	£1,557	£1,796	£2,155
Kingston-upon-Thames	£1,116	£1,303	£1,489	£1,675	£2,047	£2,419	£2,791	£3,349
Lambeth	£826	£963	£1,101	£1,239	£1,514	£1,789	£2,065	£2,477
Lewisham	£904	£1,054	£1,205	£1,355	£1,657	£1,958	£2,259	£2,711
Merton	£934	£1,090	£1,246	£1,401	£1,713	£2,024	£2,336	£2,803
Newham	£827	£965	£1,103	£1,241	£1,516	£1,792	£2,068	£2,481
Redbridge	£927	£1,082	£1,236	£1,391	£1,700	£2,009	£2,318	£2,781
Richmond-upon-Thames	£1,055	£1,231	£1,407	£1,582	£1,934	£2,286	£2,637	£3,165
Southwark	£805	£939	£1,073	£1,207	£1,475	£1,744	£2,012	£2,414
Sutton	£972	£1,134	£1,297	£1,459	£1,783	£2,107	£2,431	£2,917
Tower Hamlets	£787	£918	£1,049	£1,181	£1,443	£1,705	£1,968	£2,361
Waltham Forest	£965	£1,126	£1,286	£1,447	£1,769	£2,090	£2,412	£2,894
Wandsworth	£456	£532	£607	£683	£835	£987	£1,139	£1,367
Average	**£871**	**£1,017**	**£1,162**	**£1,307**	**£1,598**	**£1,888**	**£2,179**	**£2,614**
Lowest	£448	£523	£598	£673	£822	£972	£1,121	£1,345
Highest	£1,116	£1,303	£1,489	£1,675	£2,047	£2,419	£2,791	£3,349

Note: rounded to nearest pound. Source: London Councils Council Tax Monitor

One explanation as to why these spatial differences occur could be due to different efficiencies in delivering local services; the more efficient a borough, the lower the council tax. For example, a more efficient borough that is able to deliver the same local services but at a lower cost than a less efficient borough may have a lower income requirement and, therefore, lower council tax rates. However, it should be noted that the interaction with government grant and other areas of income (parking and planning fees etc.) make this 'feed through' of efficiency to lower council tax rates less clear. In addition, households are unlikely to see the differences in efficiencies but, instead, see the differences in council tax rates and perceive this to be unfair.

Interestingly, the variance in council tax across London is much greater than the variance across the other regions of England (Figure 3.2). This would suggest that there is more to the differences in council tax than just efficiencies – encompassing other things like funding and other sources of income for example.

Figure 3.2: Percentage difference between lowest and highest Band D council tax rates within each English region in 2015-16
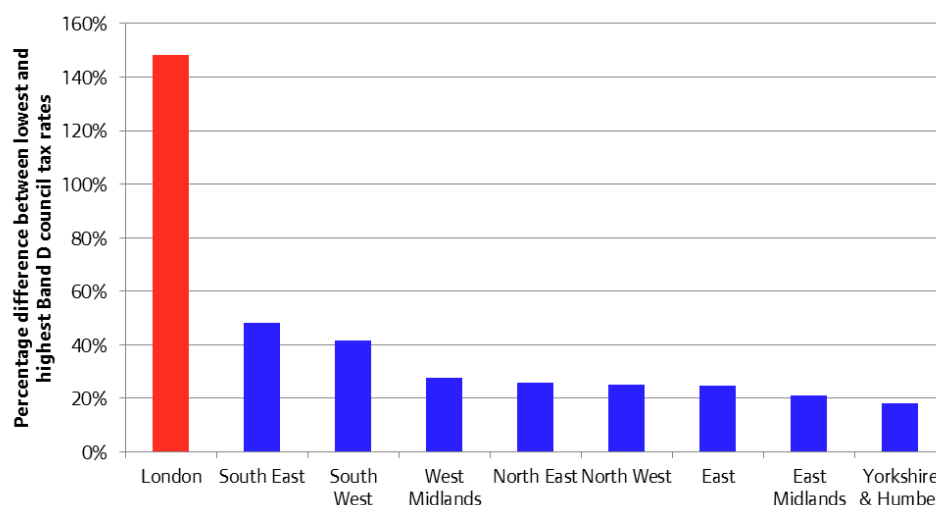
Source: DCLG Council tax levels set by local authorities in England

Inefficiency

Another characteristic of a good tax system is that it should minimise the negative effects and maximise the positive effects of the tax on welfare and efficiency. Council tax has the potential to promote the efficient use of property, but the way that is has been designed and managed means that these efficiency gains are lost. This inefficiency stems from having outdated house prices, treating properties differently through the use of discounts and exemptions, and inconsistencies between residential and commercial property taxes.

Purpose of council tax

For residents, the purpose of council tax is generally thought of in terms of its end-use, which is primarily to fund services provided by the local authority. For example, social services, highway maintenance or refuse collection. However, council tax can also be thought of in more theoretical terms as a tax on the 'consumption' of housing – as described by Mirrlees in his review of the UK tax system for the Institute of Fiscal Studies[23]. Housing is, in effect, a large consumer durable which offers a stream of services (or benefits) to the occupier typically over a long time period. It is, therefore, as legitimate a tax base as any other type of consumer good (like a car or a washing machine), most of which are liable for VAT at the point of purchase from new.

Housing of course differs from other consumer durables in that it is very long lived and prices vary over time. Therefore, it is impractical to impose VAT because the price paid at the point of purchase may not be an accurate reflection of the value of the future stream of services 'consumed'. Taxing only newly-built housing would also potentially introduce distortions by encouraging the overuse of existing dwellings while discouraging new development. It therefore follows that housing needs to be taxed at the point at which services are 'consumed' or, in other words, on an annual basis related to the consumption value of the property. In this regard, council tax bears a close resemblance to an annual tax on the consumption of housing services.

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[23] Mirrlees, J et al. (2011). Tax by design, Chapter 16. Available at: https://www.ifs.org.uk/publications/5353

The benefit of an annual tax on the consumption of housing services is that it provides an incentive to use housing more efficiently. For example, if the tax is thought of as being similar to a 'usage' charge, then household are encouraged to use housing in a way which means the value they attach to the consumption of housing services is proportionate to the tax they pay[24]. With an annual tax on the consumption of housing there would, therefore, be an incentive against keeping property empty, or even under-occupied or under-used. Such a tax could act as a considerable spur to the efficient use of housing across London – those with significant tax bills would consider whether the current configuration of the property best met their needs. However, as discussed below, the council tax system in England appears to perform this function neither equitably nor efficiently.

Outdated property prices

In its current form, council tax fails to tax efficiently (and consistently) the value of housing services 'consumed' because properties have not been valued since 1991. Being so out of date, council tax takes no account of changes in the relative prices of properties. As a consequence, it can be argued that the existing council tax system provides an incentive for the inefficient use of property across London. This is exacerbated by the spatial distribution of house price growth since 1991 (see Figure 3.3). This issue is particularly acute in London where prices in inner London have risen at a faster rate than most of outer London since 1991.

Figure 3.3: House price indices by English region between 1991 and 2016, seasonally adjusted, 100=Q1 1993
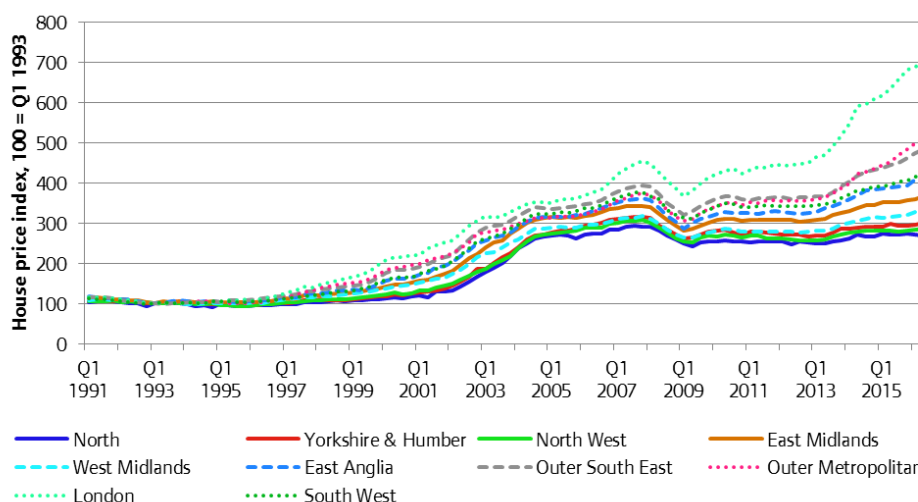
Note: Refers to all properties. The regional definitions are different to the official classifications. Source: Nationwide House Prices Index

The effect of rising house prices also means that council tax as a percentage of average property prices have fallen from 0.5 per cent in 2000-01 to 0.3 per cent in 2015-16 (Figure 3.4).

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[24] Muellbauer, J (2005). Property taxation and the economy after the Barker review, *The Economic Journal*, 115, pg.99-117.

Figure 3.4: Council tax for Band D as a percentage of average property prices in London, 2000-01 to 2015-16, current prices
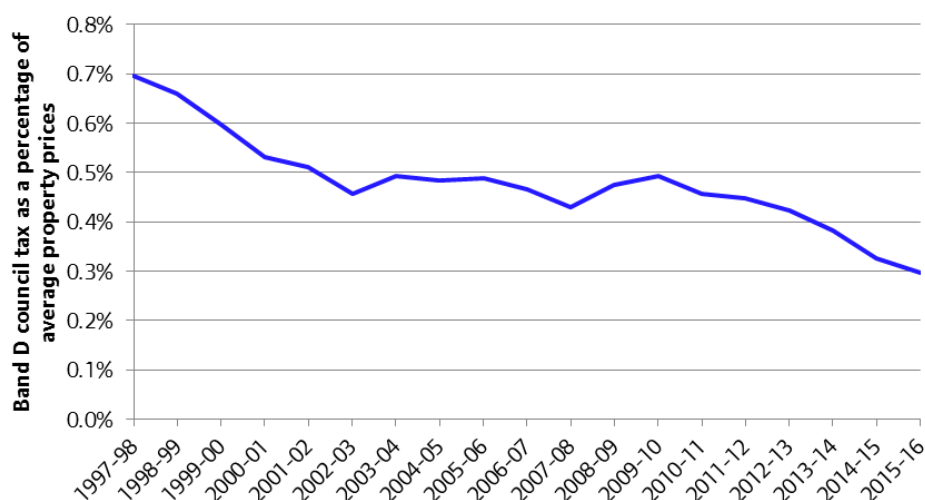
Note: mean property price covers the April to March period and these figures may not acutally relate to a Band D property. Source: Land Registry House Price Index, DCLG Live Tables on Council Tax

Inconsistencies between residential and commercial property taxes

This in-built bias to the inefficient use of land is also exacerbated by the contrast between residential property tax (council tax) and commercial property tax (business rates). Business rates are calculated based on the rateable value of a commercial property (effectively its annual rental value) multiplied by a tax rate set by central government (the 'multiplier'). The standard business rates multiplier (i.e. the tax rate) was 49.3 per cent in England for 2015-16, so 49.3 pence is paid in tax for every £1 in rateable value. Different multipliers are set for the City of London and Wales, and there is also a lower multiplier for small businesses.

Compared to the tax charged on commercial property, residential property would appear to be taxed relatively lightly. Council tax for Band D as a percentage of average property prices was estimated at 0.3 per cent in 2015-16 as shown in Figure 3.4. This cannot be directly compared with the effective rate of business rates (49.3 per cent) as this is based on annual rental values. An equivalent annual rateable value figure for residential property therefore needs to be estimated. This can be done by estimating the annual rental yield – rental income as a percentage of the property cost – as per the methodology used in GLA Economics Working Paper 72[25]. Here, the VOA reported that the median monthly private rent in London was £1,450 in 2015-16 (or £17,400 on an annual basis); while the Land Registry reported that the median house price paid in London was £410,000. This suggests that the annual rental yield was 4.2 per cent on average. Combining information on median council tax with the rental yield suggests that the effective rate of council tax as a percentage of median rent for Band D is 7 per cent.

Subsequently, tax on residential property (7 per cent for Band D) is substantially lower than tax on commercial property (49.3 per cent). It is not clear as to why this should be the case given that both council tax and business rates can be considered as consumption taxes for the use of property. One of the issues with the above analysis is that it does not consider the impact of the

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[25] GLA Economics (2016). House prices in London – an economic analysis of London's housing market, Working Paper 72.

various discounts and reliefs available for council tax and business rates. Therefore, an alternative approach is to look at the total tax take and the total value of property to derive overall estimates of the effective rate of tax.

Firstly, for business rates, DCLG estimated that the total collected in London was £6.8 billion during 2015-16. Meanwhile, the VOA estimated that the total annual rateable value of non-residential properties in London was £20 billion in 2015 prices. Therefore, the effective rate of tax – total tax divided by total rateable value – was 34 per cent in London during 2015-16.

For council tax, the total tax take in London was £3.6 billion in 2015-16. To estimate the total annual rental value of residential property, the rental yield needs to be calculated. Using a similar approach to the above where property prices are turned into rental values using the rental yield[26], the total annual rateable value of housing is estimated at £89.8 billion. This, therefore, suggests that the effective rate of tax including all reliefs and discounts is approximately 3.9 per cent. This is substantially less tax than for commercial property (34 per cent).

Therefore, this would suggest that residential property in London is taxed at a lower effective rate than non-residential property. This adds another source of inefficiency into the use of land in London, with the tax system in effect 'subsidising' residential property at the expense of non-residential property. This can perhaps be more clearly seen in Figure 3.5 that shows property taxes as a percentage of gross value added (GVA) for the English regions in 2013-14[27]. While council tax as a share of GVA is generally higher than business rates, London is peculiar in that the share of business rates is larger than council tax.

[26] The VOA reported that that the median monthly rent in London was £1,450 in 2015-16 – the equivalent of £17,400 on an annual basis. The lower and upper quartiles – that is, the values that are at 25 and 75 percentage points of the distribution – were £13,800 and £23,400 respectively in a year. Meanwhile, data from the Land Registry similarly showed the median house price as £410,000 and the lower and upper quartiles as £300,000 and £625,000 respectively. This implies that the rental yield is 4.6 per cent at the lower quartile, 4.2 per cent at the median and 3.7 per cent at the higher quartile. The Land Registry property prices data for all housing in London has been grouped into £5,000 price bands – as with the council tax modelling in the next chapter – to reduce the size of the dataset. Consequently, the rental yield needs to be estimated for each £5,000 price band. This is derived by extending the linear trend between the lower and upper quartiles to all price bands.
[27] This is the latest year that regional GVA data is available.

Figure 3.5: Property tax as a percentage of regional GVA by English region in 2013–14
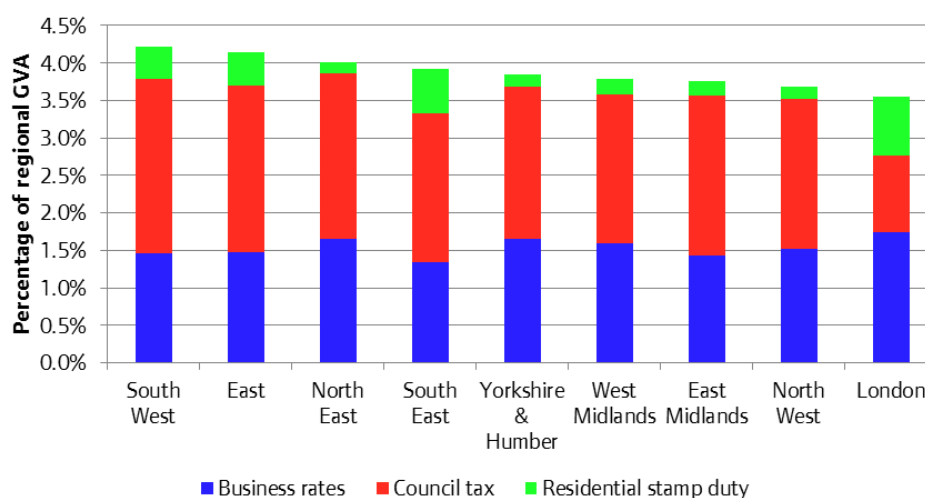
Source: ONS Regional GVA (Income Approach), DCLG Non-domestic rates collected by councils in England, DCLG Collection rates for council tax and non-domestic rates in England, HMRC UK stamp tax

Discounts and exemptions

Given the need to accommodate an ever growing population in London and the difficulties in meeting housing needs, it is important that the existing housing stock is used optimally such that under-occupation (and overcrowding) is minimised. In some parts of London, there is evidence that housing is under-occupied, while in others overcrowding is a concern[28]. The system of council tax discounts for single persons and second homes (see the next chapter for a more detailed discussion of these discounts) may inadvertently contribute to an inefficient use of the housing stock.

Perception of fairness

As previously discussed, council tax is a local tax and is primarily used to cover the cost of local services, such as waste collection, libraries, parks and roads and pavements. These are all services that are available to all households regardless of whether or not they actually use them.

The Lyons Inquiry into local government noted that the value of the benefits associated with these local services can vary greatly between households[29]. If a low value is attached (i.e. the household sees itself as using few council services), it can lead to a perception of council tax as being 'unfair' with the cost of the tax outweighing any benefits from the local services used[30]. On the other hand, some households may attach a higher value to local services and could perceive council tax as being fairer.

The Lyons Inquiry into local government suggested that the most common definition of fairness among individuals is based on the ability to pay (usually measured by income), rather than the

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[28] GLA Economics (2016). Economic evidence base for London 2016, Chapter 4.
[29] Lyons, M (2007). Lyons inquiry into local government, final report, chapter 7. Available at:
http://www.webarchive.org.uk/wayback/archive/20070428120000/http://www.lyonsinquiry.org.uk/docs/final-complete.pdf
[30] Although households that think the cost of council tax outweighs the benefits of housing services could theoretically move to a different property – prompting a more efficient allocation of housing – they may exhibit barriers to moving, such as stamp duty.

assets that they hold[31]. The Inquiry reported that "the nature of property markets in this country and the complex factors influencing people's choice of home mean that there is not a simple relationship between a household's income and the value of their home"[32]. Given this complexity, some households – particularly those in London where house prices are so high – may judge the relationship between house prices and income to be weak.

Nevertheless, there would seem to be a fairly strong relationship between council tax band and income. For example, Figure 3.6 shows the percentage of households at specific income deciles by council tax band for Scotland. Although the income and council tax distributions are more complicated than this chart suggests, it shows that poorer households tend to be in lower council tax bands and vice versa. However, it should also be noted that council tax was not designed to be a perfect proxy for household income.

Figure 3.6: Proportion of households by council tax band and household income decile in Scotland in 2013-14
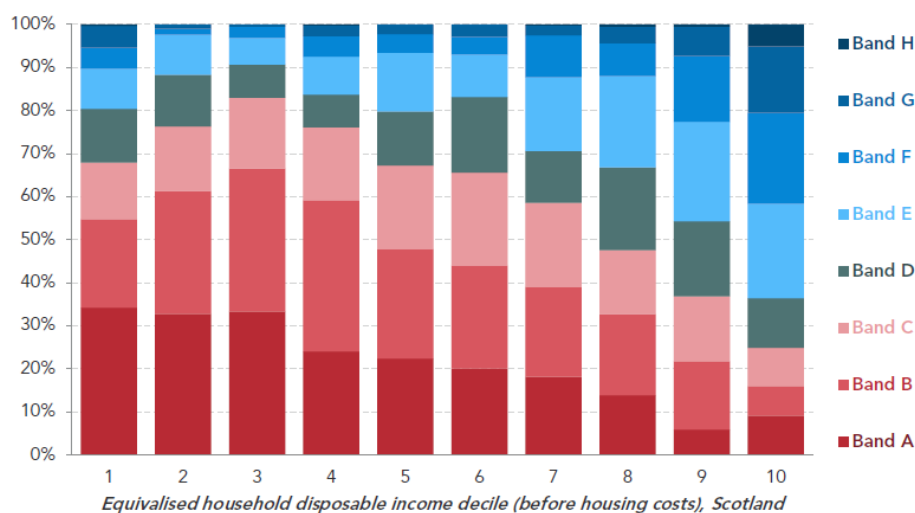
Taken from: Corlett, A (2016). Battle of the bands, the prospect of council tax reform in Scotland and beyond, Resolution Foundation Briefing Note.

Other potential benefits from reform

Given the issues with council tax discussed above, there is an argument for reforms to the tax. In addition to potentially dealing with these issues, reforming council tax could also be beneficial for a number of other reasons including the ability to automatically capture land value uplift as a result of public sector investment and improve macroeconomic stability.

Ability to 'capture' benefits from public sector investments

If the council tax system were reformed to be more in line with current property prices, then this has the potential to capture the uplift in property prices resulting from public sector investments. For example, on the proviso that there are frequent revaluations, any increase in property prices derived from a new transport scheme or improvements to the public realm could

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[31] Lyons, M (2007). Lyons inquiry into local government, final report, chapter 7. Available at:
http://www.webarchive.org.uk/wayback/archive/20070428120000/http://www.lyonsinquiry.org.uk/docs/final-complete.pdf
[32] Ibid

feed through into increased tax receipts automatically. This would bring residential property more in line with commercial property where some business occupiers in London pay a business rates supplement as a contribution towards transport improvements. In addition, this can be achieved without the need for more bureaucratic solutions like tax incrementing financing (TIF).

Improved macroeconomic stability

Another potential benefit of reforming council tax is improved macroeconomic stability. Some commentators have suggested that the current property tax system undermines macroeconomic stability. The Barker Review into housing supply identified that price volatility in the housing market has contributed to macroeconomic volatility which, in the long-run, has knock on effects on affordability, the redistribution of wealth, labour mobility, economic welfare and economic growth[33]. Put simply, the instability is caused partly due to the link between house prices and private consumption – as house prices rise, households increase their spending which then influences economic activity and vice versa. This, Barker argues, has created "a more difficult environment for businesses and for economic policy makers"[34].

Instead, Muellbauer argues that if a property tax was more closely linked to current house prices (and with frequent revaluations to maintain that link), this would increase the incentive to use housing more efficiently in several ways[35]. One of these methods is that, under a reformed tax, higher house prices would lead to an increase in tax and so dampen economic activity. That is, an increase in tax would reduce household income and also reduce demand for that house (reflective of its higher cost). It also works in reverse so that if house prices fell, this would lead to lower taxes and, therefore, more economic activity. Muellbauer also argues that a tax linked to current house prices could encourage property owners to consider whether the current configuration of the property was the most efficient and/or encourage households to rent out spare rooms, both of which could lead to an increase in the effective supply of housing[36].

Another way that a tax more closely linked to current house prices could improve macroeconomic stability is by reducing the incentive to speculation. If individuals knew that any increase in house prices would result in an increase in tax, then there would arguably be less incentive to speculate on house prices than currently exists. It also raises the cost of holding property empty. Ultimately, this could feed through to a more efficient use of the housing stock.

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[33] Barker, K (2004). Review of housing supply, final report – recommendations, March 2004.
[34] Ibid, pg. 3.
[35] Muellbauer, J (2005). Property taxation and the economy after the Barker review, *The Economic Journal*, 115, pg.99-117.
[36] Ibid.

4. Potential options for reform

Summary

Given the issues with the current council tax system and the potential benefits from reform, the call for devolving property taxes to London provides a prime opportunity to improve its equity and efficiency. This chapter sets out seven potential options for reforming council tax in a London setting and also models the potential distributional impact of each change.

The devolution of property taxes in London, as recommended by the London Finance Commission, could provide an opportunity to reform the existing tax system to improve its economic efficiency and make it a 'fairer' tax for Londoners.

The main criteria for a reform of the council tax system are listed below. These criteria are largely in line with those described by the government and the Mirrlees Review for creating a simpler and fairer tax system[37]. Any reforms to council tax should be:

- More economically efficient than the current system, whereby it minimises the negative consequences of the tax.
- Simpler and easier to understand.
- Fair and neutral in the way that it distinguishes between different economic activities.
- More progressive than the current system.
- Fiscally neutral in that it raises at least the same amount in tax revenue as the current system.

This chapter presents several options for reforming council tax in line with these principles. For each option, a description of the proposed change is given and then modelled to show the potential impact of the reform. Although discussed in the relevant options, a more detailed methodology note discussing the approach to the modelling is included in Appendix 2 and detailed results tables, as well as the distributional impact, are included in Appendices 3 and 4.

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[37] See: HMRC & HM Treasury (2015). 2010 to 2015 government policy: personal tax reform, Policy Paper, 8 May 2015. Available at: https://www.gov.uk/government/publications/2010-to-2015-government-policy-personal-tax-reform/2010-to-2015-government-policy-personal-tax-reform; and Mirrlees, J et al. (2011). Tax by design, Mirrlees Report. Available at: https://www.ifs.org.uk/publications/5353

Option 1: Reform of council tax support

Summary

This option changes the type and amount of council tax discounts and premiums available as part of the Council Tax Support system. Removing the empty and second homes discount would result in a marginal increase in total tax take (£7.5 million) and if, instead all empty homes are charged a 150 per cent premium providing an incentive to use housing more efficiently, it would raise an additional £90.1 million. There is also a marginal rise in total revenue if the single person discount is removed for the most expensive properties (£18.9 million for Bands G and H).

The first option modelled in the paper considers the effect of changing some aspects of the council tax support system with the aim of removing some of the incentives to keep property empty or under-occupied.

Since April 2013, local authorities have had greater control over offering, setting and implementing council tax reduction and premium schemes. This Council Tax Support system replaced the previous Council Tax Benefit system that was funded entirely through a subsidy from the Department for Communities and Local Government (DCLG). Local authorities have a legal duty to continue to give the same level of support to pensioners as under the Council Tax Benefit system. The introduction of the Council Tax Support system was alongside a 10 per cent reduction in government funding relative to Council Tax Benefit. In addition local authorities were also given the power to reduce or withdraw the discount periods for empty homes, apply a 50 per cent premium to unfurnished properties empty for more than two years; and to withdraw discounts entirely for second homes. The impact of this reform was uneven across London as there tend to be a higher proportion of second and empty homes in central London boroughs.

According to the National Audit Office, most local authorities responded to the reduction in funding by reducing the level of council tax support[38]. This was mainly through introducing schemes that required working age claimants, regardless of income, to pay at least some council tax. In fact, the New Policy Institute suggests that 87.4 per cent of local authorities across England have reduced their level of support as of 2016-17[39]. Their research suggests that 27 London boroughs have reduced their level of support since this reform[40]. However, one London borough in 2016-17 requires the majority of council tax support claimants to pay at least 30 per cent of their council tax liability and another is considering a 40 per cent minimum payment for 2017-18. As such, Council Tax Support can vary depending on location and households with the same circumstances can pay significantly different amounts of council tax. For example, all these changes potentially mean a household previously on council tax benefit in a Band D property in one borough could now be paying as much as £600 towards their bill each year, whereas they would pay nothing if living in a different borough.

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[38] National Audit Office (2013). Council tax support, HC 882, Session 2013-14, 13 December 2013.
[39] New Policy Institute (2016). Council tax support update. Accessed on 13 September 2016. Available at: http://counciltaxsupport.org/schemes/
[40] The exceptions being City of London, Hammersmith & Fulham, Kensington & Chelsea, Merton, Tower Hamlets and Westminster.

Therefore, this option looks at whether council tax support could be devolved further and the potential to implement a London-wide Council Tax Support system which could improve equity.

Option 1a: Remove council tax support for second and empty homes
There were 47,200 empty homes and 45,200 second homes in London in 2015-16 according to the DCLG Council Taxbase statistics. Table 4.1 shows that the number of empty and second homes as a percentage of total number of dwellings varies substantially across boroughs. For example, the percentage of second homes was 28 per cent in City of London, compared with none in Haringey.

Table 4.1: Number of empty and second homes by London borough in 2015-16

Borough	Empty homes		Second homes	
	Number	As a percentage of total dwellings	Number	As a percentage of total dwellings
Barking & Dagenham	374	0.5%	114	0.2%
Barnet	1,994	1.4%	2,752	1.9%
Bexley	604	0.6%	36	0.0%
Brent	542	0.5%	300	0.3%
Bromley	1,769	1.3%	546	0.4%
Camden	2,361	2.2%	6,078	5.7%
City of London	78	1.1%	1,915	28.0%
City of Westminster	844	0.7%	5,341	4.3%
Croydon	2,414	1.6%	461	0.3%
Ealing	2,605	2.0%	263	0.2%
Enfield	1,343	1.1%	1,207	1.0%
Greenwich	1,353	1.2%	461	0.4%
Hackney	2,027	1.8%	1,012	0.9%
Hammersmith & Fulham	519	0.6%	2,110	2.5%
Haringey	2,034	1.9%	0	0.0%
Harrow	386	0.4%	2	0.0%
Havering	783	0.8%	203	0.2%
Hillingdon	914	0.8%	991	0.9%
Hounslow	722	0.7%	458	0.5%
Islington	2,629	2.5%	340	0.3%
Kensington & Chelsea	1,896	2.1%	8,657	9.8%
Kingston-upon-Thames	897	1.4%	838	1.3%
Lambeth	1,569	1.1%	475	0.3%
Lewisham	1,601	1.3%	349	0.3%
Merton	917	1.1%	1,338	1.6%
Newham	1,700	1.5%	421	0.4%
Redbridge	620	0.6%	915	0.9%
Richmond-upon-Thames	750	0.9%	525	0.6%
Southwark	4,202	3.1%	527	0.4%
Sutton	1,356	1.7%	95	0.1%
Tower Hamlets	1,366	1.1%	4,957	4.1%
Waltham Forest	765	0.8%	532	0.5%
Wandsworth	787	0.6%	990	0.7%
Total	**44,721**	**1.3%**	**45,209**	**1.3%**

Source: DCLG Council Taxbase statistics

Since the introduction of the Council Tax Support system, the decision as to whether to provide a discount or charge a premium on second and empty homes is now made by local authorities. As such, within London, most boroughs do not offer discounts on second and empty homes, but charge a 50 per cent premium on homes which have been empty for more than two years. The rationale for having a premium on some empty homes is to encourage property owners to use housing more efficiently – that is, bring empty homes back into use. A possible option for reform is, therefore, removing all council tax discounts on second and empty homes among those boroughs that have not already done so.

Table 4.2 shows that by removing council tax discounts for second and empty homes, it would raise an additional £7.5 million (or 0.2 per cent) in tax take on top of what is already collected across London in 2015-16. As such, this increases total council tax revenue to £3,537 million. Hillingdon, Camden and Southwark are likely to be the largest gainers from removing these council tax discounts.

Table 4.2: Council tax revenue by London borough for Option 1a in 2015-16, £millions

Borough	Existing system	Option 1a Remove second and empty homes discounts	% increase
Barking & Dagenham	£56.8	£56.8	0.0%
Barnet	£184.6	£184.6	0.0%
Bexley	£111.7	£111.7	0.0%
Brent	£112.1	£112.1	0.0%
Bromley	£165.8	£165.8	0.0%
Camden	£113.9	£115.4	1.3%
City of London	£5.9	£6.0	1.4%
City of Westminster	£82.0	£82.0	0.0%
Croydon	£167.0	£167.0	0.0%
Ealing	£141.7	£141.8	0.0%
Enfield	£128.0	£128.0	0.0%
Greenwich	£88.9	£88.9	0.0%
Hackney	£82.6	£83.2	0.7%
Hammersmith & Fulham	£73.6	£73.6	0.0%
Haringey	£104.8	£105.1	0.3%
Harrow	£122.0	£122.0	0.0%
Havering	£125.8	£125.8	0.0%
Hillingdon	£128.4	£130.9	2.0%
Hounslow	£108.3	£108.3	0.0%
Islington	£91.9	£91.9	0.0%
Kensington & Chelsea	£100.0	£100.0	0.0%
Kingston-upon-Thames	£99.3	£99.3	0.0%
Lambeth	£121.1	£121.1	0.0%
Lewisham	£102.4	£102.8	0.4%
Merton	£97.6	£97.6	0.0%
Newham	£83.2	£83.3	0.0%
Redbridge	£112.0	£112.0	0.0%
Richmond-upon-Thames	£135.6	£135.6	0.0%
Southwark	£105.9	£107.2	1.2%
Sutton	£101.7	£101.8	0.1%

Tower Hamlets	£93.1	£93.3	0.2%
Waltham Forest	£99.2	£99.2	0.0%
Wandsworth	£82.4	£82.8	0.4%
Total	**£3,529.4**	**£3,536.9**	**0.2%**
Inner London	£1,143.7	£1,148.2	0.4%
Outer London	£2,385.7	£2,388.8	0.1%

Note: Zeros in this table suggest that there is no discount available in that borough. Source: GLA Economics

Option 1b: Introduce a council tax premium for all empty homes

Another aspect of the Council Tax Support system is that local authorities can implement a council tax premium for empty homes. However, this only applies to properties that have been unfurnished for more than two years and is limited to a maximum premium of 150 per cent of the applicable council tax amount[41]. In 2015-16, only 7,200 properties were paying the empty homes premium in London and this raised approximately £4.6 million[42].

Therefore, another potential reform option is to relax the criteria that the premium can only apply to long-term empty homes which are substantially unfurnished and have been empty for more than two years. For example, if the 150 per cent premium was charged for all empty homes in London – regardless of how long the properties have been empty and irrespective as to whether they are 'furnished' or not – this would raise an additional £90.1 million on top of the current empty homes premium. If instead, long-term empty homes are charged a higher 200 per cent premium (i.e. double their usual council tax bill) and all other empty dwellings are charged the 150 per cent premium, this raises a further £4.9 million (or £95 million in total). As can be seen in Table 4.3, inner London boroughs – particularly Southwark and Camden – would be expected to see the largest increases in council tax as a result of this premium.

Table 4.3: Council tax revenue by London borough for Option 1b in 2015-16, £millions

Borough	Existing system	Option 1b			
		All empty homes pay 150% premium		ST empty pay 150% premium; LT empty pay 200% premium	
	Revenue	Revenue	% increase	Revenue	% increase
Barking & Dagenham	£56.8	£57.4	1.1%	£57.4	1.1%
Barnet	£184.6	£189.0	2.4%	£189.6	2.7%
Bexley	£111.7	£112.9	1.0%	£113.0	1.1%
Brent	£112.1	£113.0	0.8%	£113.3	1.1%
Bromley	£165.8	£169.4	2.2%	£169.5	2.2%
Camden	£113.9	£120.6	5.9%	£120.7	6.0%
City of London	£5.9	£6.1	3.4%	£6.5	10.3%
City of Westminster	£82.0	£83.1	1.3%	£83.3	1.6%
Croydon	£167.0	£171.8	2.9%	£171.9	2.9%
Ealing	£141.7	£146.9	3.7%	£147.3	3.9%
Enfield	£128.0	£130.6	2.1%	£130.7	2.1%
Greenwich	£88.9	£91.0	2.3%	£91.2	2.5%
Hackney	£82.6	£86.5	4.7%	£86.5	4.7%

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[41] DCLG (2013). Council tax empty homes premium: guidance for properties for sale and letting. Available at:
https://www.gov.uk/government/publications/council-tax-empty-homes-premium
[42] The empty homes premium is already included in the council tax figures presented in this paper. That is, it is already included in the total council tax revenue figure of £3,529 million in 2015-16.

Hammersmith & Fulham	£73.6	£74.6	1.3%	£74.6	1.3%
Haringey	£104.8	£109.4	4.5%	£109.8	4.8%
Harrow	£122.0	£123.0	0.8%	£123.1	0.8%
Havering	£125.8	£127.4	1.3%	£127.6	1.4%
Hillingdon	£128.4	£131.2	2.2%	£131.2	2.2%
Hounslow	£108.3	£109.8	1.4%	£110.0	1.6%
Islington	£91.9	£96.8	5.4%	£97.0	5.6%
Kensington & Chelsea	£100.0	£104.3	4.3%	£104.4	4.4%
Kingston-upon-Thames	£99.3	£101.4	2.1%	£101.4	2.1%
Lambeth	£121.1	£123.7	2.2%	£123.8	2.2%
Lewisham	£102.4	£105.4	2.9%	£105.5	3.1%
Merton	£97.6	£99.4	1.8%	£99.4	1.8%
Newham	£83.2	£85.9	3.2%	£86.0	3.3%
Redbridge	£112.0	£113.2	1.0%	£113.3	1.1%
Richmond-upon-Thames	£135.6	£137.5	1.4%	£137.6	1.5%
Southwark	£105.9	£113.9	7.6%	£114.3	7.9%
Sutton	£101.7	£104.6	2.8%	£104.6	2.9%
Tower Hamlets	£93.1	£95.6	2.7%	£95.7	2.8%
Waltham Forest	£99.2	£100.6	1.4%	£100.7	1.5%
Wandsworth	£82.4	£83.6	1.5%	£83.7	1.5%
Total	**£3,529.4**	**£3,619.5**	**2.6%**	**£3,624.4**	**2.7%**
Inner London	£1,143.7	£1,185.2	3.6%	£1,187.1	3.8%
Outer London	£2,385.7	£2,434.3	2.0%	£2,437.3	2.2%

Note: The current empty homes premium is already included in the existing system figures, so Option 1b shows the additional revenue to this. Source: GLA Economics

Option 1c: Remove the single person discount for all or just higher banded properties

Currently, properties that contain only one adult are entitled to a 25 per cent discount on their council tax bill. Full-time students, carers or people whose main home is a hospital, care home, hostel or night shelter (among others) are exempt from council tax and therefore not counted as adults in this sense. Control over this council tax discount has so far not been devolved to local authorities as part of the changes to the Council Tax Support system, unlike flexibilities over other council tax discounts.

Overall, around one-in-three (1.1 million) households in London were classed as being in single occupancy in 2015-16. However, this varied by council tax band as shown by Table 4.4. For example, more than half of Band A and B properties were in single occupancy, whereas it was 10.2 per cent for Band H.

Table 4.4: Percentage of single occupier dwellings entitled to 25 per cent discount by London borough and council tax band in 2015-16

Borough	A	B	C	D	E	F	G	H	Total
Barking & Dagenham	55.7%	47.2%	29.5%	21.4%	17.8%	9.7%	6.8%	0.0%	**33.2%**
Barnet	64.1%	55.4%	42.3%	30.5%	23.1%	18.3%	13.7%	8.8%	**29.7%**
Bexley	57.5%	57.4%	37.7%	25.2%	19.5%	14.1%	12.1%	8.3%	**31.9%**
Brent	53.4%	52.0%	37.9%	21.8%	15.7%	12.2%	10.7%	4.8%	**29.0%**
Bromley	63.7%	61.2%	46.6%	31.1%	22.7%	17.9%	13.6%	7.7%	**31.6%**
Camden	55.9%	49.9%	45.9%	35.3%	29.1%	24.1%	19.0%	10.1%	**34.5%**
City of London	88.9%	48.7%	50.8%	28.7%	25.2%	17.5%	15.2%	11.2%	**26.1%**
City of Westminster	49.7%	55.9%	48.0%	39.0%	33.2%	25.2%	18.9%	10.9%	**31.3%**

Croydon	57.0%	56.1%	38.0%	25.2%	20.4%	16.2%	11.6%	7.6%	**32.2%**
Ealing	38.3%	31.5%	29.9%	19.6%	19.2%	15.3%	10.5%	6.0%	**22.9%**
Enfield	56.7%	58.4%	41.1%	28.3%	21.8%	18.0%	12.1%	9.7%	**33.0%**
Greenwich	55.7%	51.0%	31.2%	24.4%	20.8%	18.1%	13.0%	6.8%	**34.2%**
Hackney	50.9%	53.5%	37.2%	25.2%	17.5%	12.4%	14.3%	0.0%	**37.2%**
Hammersmith & Fulham	52.8%	56.1%	48.4%	38.9%	27.8%	21.3%	16.5%	8.1%	**34.8%**
Haringey	58.2%	52.7%	36.7%	25.1%	20.2%	16.1%	11.4%	8.5%	**34.2%**
Harrow	52.3%	54.6%	35.9%	19.7%	17.6%	16.5%	12.6%	7.7%	**23.4%**
Havering	55.9%	55.5%	34.3%	24.6%	20.6%	15.5%	11.5%	6.8%	**30.3%**
Hillingdon	49.5%	58.2%	42.8%	22.3%	20.6%	17.7%	12.0%	4.6%	**27.6%**
Hounslow	46.9%	50.7%	35.9%	22.9%	19.2%	19.4%	14.1%	8.6%	**28.0%**
Islington	20.5%	55.6%	47.0%	33.7%	26.0%	19.5%	14.9%	8.7%	**34.3%**
Kensington & Chelsea	47.0%	66.9%	53.7%	48.7%	38.4%	32.3%	24.8%	12.7%	**34.8%**
Kingston-upon-Thames	21.2%	52.6%	41.5%	25.6%	19.9%	15.9%	11.5%	8.4%	**26.8%**
Lambeth	61.5%	50.9%	37.6%	29.5%	22.7%	17.2%	11.8%	10.0%	**35.8%**
Lewisham	64.8%	51.8%	37.6%	25.3%	18.8%	13.6%	10.8%	4.5%	**38.6%**
Merton	51.8%	44.6%	30.8%	21.9%	19.5%	16.1%	14.8%	8.3%	**25.5%**
Newham	53.1%	42.3%	22.9%	16.0%	15.5%	15.6%	15.3%	0.0%	**28.5%**
Redbridge	43.2%	46.4%	32.7%	19.3%	16.1%	13.4%	11.8%	6.1%	**25.2%**
Richmond-upon-Thames	51.1%	49.3%	41.7%	31.6%	25.8%	20.0%	13.5%	7.6%	**27.1%**
Southwark	59.5%	46.5%	32.9%	27.6%	21.3%	18.6%	14.9%	11.2%	**35.5%**
Sutton	56.9%	58.3%	39.4%	25.1%	18.7%	14.7%	11.3%	6.9%	**30.5%**
Tower Hamlets	23.5%	45.7%	29.2%	26.2%	19.5%	16.8%	17.4%	15.8%	**29.1%**
Waltham Forest	45.9%	43.1%	28.0%	20.0%	17.6%	12.9%	11.9%	0.0%	**30.1%**
Wandsworth	46.9%	51.5%	34.2%	26.6%	22.7%	19.2%	12.3%	9.4%	**28.7%**
Total	**52.8%**	**50.2%**	**36.3%**	**26.3%**	**22.0%**	**18.6%**	**15.2%**	**10.2%**	**31.1%**

Source: DCLG Council Taxbase statistics

It has been argued that local authorities should have discretion over the single person discount which accounts for one of the largest council tax discounts granted[43]. For example, the Local Government Association suggested that the discount should be fully or partially removed for high earners or those in the top council tax bands[44]. Such a reform could mean that the single person discount is more targeted at those who need it in line with Lyon's criteria of 'fairness' (discussed in Chapter 3) which focuses on ability to pay.

Overall, the reduction in London council tax revenue because of the single person discount is approximately £339.3 million each year. However, if the discount is removed for Band H properties, this would increase tax take by around £3.3 million over and above what is already collected. Also removing support for Band G properties would raise an additional £15.6 million across London. As can be seen in Table 4.5, the boroughs that are expected to see the largest increases in council tax revenues following these changes are Kensington & Chelsea and Westminster – those with the larger shares of Band G and H properties.

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[43] Local Government Association (2016). Independent review of council tax support schemes, January 2016. Available at: http://www.local.gov.uk/documents/10180/11531/Council+Tax+Support+independent+review+submission+-final.pdf/85004634-13bc-412b-bd14-8da64cb2527c

[44] Ibid.

Table 4.5: Council tax revenue by London borough for Option 1c in 2015-16, £millions

Borough	Existing system	Option 1c			
		Remove single person discount for Band H properties		Remove single person discount for Band G and H properties	
	Revenue	Revenue	% increase	Revenue	% increase
Barking & Dagenham	£56.8	£56.8	0.0%	£56.8	0.0%
Barnet	£184.6	£184.9	0.1%	£186.1	0.8%
Bexley	£111.7	£111.7	0.0%	£111.9	0.1%
Brent	£112.1	£112.1	0.0%	£112.3	0.2%
Bromley	£165.8	£165.9	0.0%	£166.9	0.7%
Camden	£113.9	£114.2	0.3%	£115.5	1.4%
City of London	£5.9	£5.9	0.1%	£6.0	1.2%
City of Westminster	£82.0	£82.5	0.7%	£83.7	2.1%
Croydon	£167.0	£167.0	0.0%	£167.6	0.3%
Ealing	£141.7	£141.8	0.0%	£142.2	0.3%
Enfield	£128.0	£128.0	0.0%	£128.4	0.4%
Greenwich	£88.9	£89.0	0.0%	£89.1	0.2%
Hackney	£82.6	£82.6	0.0%	£82.7	0.1%
Hammersmith & Fulham	£73.6	£73.7	0.1%	£74.5	1.2%
Haringey	£104.8	£104.8	0.0%	£105.1	0.3%
Harrow	£122.0	£122.1	0.1%	£122.6	0.5%
Havering	£125.8	£125.8	0.0%	£126.1	0.2%
Hillingdon	£128.4	£128.4	0.0%	£128.8	0.3%
Hounslow	£108.3	£108.3	0.0%	£108.6	0.3%
Islington	£91.9	£91.9	0.1%	£92.5	0.6%
Kensington & Chelsea	£100.0	£101.0	1.0%	£103.2	3.2%
Kingston-upon-Thames	£99.3	£99.4	0.1%	£99.7	0.4%
Lambeth	£121.1	£121.2	0.0%	£121.5	0.3%
Lewisham	£102.4	£102.4	0.0%	£102.4	0.1%
Merton	£97.6	£97.7	0.1%	£98.0	0.5%
Newham	£83.2	£83.2	0.0%	£83.3	0.0%
Redbridge	£112.0	£112.0	0.0%	£112.3	0.2%
Richmond-upon-Thames	£135.6	£135.8	0.1%	£136.9	1.0%
Southwark	£105.9	£105.9	0.0%	£106.2	0.3%
Sutton	£101.7	£101.7	0.0%	£102.0	0.3%
Tower Hamlets	£93.1	£93.1	0.1%	£93.4	0.4%
Waltham Forest	£99.2	£99.2	0.0%	£99.2	0.0%
Wandsworth	£82.4	£82.5	0.1%	£83.0	0.6%
Total	**£3,529.4**	**£3,532.8**	**0.1%**	**£3,548.3**	**0.5%**
Inner London	£1,143.7	£1,146.0	0.2%	£1,153.7	0.9%
Outer London	£2,385.7	£2,386.8	0.0%	£2,394.7	0.4%

Note: Households in Bands G and H that are eligible for other council tax support have not been explicitly considered in these scenarios. Source: GLA Economics

Option 2: Revaluation and introduction of London-specific bands

The current council tax system uses house valuations conducted in 1991. However, house prices have since risen dramatically (see Figure 3.1), meaning the data are outdated and unrepresentative of the current market. Simply revaluing properties without changing the existing council tax bands would result in almost every property in London (98.5 per cent) being in Bands F-H, with 70.8 per cent in Band H alone. Such a system would clearly be unrealistic and unfair. Therefore, under a reform option that involves revaluing property values, a revision of council tax band thresholds would also be necessary.

There are a number of ways in which council tax bands can be updated to 2015 property prices; two potential options are detailed below. In both cases, the council tax bands would be specific to London – that is, they relate only to property prices within London – and may not be relevant or appropriate for other English regions.

Option 2a: Uprating council tax band thresholds to 2015 property prices to maintain the current distribution of homes across bands

Summary

This option looks at the impact of a revaluation and the creation of London-specific council tax bands. The bands have been set so that the same amount is raised as the current system though, while this may be the case for London as a whole, more is now raised from inner London and less from outer London. Just under half of all households in London would pay the same amount of council tax as they currently do, and the remainder is roughly equally split between those who would see a decrease and those who would see an increase. Overall, as there is no change to the way that council tax is set, spatial inequality and regressive characteristics remain in this option.

In this reform option, the council tax threshold bands based on 1991 property prices have been recalculated as if they were instead based on 2015 property prices in order to ensure the distribution of homes by band is equal to the current distribution. That is, the total number of properties in London by council tax band remains the same as before the change. It should be noted that as individual boroughs have seen rates of growth in property prices that are faster or slower than the London average, the exact number of properties by band for each borough will be different.

On this basis, the possible London-specific council tax bands for this option are shown in Table 4.6.

Table 4.6: Council tax bands for Option 2a in 2015-16

Council tax band	Existing system	Option 2a
	1991 prices	Bands are based on property prices in 2015
A	Up to £40,000	Up to £165,000
B	£40,001 to £52,000	£165,001 to £265,000
C	£52,001 to £68,000	£265,001 to £385,000
D	£68,001 to £88,000	£385,001 to £565,000
E	£88,001 to £120,000	£565,001 to £820,000
F	£120,001 to £160,000	£820,001 to £1,205,000

| G | £160,001 to £320,000 | £1,205,000 to £2,950,000 |
| H | £320,001 and above | £2,950,001 and above |

Source: GLA Economics

To illustrate the impact of the revaluation and London-specific bands only, the council tax rates by borough are kept the same as in the existing system (Table 3.1).

Overall, this option is expected to raise £3,477 million in council tax revenue in 2015-16 (Table 4.7). That is broadly in line with the current council tax system revenue of £3,529 million, with the difference reflective of only small changes in the distribution of properties by council tax bands by borough[45].

Table 4.7: Council tax revenue by band in London for Option 2a in 2015-16, £millions

| Council tax band | Existing system | | | Option 2a | | |
	1991 prices			Bands are based on property prices in 2015		
	Revenue £m	% of revenue	% of properties	Revenue £m	% of revenue	% of properties
A	£79.2	2.2%	3.7%	£80.8	2.3%	3.7%
B	£289.6	8.2%	13.5%	£332.7	9.6%	13.3%
C	£761.1	21.6%	27.1%	£797.0	22.9%	26.9%
D	£877.7	24.9%	25.5%	£866.1	24.9%	25.9%
E	£658.8	18.7%	15.0%	£608.2	17.5%	14.9%
F	£395.0	11.2%	7.5%	£360.5	10.4%	7.6%
G	£352.9	10.0%	5.9%	£322.0	9.3%	5.9%
H	£115.0	3.3%	1.7%	£109.7	3.2%	1.7%
Total	**£3,529.4**	**100.0%**	**100.0%**	**£3,477.0**	**100.0%**	**100.0%**

Source: GLA Economics

Overall, just under half of all properties in London (46.6 per cent) are expected to see no change in the amount of council tax they pay. Meanwhile, 26.4 per cent are expected to see a reduction in council tax which, on average, would save households around £240 each. The remaining 27.1 per cent would see an increase in tax liabilities of approximately £194 on average.

This impact varies by location and band. For example, the positive impact is generally focussed on properties currently in Bands D-F where between 32.9 per cent and 42.7 per cent of properties in these bands across London would see a reduction (Figure 4.1). In contrast, the negative impact is generally focussed on properties currently in Bands A and B where 31.3 per cent and 44.2 per cent of London properties in these bands respectively would see an increase in council tax.

[45] This difference can also be partly explained by the modelling approach used. As property prices are grouped into £5,000 price bands, it has not been possible to accurately estimate the council tax band thresholds that derive the exact number of properties in each council tax band. That is, the threshold could lie somewhere within a £5,000 price band.
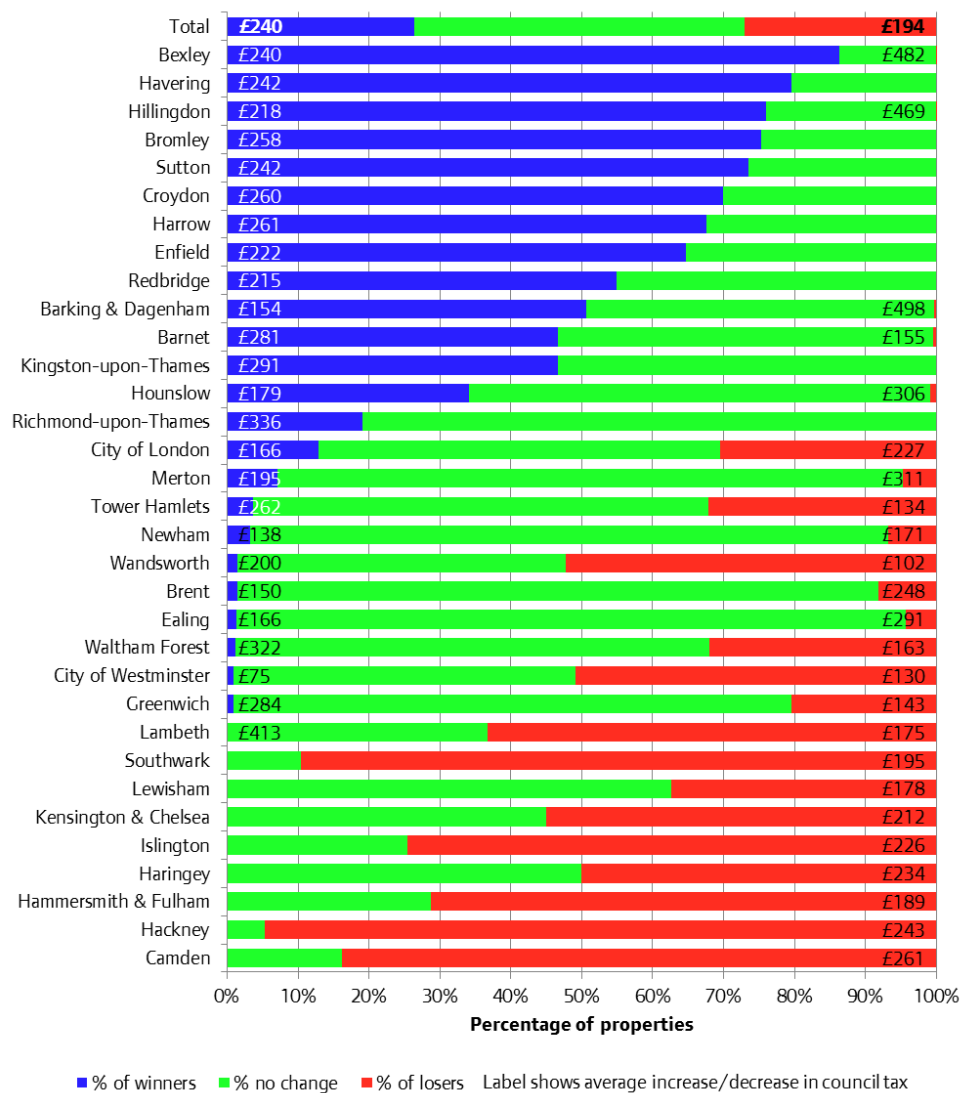
Figure 4.1: Percentage of properties that would see a change in council tax in Option 2a by band across London in 2015-16
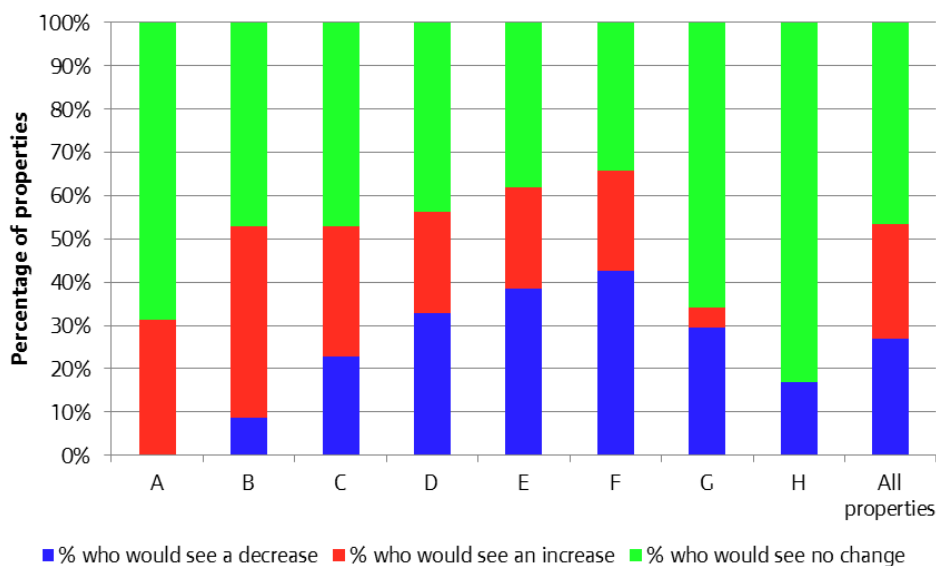
Source: GLA Economics

By location and as shown in Figure 4.2, the biggest gainers who would see a reduction in council tax are outer London boroughs such as Bexley (86.3 per cent of all properties would see a decrease in council tax, saving on average £240), Havering and Bromley. In fact, some of these boroughs would not see any households paying more in council tax than they currently do. The biggest 'losers' who would see increases in council tax are generally inner London boroughs such as Hackney (94.7 per cent who would see an increase of £243 on average), Southwark and Camden.
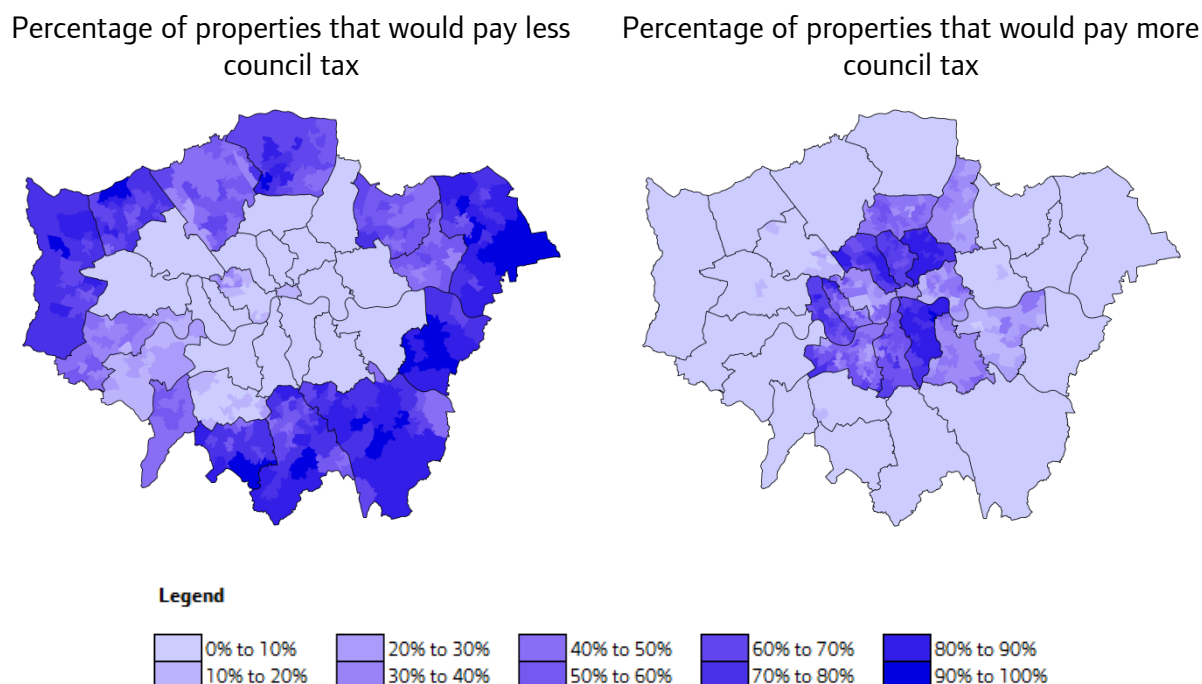
Figure 4.2: Percentage of properties that would see a change in council tax in Option 2a by London borough in 2015-16

Source: GLA Economics

The impact also varies by borough as shown by Map 4.1.

Map 4.1: Percentage of properties that would be gainers or losers from Option 2a by London MSOA in 2015-16

Percentage of properties that would pay less council tax

Percentage of properties that would pay more council tax

Legend

0% to 10%	20% to 30%	40% to 50%	60% to 70%	80% to 90%
10% to 20%	30% to 40%	50% to 60%	70% to 80%	90% to 100%

Source: GLA Economics

Option 2b: Uprating band thresholds using regional house price index

Summary

This option also looks at the impact of a revaluation and the introduction of London-specific council tax bands, though the latter are uprated from the current thresholds using a regional house price index. Ultimately, this option pushes more households into the top bands which results in around one-in-three paying more council tax. As such, the total tax take is higher than the current system. If this option was to be fiscally neutral, then council tax at a borough level would largely fall – but at different rates – and, consequently, worsen the spatial inequality.

This option uprates the council tax threshold bands from 1991 property prices using the London house price index (HPI) from Nationwide[46]. In effect, this keeps the bands in the same proportion as the existing council tax system. However, as property prices have changed at different rates between 1991 and 2015, the number of properties in each band is different unlike Option 2a.

Using the regional HPI, the London-specific council tax bands are shown in Table 4.8.

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[46] The Office for National Statistics also produces a regional HPI based on Land Registry data. However, the historical time series only starts from 1995. Although an experimental series from 1968 is available, it is to show indicative trends only.

Table 4.8: Council tax bands for Option 2b in 2015-16

Council tax band	Existing system 1991 prices	Option 2b Bands are uprated using the HPI
A	Up to £40,000	Up to £220,000
B	£40,001 to £52,000	£220,001 to £285,000
C	£52,001 to £68,000	£285,001 to £375,000
D	£68,001 to £88,000	£375,001 to £485,000
E	£88,001 to £120,000	£485,001 to £660,000
F	£120,001 to £160,000	£660,001 to £885,000
G	£160,001 to £320,000	£885,001 to £1,765,000
H	£320,001 and above	£1,765,001 and above

Source: GLA Economics

The council tax rates are kept the same as in the current 2015-16 council tax system (see Table 3.1).

This option is expected to yield more council tax revenue than the existing system - £3,634 million instead of £3,529 million (Table 4.9). A greater proportion of tax-take is expected to come from Bands A and H than the current system. This in part can be explained by a larger percentage of properties being in these bands as shown in Figure 4.3. That is because in comparison with Option 2a – the equivalent of the current system in 2015 prices – the upper band threshold for Band A is higher and the lower cut-off point for Band H is lower meaning more properties are captured in these bands.

Table 4.9: Council tax revenue by band in London for Option 2b in 2015-16, £millions

| Council tax band	Existing system 1991 prices Revenue £m	% of revenue	% of properties	Option 2b Bands uprated using the HPI Revenue £m	% of revenue	% of properties
A	£79.2	2.2%	3.7%	£197.2	5.4%	9.2%
B	£289.6	8.2%	13.5%	£307.2	8.5%	12.1%
C	£761.1	21.6%	27.1%	£608.5	16.7%	20.5%
D	£877.7	24.9%	25.5%	£635.2	17.5%	19.0%
E	£658.8	18.7%	15.0%	£679.7	18.7%	16.6%
F	£395.0	11.2%	7.5%	£451.3	12.4%	9.4%
G	£352.9	10.0%	5.9%	£502.2	13.8%	9.2%
H	£115.0	3.3%	1.7%	£253.2	7.0%	4.0%
Total	**£3,529.4**	**100.0%**	**100.0%**	**£3,634.5**	**100.0%**	**100.0%**

Source: GLA Economics

Figure 4.3: Percentage of properties by council tax band in London for Options 2a and 2b in 2015–16
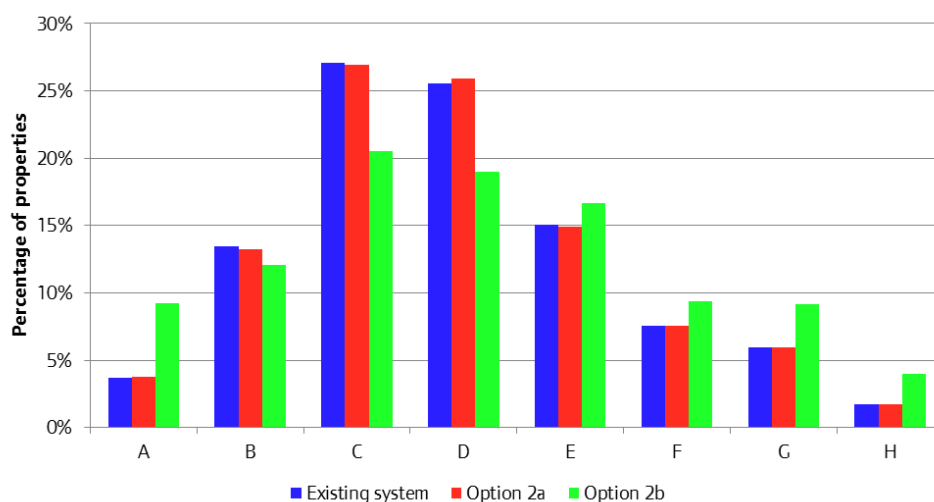
Source: GLA Economics

As such, approximately 1,257,000 properties in London (equivalent to 35.9 per cent) are expected to pay more council tax under Option 2b than the current system (Figure 4.4). On average, households would pay £269 more in council tax each year. In contrast, 26.8 per cent of dwellings would see a decrease of around £202 on average.
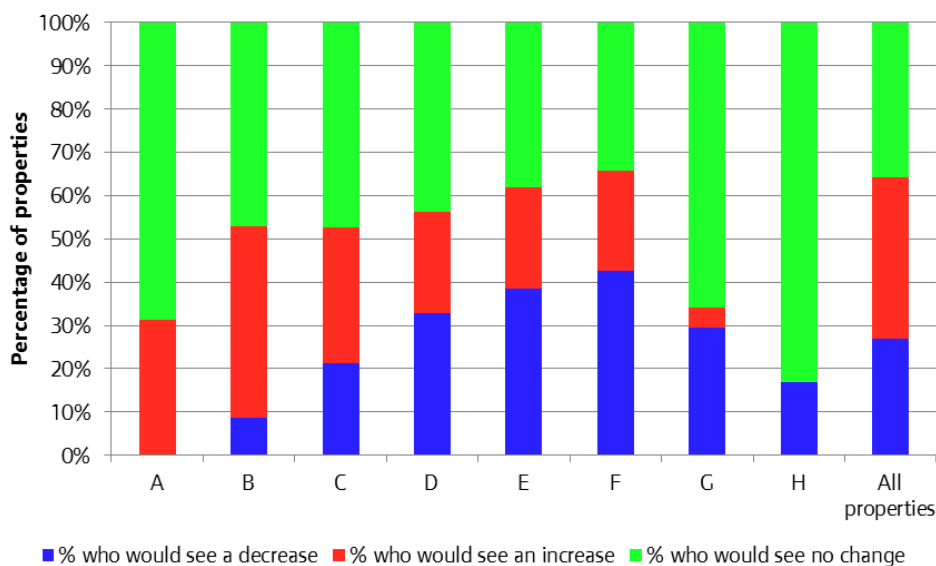
Figure 4.4: Percentage of properties who would see a change in council tax by London borough for Option 2b in 2015–16
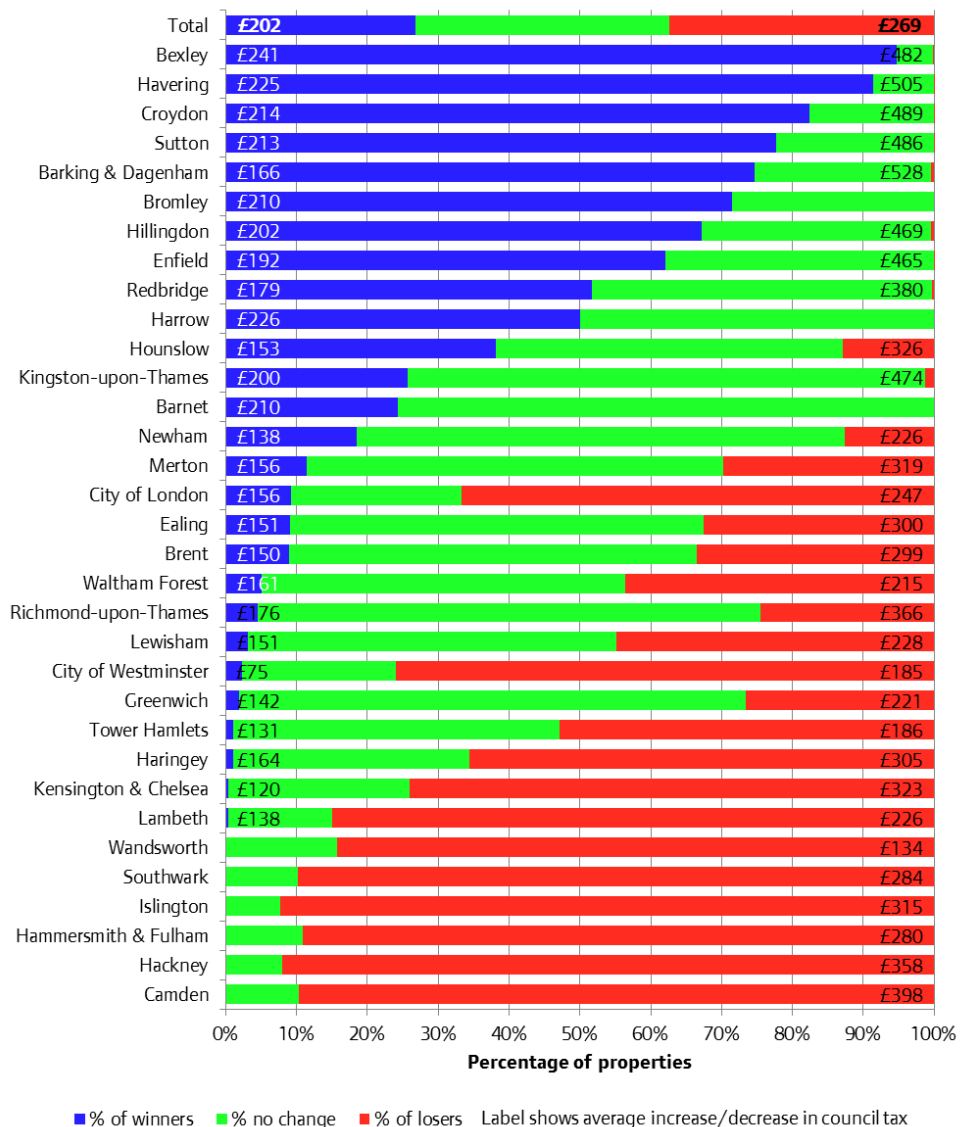
Source: GLA Economics

The proportion of properties that would see an increase in council tax is highest in Band B, with 44.2 per cent of dwellings currently in this band likely to see higher bills (Figure 4.5). In contrast, no properties currently in Band H (as would be expected) and only 4.7 per cent of properties currently in Band G would see an increase.
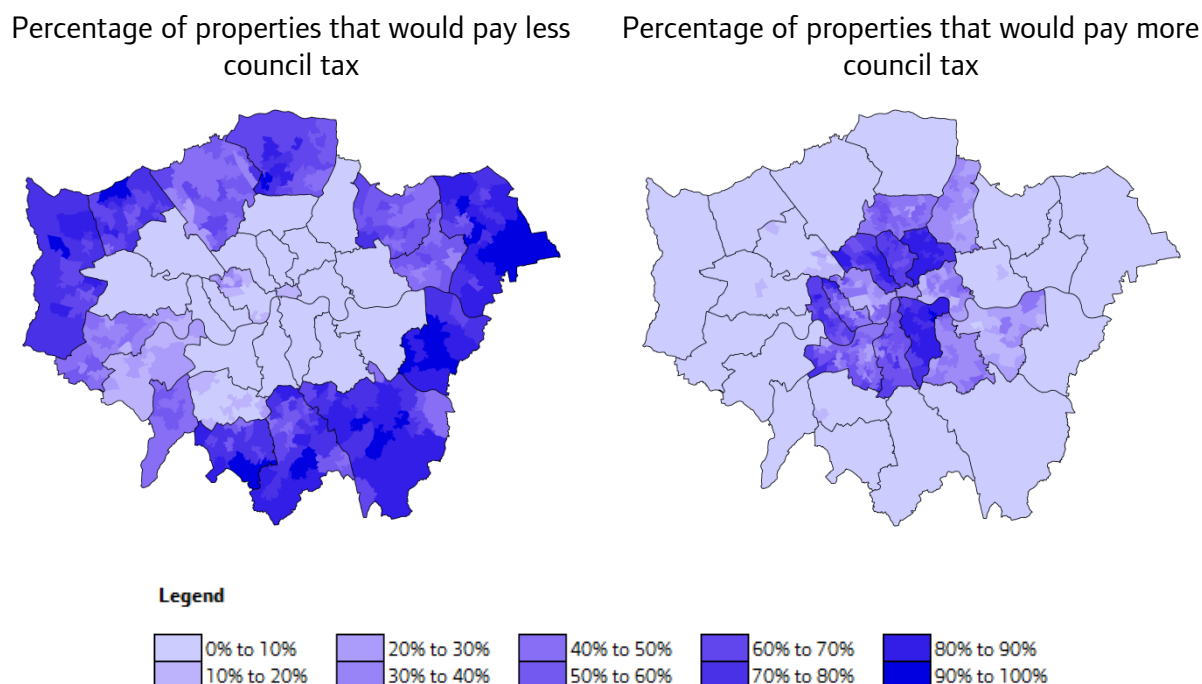
Figure 4.5: Percentage of properties that would see a change in council tax in Option 2b by band across London in 2015-16

Source: GLA Economics

Similar to Option 2a, at the borough level, there are a larger percentage of properties that would see an increase in council tax bills in inner than outer London (see Figure 4.4, as well as Map 4.2). For example, 92.1 per cent of properties in Hackney would see an increase in council tax (around £358 on average), whereas 94.7 per cent of dwellings in Bexley would see a decrease (£241 on average). In particular, all properties in the Southwark 11 MSOA – the area around South Bermondsey and Southwark Park – would see an increase in council tax.

Map 4.2: Percentage of properties that would be gainers or losers from Option 2b by London MSOA in 2015-16

Percentage of properties that would pay less council tax

Percentage of properties that would pay more council tax

Legend

0% to 10%	20% to 30%	40% to 50%	60% to 70%	80% to 90%
10% to 20%	30% to 40%	50% to 60%	70% to 80%	90% to 100%

Source: GLA Economics

One aspect of this reform option is that it raises more council tax than the current tax system. Therefore, council tax rates would need to fall by 2 per cent in order to remain fiscally neutral – that is, so that this reform raises the same amount of tax revenue as the existing council tax system.

However, there would be quite significant variation across boroughs which increases the spatial inequality – a known issue with the current council tax system – in that the difference in council tax rates is larger. For example, as shown in Table 4.10, inner London boroughs would generally see a reduction in council tax rates to remain fiscally neutral, whereas outer London boroughs would generally see an increase. This is due to more properties in inner London moving into the top council tax bands, which increases the amount of council tax raised and allows these boroughs to reduce the Band D rates in their borough to remain fiscally neutral.

Table 4.10: Council tax rates for Band D for Option 2b in order to be fiscally neutral in 2015-16

Borough	Existing system 1991 prices	Option 2b - fiscally neutral Bands are uprated using the HPI	Difference
Barking & Dagenham	£1,332	£1,484	11.4%
Barnet	£1,397	£1,441	3.2%
Bexley	£1,446	£1,713	18.5%
Brent	£1,354	£1,267	-6.4%
Bromley	£1,325	£1,472	11.1%
Camden	£1,337	£1,089	-18.5%

City of London	£943	£834	-11.6%
City of Westminster	£673	£584	-13.3%
Croydon	£1,466	£1,662	13.4%
Ealing	£1,355	£1,276	-5.8%
Enfield	£1,395	£1,517	8.7%
Greenwich	£1,276	£1,216	-4.7%
Hackney	£1,293	£1,010	-21.9%
Hammersmith & Fulham	£1,023	£846	-17.3%
Haringey	£1,479	£1,296	-12.4%
Harrow	£1,529	£1,635	6.9%
Havering	£1,514	£1,748	15.4%
Hillingdon	£1,408	£1,542	9.5%
Hounslow	£1,375	£1,385	0.7%
Islington	£1,276	£1,052	-17.5%
Kensington & Chelsea	£1,078	£936	-13.1%
Kingston-upon-Thames	£1,675	£1,713	2.3%
Lambeth	£1,239	£1,070	-13.6%
Lewisham	£1,355	£1,251	-7.7%
Merton	£1,401	£1,329	-5.2%
Newham	£1,241	£1,233	-0.6%
Redbridge	£1,391	£1,481	6.5%
Richmond-upon-Thames	£1,582	£1,518	-4.0%
Southwark	£1,207	£988	-18.2%
Sutton	£1,459	£1,636	12.1%
Tower Hamlets	£1,181	£1,091	-7.6%
Waltham Forest	£1,447	£1,358	-6.2%
Wandsworth	£683	£595	-12.9%
Average	**£1,307**	**£1,281**	**-2.0%**

Note: rounded to nearest pound. Source: GLA Economics

Option 3: Equal distribution of homes across council tax bands

Summary

This option ensures an equal distribution of properties across the eight council tax bands. Overall, this results in more than half of all households paying more council tax, on average by £433 each. Subsequently, total tax take would be over £450 million higher than the current system. Most of these 'losers' are in inner London. Spatial inequality is still an issue in this option as local authorities continue to set their own council tax.

The current council tax system has an unequal number of properties in each band. As can be seen in Figure 3.1, the trend resembles more of a normal distribution with more than half of London properties in Bands C and D. Therefore, council tax bands have been set in this reform option so that the same number of properties is in each band. These bands are shown in Table 4.11.

Table 4.11: Council tax bands for Option 3 in 2015-16

Council tax band	Existing system 1991 prices	Option 3 Equal bands
A	Up to £40,000	Up to £245,000
B	£40,001 to £52,000	£245,001 to £300,000
C	£52,001 to £68,000	£300,001 to £355,000
D	£68,001 to £88,000	£355,001 to £415,000
E	£88,001 to £120,000	£415,001 to £500,000
F	£120,001 to £160,000	£500,001 to £625,000
G	£160,001 to £320,000	£625,001 to £905,000
H	£320,001 and above	£905,001 and above

Source: GLA Economics

Although these thresholds do not result in the exact same number of properties in each band due to the modelling approach, Figure 4.6 shows that properties are now more evenly distributed than the current system.

Figure 4.6: Percentage of properties by council tax band in London for Option 3 in 2015-16
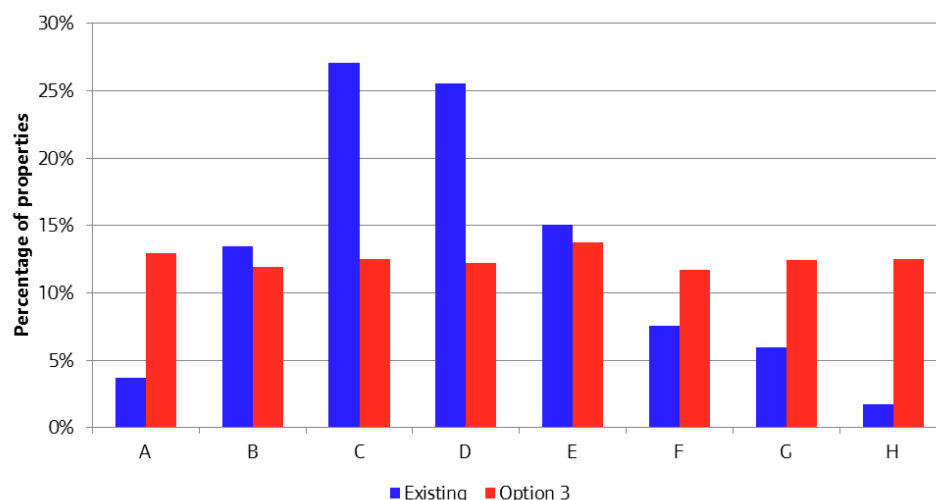
Source: GLA Economics

Given that there are now more properties in Bands E-H than in the current system (50.4 per cent versus 30.2 per cent), council tax revenue in this scenario is £466.1 million higher than the existing council tax system at £3,996 million. This is if council tax rates remain as those shown in Table 2.1.

Table 4.12: Council tax revenue by band in London for Option 3 in 2015-16, £millions

Council tax band	Existing system 1991 prices			Option 3 Equal bands		
	Revenue £m	% of revenue	% of properties	Revenue £m	% of revenue	% of properties
A	£79.2	2.2%	3.7%	£277.7	6.9%	12.9%
B	£289.6	8.2%	13.5%	£303.7	7.6%	11.9%
C	£761.1	21.6%	27.1%	£371.0	9.3%	12.5%
D	£877.7	24.9%	25.5%	£408.9	10.2%	12.2%
E	£658.8	18.7%	15.0%	£561.1	14.0%	13.7%
F	£395.0	11.2%	7.5%	£566.4	14.2%	11.7%
G	£352.9	10.0%	5.9%	£690.2	17.3%	12.4%
H	£115.0	3.3%	1.7%	£816.5	20.4%	12.5%
Total	**£3,529.4**	**100.0%**	**100.0%**	**£3,995.6**	**100.0%**	**100.0%**

Source: GLA Economics

In this option, approximately half of all households in London (52.3 per cent) would pay more council tax than the current system, paying around £433 more. In contrast, 23.4 per cent of households would pay less (on average by £190) and the remaining 24.3 per cent would see no change.

The proportion of properties paying more council tax is higher for the top bands (Figure 4.7), with the exception of Band H properties that are already paying the top rate of tax. Concurrently, the proportion of households paying less tax is higher for the lower bands, with 45.1 per cent and 39.9 per cent of properties in Bands B and C respectively having smaller bills.

Figure 4.7: Percentage of properties that would see a change in council tax in Option 3 by band across London in 2015-16
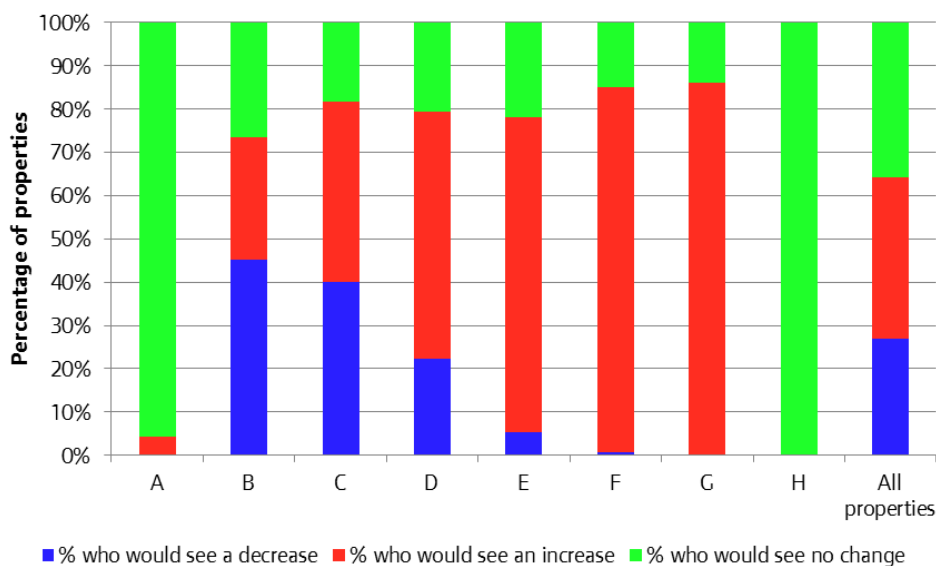
Source: GLA Economics

By borough, outer London boroughs would have the highest percentage of properties benefitting from this change (Figure 4.8). For example, 83.2 per cent of properties in Bexley would see lower council tax bills compared with the current system, saving on average £243. The reverse is true for dwellings that would see an increase in council tax. In particular, more than nine-in-ten households in Camden, Hammersmith & Fulham and Islington would see an increase in council tax.

Figure 4.8: Percentage of properties that would see a change in council tax by London borough for Option 3 in 2015-16
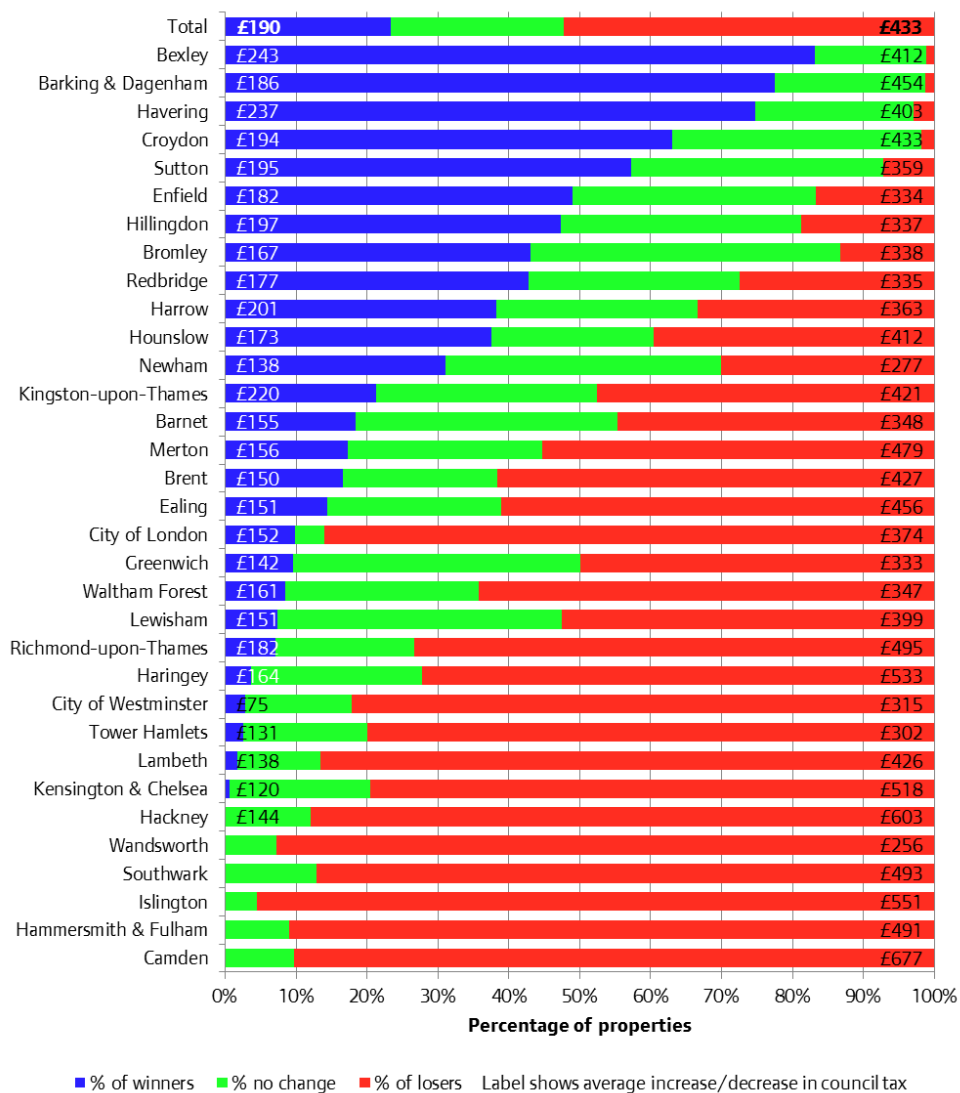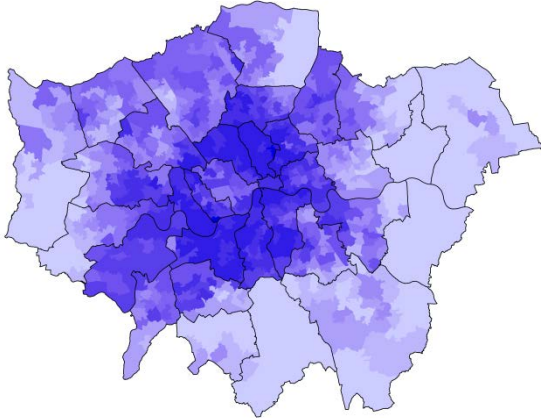

Source: GLA Economics

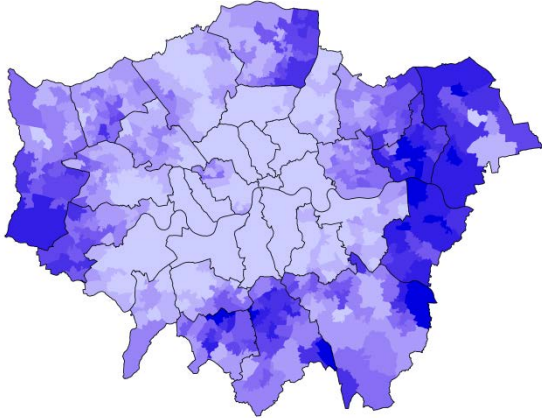At a more detailed geographic level, the percentage of households that would see an increase in council tax in comparison with the current system is generally higher in central London, but also towards the North West and South West parts of London (Map 4.3). Specifically, nearly all properties in areas around Canonbury in Islington and World's End in Kensington & Chelsea would see higher bills.

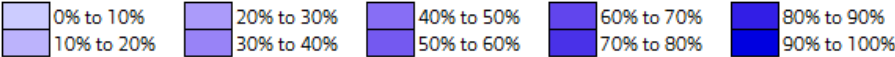## Map 4.3: Percentage of properties that would be gainers or losers from Option 3 by London MSOA in 2015–16

Percentage of properties that would pay less council tax

Percentage of properties that would pay more council tax

Legend

0% to 10%	20% to 30%	40% to 50%	60% to 70%	80% to 90%
10% to 20%	30% to 40%	50% to 60%	70% to 80%	90% to 100%

Source: GLA Economics

Option 4: London-wide council tax rates

Summary

Option 4 introduces London-wide council tax rates in order to address the spatial inequality of council tax across London. This would mean removing the boroughs' powers to set their own council tax rates. There are various options for setting a London-wide council tax rate; if the average of the rates currently set across the 33 boroughs is used, 64.1 per cent of households would see a reduction. The remaining households would all pay more council tax and they are mostly located in inner London. However, under this option, there is a need for some redistribution of revenues to counter the fact that some boroughs would automatically raise much council tax than others relative to their needs.

Currently, council tax rates are set by each borough individually which gives rise to the spatial inequalities discussed in Chapter 3. For example, as can be seen in Table 3.1, council tax for Band D varies from £673 in Westminster to £1,675 in Kingston-upon-Thames in 2015-16. This spatial inequality would still be experienced in the previous reform options as the power to set council tax rates remained with individual boroughs. To account for this, one potential reform option is to set council tax rates centrally at a London level.

In this option, it is assumed that there will be no changes to the way council tax is set besides it being set at a London-wide level. That is, there are no changes to the council tax bands or thresholds; the council tax rate is set for Band D at the London-wide level and the other bands are calculated in the same ratios to Band D.

Four scenarios of the London-wide council tax rate for Band D are modelled. The first uses the average council tax rates across all boroughs (£1,307). The second and third uses the lowest and highest council tax rates in London in 2015-16 as set by Westminster and Kingston-upon-Thames respectively. The fourth uses the council tax rate required to be fiscally neutral following the change. These rates for Band D and the other bands are shown in Table 4.13.

Table 4.13: Average council tax rates by band in London for Option 4 in 2015-16

Council tax band	Existing system	Option 4			
	1991 prices	a: Average	b: Lowest	c: highest	d: fiscally neutral
A	£871	£871	£448	£1,116	£866
B	£1,017	£1,017	£523	£1,303	£1,010
C	£1,162	£1,162	£598	£1,489	£1,154
D	£1,307	£1,307	£673	£1,675	£1,298
E	£1,598	£1,598	£822	£2,047	£1,587
F	£1,888	£1,888	£972	£2,419	£1,875
G	£2,179	£2,179	£1,121	£2,791	£2,164
H	£2,614	£2,614	£1,345	£3,349	£2,597

Source: GLA Economics

Based on these London-wide council tax rates, tax-take varies from £1,829 million to £4,553 million as shown in Table 4.14. These are based on using the lowest and highest council tax rates in the current council tax system. Instead, using the average council tax rate in the existing system, results in total council tax revenue increasing £24.1 million.

Table 4.14: Council tax revenue by band in London for Option 4 in 2015-16, £millions

| Council tax band	Existing system	Option 4			
	1991 prices	a: Average	b: Lowest	c: highest	d: fiscally neutral
A	£79.2	£80.4	£41.4	£103.0	£79.9
B	£289.6	£289.2	£148.9	£370.5	£287.3
C	£761.1	£752.8	£387.4	£964.4	£747.7
D	£877.7	£861.9	£443.6	£1,104.2	£856.0
E	£658.8	£655.0	£337.1	£839.1	£650.5
F	£395.0	£402.9	£207.3	£516.1	£400.1
G	£352.9	£375.1	£193.0	£480.5	£372.5
H	£115.0	£136.4	£70.2	£174.7	£135.4
Total	**£3,529.4**	**£3,553.5**	**£1,828.9**	**£4,552.7**	**£3,529.4**

Source: GLA Economics

These different options for the London-wide council tax rate result in varied impacts on individual households (Figure 4.9). As can be expected, Option 4b which bases the London-wide council tax rate on the lowest rates within London (Westminster) results in the largest number of 'winners' of around 3,383,000 (or 96.5 per cent). In contrast, Option 4c which uses the highest council tax rate in London (Kingston-upon-Thames) results in the highest number of 'losers' who will pay more council tax than the current system – approximately 3,304,000 dwellings, equivalent to 94.3 per cent.

Meanwhile, Option 4a which is based on the London average council tax rates results in almost two-in-three households seeing a reduction (64.1 per cent) in council tax. The remaining 35.9 per cent of households that would see an increase in council tax were mostly located in inner London. In particular, all the households in City of London, Hammersmith & Fulham, Kensington & Chelsea, Wandsworth and Westminster would see an increase in council tax.

Option 4d which is based on the Band D council tax rate in order to remain fiscally neutral with the current system results in two-thirds (64.8 per cent) of households seeing a reduction in council tax bills across London.

Figure 4.9: Percentage of properties in London that would see a change in council tax for Option 4 in 2015-16
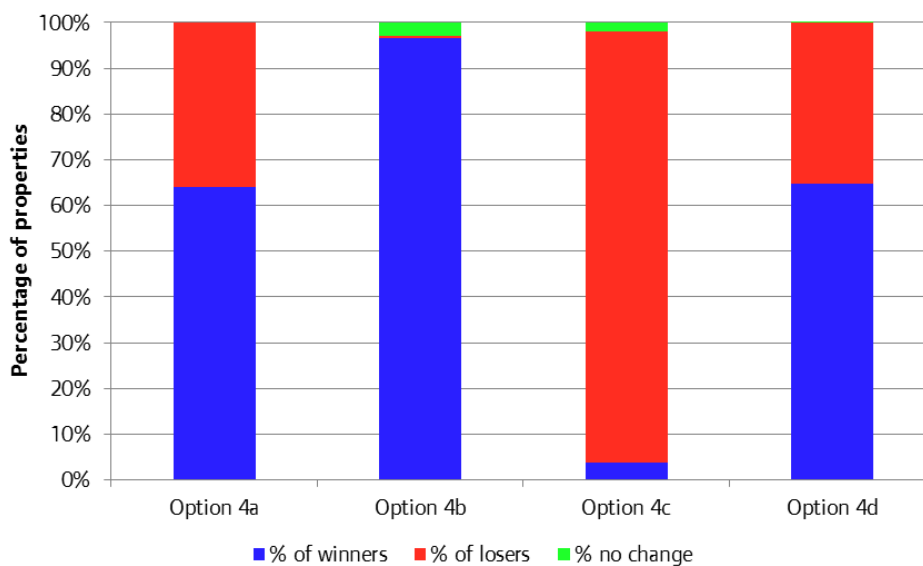
Source: GLA Economics

Given that some boroughs would automatically raise much more tax (as a large proportion of their dwellings are in the top council tax bands) and others much less; there would be a need for redistribution between boroughs. This would ensure that tax is more closely aligned to need at this borough level than would otherwise have been the case.

Option 5: Introduction of new bands

Summary

Option 5 introduces new council tax bands at the top-end, but the council tax system is still regressive in nature. Adding two new bands raises slightly less council tax than the current system, though this could be resolved by changing the bands and the tax rates. Meanwhile, adding ten new bands raises an extra £355 million. As the new bands are at the top-end, all the 'losers' are in inner London where house prices are typically higher. Boroughs have control over setting their own council tax in this option, so the system continues to be spatially unequal. This can be resolved by implementing London-wide council tax rates, but would again require some form of redistribution between boroughs to account for the large number of gainers and losers.

One of the issues with the current council tax system is that it only has eight bands and does not arguably capture the variation in property prices effectively. This is particularly the case at the top-end where Band H includes properties worth over £320,000 in 1991 prices or £1.8 million in 2015 prices (uprated using the regional HPI). Subsequently, Option 5 introduces new council tax bands to take account of the greater variation in property prices – Option 5a introduces two new council tax bands and Option 5b introduces ten new bands. In all scenarios, it has been assumed that a revaluation from 1991 to 2015 property prices would have taken place.

The proposed council tax bands including the new additions are shown in Table 4.15.
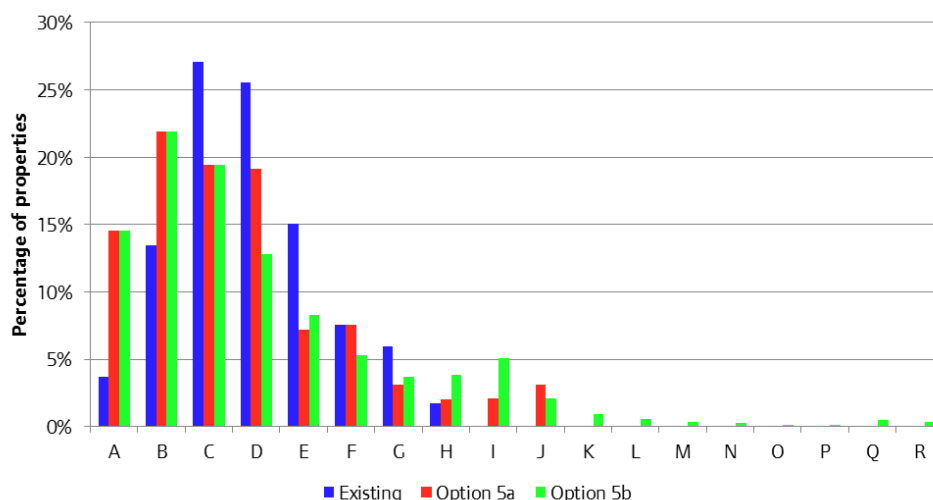
Table 4.15: Council tax bands for Option 5 in 2015-16

Council tax band	Existing system 1991 prices	Option 5a Two new bands	Option 5b Ten new bands
A	Up to £40,000	Up to £250,000	Up to £250,000
B	£40,001 to £52,000	£250,001 to £350,000	£250,001 to £350,000
C	£52,001 to £68,000	£350,001 to £450,000	£350,001 to £450,000
D	£68,001 to £88,000	£450,001 to £625,000	£450,001 to £550,000
E	£88,001 to £120,000	£625,001 to £750,000	£550,001 to £650,000
F	£120,001 to £160,000	£750,001 to £1,000,000	£650,001 to £750,000
G	£160,001 to £320,000	£1,000,001 to £1,250,000	£750,001 to £850,000
H	£320,001 and above	£1,250,001 to £1,500,000	£850,001 to £1,000,000
I		£1,500,001 to £2,000,000	£1,000,001 to £1,500,000
J		£2,000,001 and above	£1,500,001 to £2,000,000
K			£2,000,001 to £2,500,000
L			£2,500,001 to £3,000,000
M			£3,000,001 to £3,500,000
N			£3,500,001 to £4,000,000
O			£4,000,001 to £4,500,000
P			£4,500,001 to £5,000,000
Q			£5,000,001 to £10,000,000
R			£10,000,001 and over

Source: GLA Economics

Consequently, the distribution of properties by these additional bands is 'flatter' than the existing system as shown in Figure 4.10.

Figure 4.10: Percentage of properties by council tax band in London for Option 5 in 2015-16

Source: GLA Economics

The council tax rates associated with the new bands are assumed to be based on ratios to Band D using 'ninths' as is currently the case. These ratios and the average rate payable across London are shown in Table 4.16.

Table 4.16: Average council tax rates in London for Option 5 in 2015-16

Council tax band	Ratio to Band D	Existing system 1991 prices	Option 5a Two new bands		Option 5b Ten new bands	
			Average property price in 2015	Tax rate	Average property price in 2015	Tax rate
A	6/9	£871	£187,500	£871	£187,500	£871
B	7/9	£1,017	£300,000	£1,017	£300,000	£1,017
C	8/9	£1,162	£400,000	£1,162	£400,000	£1,162
D	9/9	£1,307	£537,500	£1,307	£500,000	£1,307
E	11/9	£1,598	£687,500	£1,598	£600,000	£1,598
F	13/9	£1,888	£875,000	£1,888	£700,000	£1,888
G	15/9	£2,179	£1,125,000	£2,179	£800,000	£2,179
H	18/9	£2,614	£1,375,000	£2,614	£925,000	£2,614
I	21/9		£1,750,000	£3,050	£1,250,000	£3,050
J	24/9		£2,500,001	£3,486	£1,750,000	£3,486
K	27/9				£2,250,000	£3,921
L	30/9				£2,750,000	£4,357
M	33/9				£3,250,000	£4,793
N	36/9				£3,750,000	£5,229
O	39/9				£4,250,000	£5,664
P	42/9				£4,750,000	£6,100
Q	45/9				£7,500,000	£6,536
R	48/9				£12,500,001	£6,971

Note: average property price is based on the middle point of each band. The exceptions are the lowest and highest bands which are instead 75 per cent and 125 per cent of the maximum and minimum thresholds respectively.
Source: GLA Economics

Overall, the addition of two new bands using the above council tax rates is expected to raise £3,469 million in council tax revenue. Although that is slightly less than the current council tax system, the ratios to Band D can be adjusted to raise/lower council tax rates and, consequently, council tax revenue. Meanwhile, adding ten new bands is expected to raise £3,885 million in total – around £355 million higher than that currently collected. This is largely a result of properties in the top bands (N-R) paying more than double the amount of council tax than they are currently.

Table 4.17: Council tax revenue by band in London in 2015-16 for Option 5, £millions

Council tax band	Existing system 1991 prices			Option 5a Two new bands			Option 5b Ten new bands		
	Revenue £m	% of revenue	% of properties	Revenue £m	% of revenue	% of properties	Revenue £m	% of revenue	% of properties
A	£79.2	2.2%	3.7%	£312.8	9.0%	14.6%	£312.8	8.1%	14.6%
B	£289.6	8.2%	13.5%	£563.8	16.3%	21.9%	£563.8	14.5%	21.9%
C	£761.1	21.6%	27.1%	£577.6	16.7%	19.4%	£577.6	14.9%	19.4%
D	£877.7	24.9%	25.5%	£640.6	18.5%	19.2%	£427.6	11.0%	12.8%
E	£658.8	18.7%	15.0%	£294.3	8.5%	7.2%	£340.1	8.8%	8.3%
F	£395.0	11.2%	7.5%	£359.2	10.4%	7.5%	£253.6	6.5%	5.3%
G	£352.9	10.0%	5.9%	£169.3	4.9%	3.1%	£204.6	5.3%	3.7%
H	£115.0	3.3%	1.7%	£129.5	3.7%	2.0%	£251.9	6.5%	3.8%
I				£157.0	4.5%	2.1%	£388.1	10.0%	5.1%
J				£264.7	7.6%	3.1%	£179.5	4.6%	2.1%
K							£88.2	2.3%	0.9%
L							£58.5	1.5%	0.5%
M							£39.9	1.0%	0.3%
N							£31.6	0.8%	0.2%
O							£20.5	0.5%	0.1%
P							£16.6	0.4%	0.1%
Q							£74.8	1.9%	0.5%
R							£54.9	1.4%	0.3%
Total	**£3,529.4**	**100.0%**	**100.0%**	**£3,468.9**	**100.0%**	**100.0%**	**£3,884.5**	**100.0%**	**100.0%**

Source: GLA Economics

Just under half of all properties in London (47.2 per cent) are expected to pay less council tax if two new bands are added (Figure 4.11). On average, households would pay £243 less per year. A further 30.5 per cent of dwellings would see no change, meaning that 22.4 per cent of properties would see an increase (£406 on average). These properties that would pay higher council tax are generally valued at more than £1 million. As such, boroughs with a larger share of properties in the top bands, such as Kensington & Chelsea and Camden, have some of the highest shares of households who would pay more council tax.

Figure 4.11: Percentage of properties who would see a change in council tax in London for Option 5a in 2015-16

| | % of winners | % no change | % of losers | Label shows average increase/decrease in council tax |
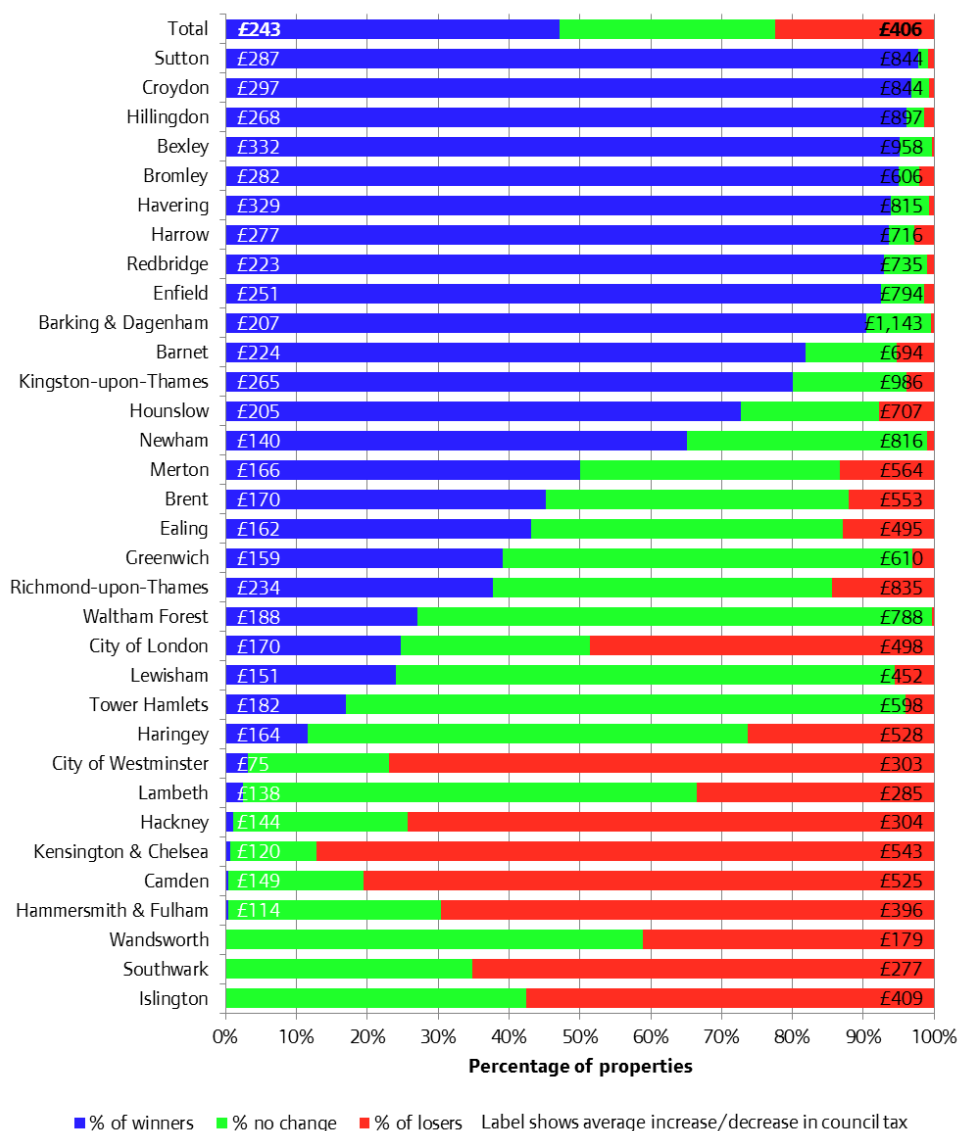
Source: GLA Economics

It is a similar story for the addition of ten new bands. Approximately, 42.8 per cent of properties in London would pay on average £229 less council tax, whereas 30.4 per cent would pay, on average, £735 more tax.

Figure 4.12: Percentage of properties who would see a change in council tax in London for Option 5b in 2015-16
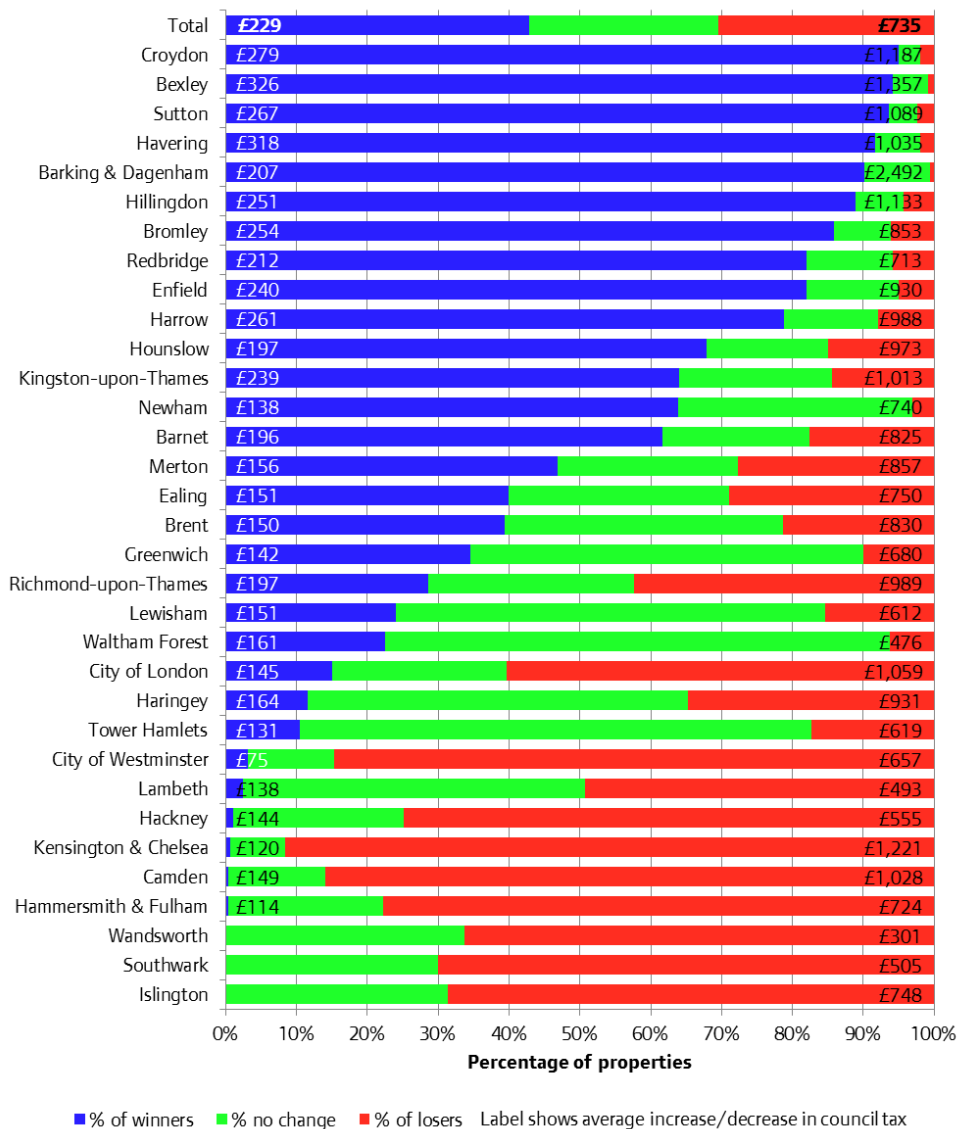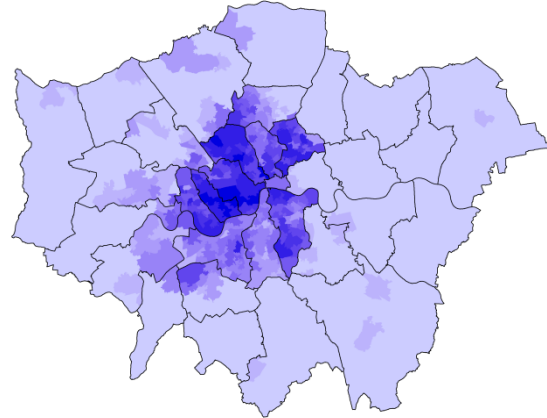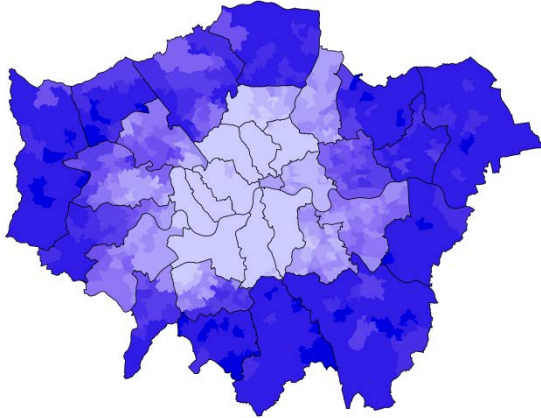

Source: GLA Economics

The impact of the addition of new bands is shown spatially in Maps 4.4 and 4.5.
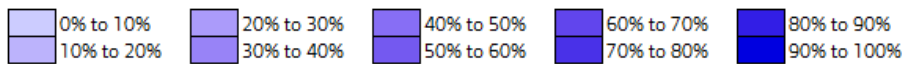
Map 4.4: Percentage of properties that would be gainers or losers from Option 5a by London MSOA in 2015-16

Percentage of properties that would pay less council tax

Percentage of properties that would pay more council tax

Legend
0% to 10% 20% to 30% 40% to 50% 60% to 70% 80% to 90%
10% to 20% 30% to 40% 50% to 60% 70% to 80% 90% to 100%

Source: GLA Economics

Map 4.5: Percentage of properties that would be gainers or losers from Option 5b by London MSOA in 2015-16

Percentage of properties that would pay less council tax

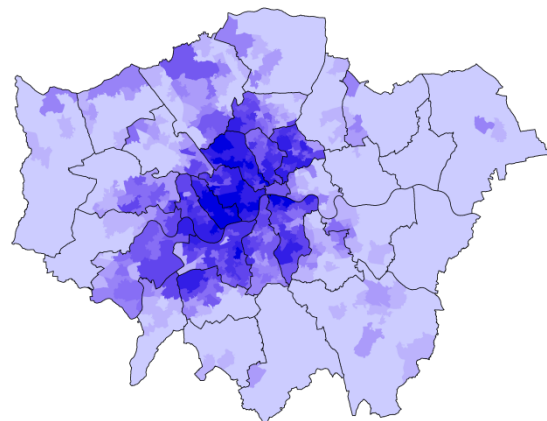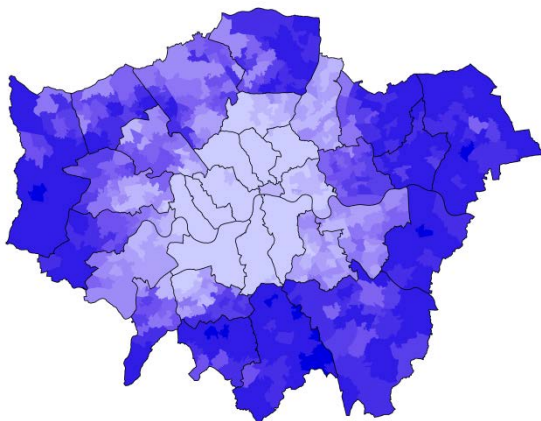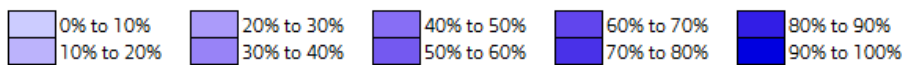Percentage of properties that would pay more council tax

Legend
0% to 10% 20% to 30% 40% to 50% 60% to 70% 80% to 90%
10% to 20% 30% to 40% 50% to 60% 70% to 80% 90% to 100%

Source: GLA Economics

Under this option, council tax could also be set for London as a whole rather than it being set individually by local authorities. If the average of the current 33 council tax rates in London is used (the same rates used in Option 4a), then the addition of two new council tax bands would raise £3,555 million – roughly in line with the current council tax system. Adding ten new bands would alternatively raise £4,017 million or an extra £488 million over the current system. In both scenarios, more tax is generated by inner London than outer London; and to a greater extent than if boroughs continue to set their own council tax rates like above (Table 4.17 and 4.18). As a result, these scenarios create more winners and losers than the previous versions using the borough rates.

Table 4.18: Impact of introducing new council tax bands (Option 5) and London-wide council tax rates in 2015-16

	Existing system	Borough specific rates		London-wide rates	
		Option 5a	Option 5b	Option 5a	Option 5b
		Two new bands	Ten new bands	Two new bands	Ten new bands
Revenue (£millions):					
London total	£3,529.4	£3,468.9	£3,884.5	£3,555.3	£4,017.3
As a percentage	100.0%	100.0%	100.0%	100.0%	100.0%
Inner London total	£1,143.7	£1,318.0	£1,558.4	£1,582.2	£1,884.9
As a percentage	32.4%	38.0%	40.1%	44.5%	46.9%
Outer London total	£2,385.7	£2,150.9	£2,326.1	£1,973.1	£2,132.4
As a percentage	67.6%	62.0%	59.9%	55.5%	53.1%
Impact on households:					
Winners	..	47.2%	42.8%	62.1%	57.4%
Average change in tax	..	£243	£229	£279	£262
Losers	..	22.4%	30.4%	37.9%	42.6%
Average change in tax	..	£406	£735	£483	£768
No change	..	30.5%	26.8%	0.0%	0.0%

Source: GLA Economics

As with Option 4, if London-wide council tax rates are implemented, then there would be a need for redistribution to deal with the fact that some boroughs automatically gain or lose. For example, if ten new bands are added using London-wide council tax rates, Westminster would see its council tax revenue increase by £182.8 million because all of its households would pay more in tax. In contrast, Croydon would see its tax take fall by £41.8 million as almost all of its households (98 per cent) would pay less council tax.

Option 6: Flat tax rates

Summary

Option 6 introduces a flat council tax rate set for London as a whole. Consequently, this option removes the regressive nature of the tax and also removes the issue of spatial inequality. A flat rate of 0.2 per cent would be fiscally neutral and result in 78.6 per cent of households paying less tax. The remaining households would all pay more tax (£1,921 on average) and are mostly in inner London. With a flat rate of tax, some boroughs would automatically gain and others lose in terms of the council tax revenue they would raise. Therefore, there is a need for a redistribution mechanism to balance tax take with funding needs. If there are frequent revaluations going forwards, this option also provides a method for taxing some of the uplift in property values that occur as a result of public sector investment in infrastructure.

Another alternative to the existing council tax system would be to remove the bands altogether and introduce a flat tax rate. The flat council tax rate would be based on a percentage of the current value of residential properties, modelled as 2015-16 prices. A flat council tax rate of 0.2 per cent would raise at least the same amount in tax revenue as the current system (£3,585 million)[47]. Raising the flat tax rate by just 0.05 percentage points to 0.25 per cent would raise £4,481 million – over £896.2 million in additional revenue – while an increase to 0.3 per cent would bring in around £5,377 million.

With a flat council tax rate of 0.2 per cent, approximately 78.6 per cent of households in London would benefit from this change. These are mostly properties in the current Bands A-C. This can be seen in Figure 4.13 which shows that households in these bands would pay less tax than in the current system. In contrast, properties in the top bands (21.4 per cent) would generally pay more in this reform option.

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[47] For the purpose of modelling, house prices data are categorised in £5,000 bands. Here it is assumed that property values are the central point of each band. For example, a price band for £10,000 to £15,000 would have a central value of £12,500.

Figure 4.13: Council tax rates in London for Option 6 in 2015-16
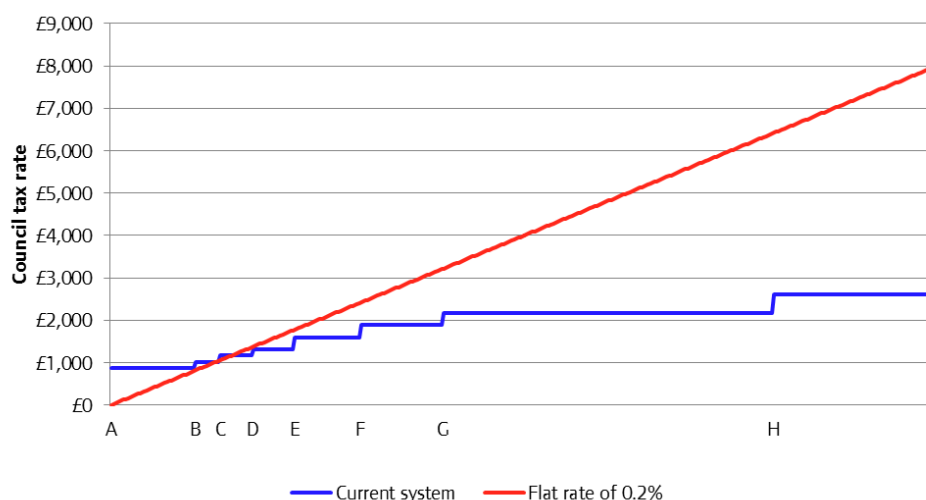
This can also be seen in Table 4.19 which compares the council tax paid at different property prices under the existing system with that which might be paid under a flat tax rate system.

Table 4.19: Example council tax rates by property value for Option 6 in 2015-16

Property value	Existing system		Option 6: Flat tax rate		
	Council tax band (approx.)	Rate	0.2%	0.25%	0.3%
£150,000	A	£871	£300	£375	£450
£250,000	B	£1,017	£500	£625	£750
£350,000	C	£1,162	£700	£875	£1,050
£500,000	D	£1,307	£1,000	£1,250	£1,500
£750,000	E	£1,598	£1,500	£1,875	£2,250
£1,000,000	F	£1,888	£2,000	£2,500	£3,000
£2,000,000	G	£2,179	£4,000	£5,000	£6,000
£5,000,000	H	£2,614	£10,000	£12,500	£15,000

Note: the council tax bands have been approximated for these property values using Option 2a which effectively uprates the council tax band thresholds from 1991 to 2015 prices. Source: GLA Economics

Given that inner London has a greater proportion of properties in the top bands and outer London has a larger share of properties in the lower bands, the council tax burden shifts from outer to inner London. In fact, 55.9 per cent of council tax is raised in inner London in this scenario, compared with 32.4 per cent in the current system. As such, inner London boroughs have the highest shares of 'losers' following this reform (Figure 4.14 and Map 4.6). Due to this shift in the burden of council tax, there is a need for redistribution between boroughs to account for the fact that some would automatically gain from a flat tax and others lose.

Figure 4.14: Percentage of properties who would see a change in council tax in London for Option 6a in 2015–16
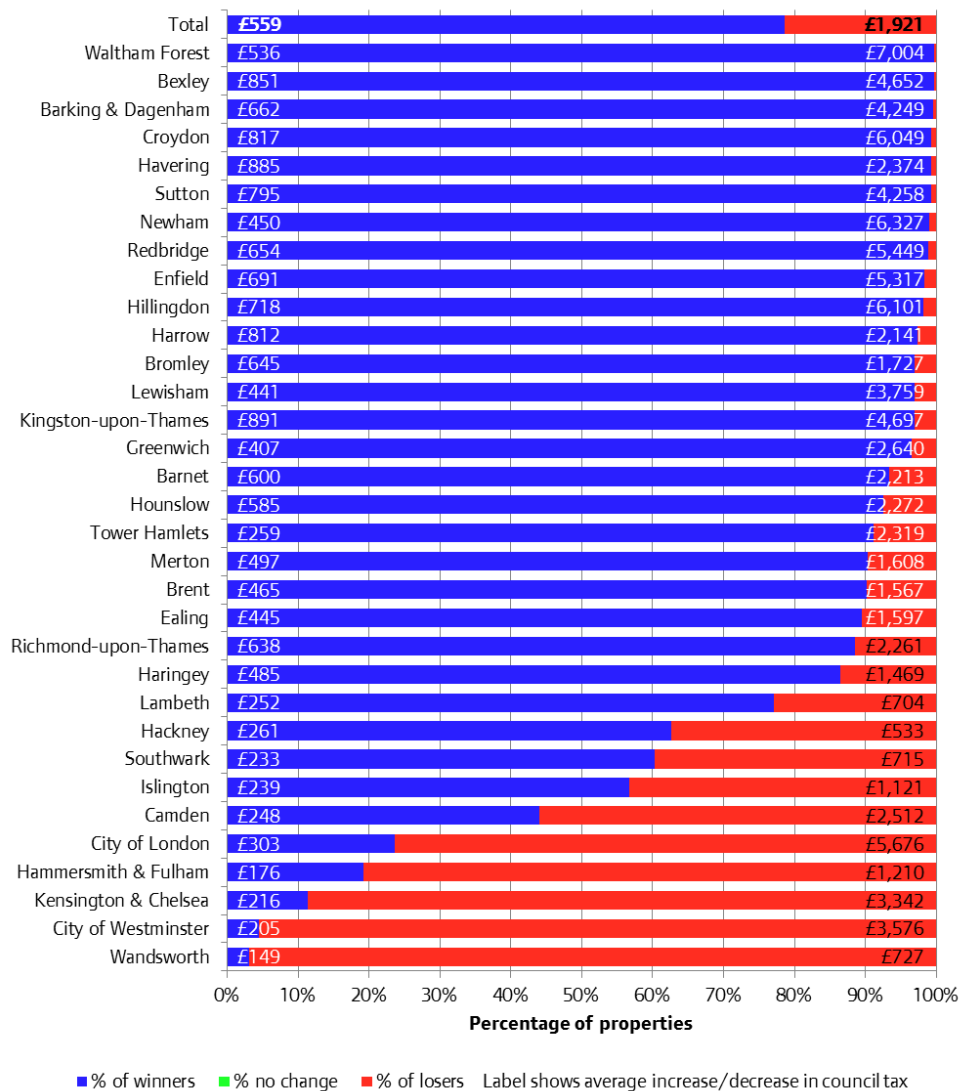
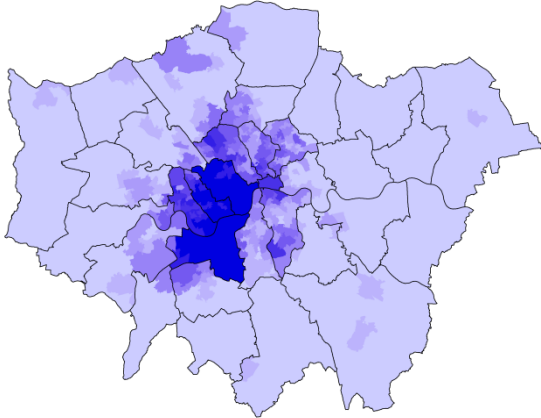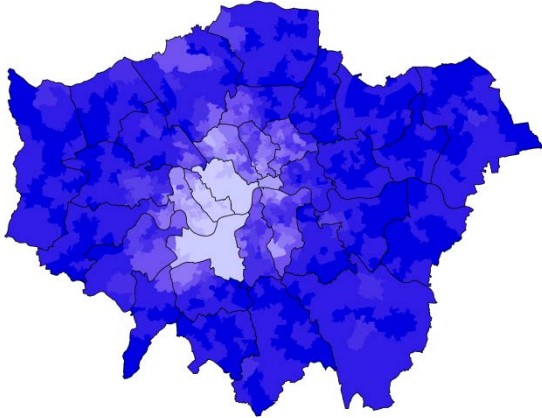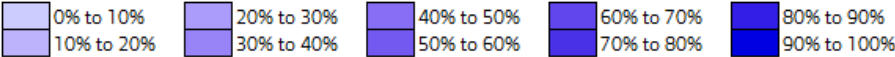Source: GLA Economics

Map 4.6: Percentage of properties that would be gainers or losers from Option 6a by London MSOA in 2015-16

Percentage of properties that would pay less council tax

Percentage of properties that would pay more council tax

Legend

0% to 10% 20% to 30% 40% to 50% 60% to 70% 80% to 90%
10% to 20% 30% to 40% 50% to 60% 70% to 80% 90% to 100%

Source: GLA Economics

Option 7: Progressive bands

Summary

This option changes council tax rates so that the system has more progressive characteristics. If the rates in the existing system were changed and nothing else, roughly the same amount of tax would be collected in total, yet over two-thirds of households would either pay the same or less tax.

As noted previously, the existing council tax system is regressive by design. Current tax rates are set relative to Band D which is not in proportion with the step increases associated with the band thresholds. Most of the reform options discussed above – with the exception of Option 5 (a flat council tax rate) – retain the essence of these tax ratios and are, consequently, regressive to some extent (see Figure 4.15). This section discusses possible modifications which, if implemented, would make the council tax system more progressive.

Figure 4.15: Effective rate of council tax as a percentage of average property prices by band in London for selected reform options in 2015-16
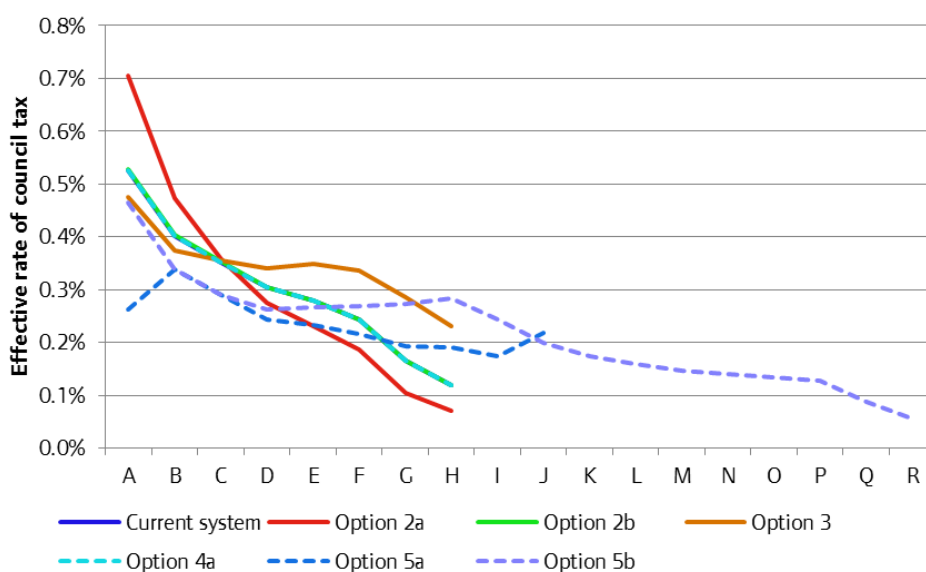
Note: the average property price used for the lowest and highest bands are 75 per cent and 125 per cent of the upper and lower thresholds respectively. Also, the current system follows the same trend as Option 2b (hence the line is not visible in the chart). Source: GLA Economics

The prerequisites for this section are that all models must continue to set council tax rates for Band D and that the other bands are calculated based on their ratio to Band D in ninths. Therefore, the only changes that can be made here are the ratios to Band D in ninths – essentially increasing the ratios for the top bands so that council tax is a larger proportion of property prices and vice versa. There are no other changes to these models.

The alternative tax ratios that would deliver a more progressive council tax system are shown in Table 4.20. Here it is proposed, for example, that a Band H property pays three times the amount than a Band D dwelling, compared with twice as much in the current council tax system. Moreover, a Band A property would pay only one-third of their current bill.

Table 4.20: Ratios to Band D in a progressive council tax system

Council tax band	Current system		Progressive system		
	Ratio	Example tax rate	Ratio	Example tax rate	Average property price
A	6/9	£871	2/9	£290	£187,500
B	7/9	£1,017	4/9	£581	£300,000
C	8/9	£1,162	6/9	£871	£400,000
D	9/9	£1,307	9/9	£1,307	£500,000
E	11/9	£1,598	12/9	£1,743	£600,000
F	13/9	£1,888	16/9	£2,324	£700,000
G	15/9	£2,179	21/9	£3,050	£800,000
H	18/9	£2,614	27/9	£3,921	£925,000
I			36/9	£5,229	£1,250,000
J			48/9	£6,971	£1,750,000
K			63/9	£9,150	£2,250,000
L			81/9	£11,764	£2,750,000
M			102/9	£14,814	£3,250,000
N			126/9	£18,300	£3,750,000
O			153/9	£22,221	£4,250,000
P			183/9	£26,578	£4,750,000
Q			216/9	£31,371	£7,500,000
R			252/9	£36,600	£12,500,001

Note: example tax rate based on the average Band D council tax rate in London during 2015-16. Source: GLA Economics

The following tables show the tax rates and council tax revenue for the existing system and the possible reform options using these progressive ratios.

Table 4.21: Average council tax rates in London under various progressive reform options in 2015-16

| Band | Base model Current system | Option 2 Revaluation and London specific bands | | Option 3 Equal bands | Option 4 London-wide council tax rates | | | | Option 5 New band | |
		2a Property prices	2b HPI		4a Average	4b Lowest	4c Highest	4d Fiscally neutral	5a Two new bands	5b Ten new bands
A	£290	£290	£290	£290	£290	£149	£372	£289	£290	£290
B	£581	£581	£581	£581	£581	£299	£744	£577	£581	£581
C	£871	£871	£871	£871	£871	£448	£1,116	£866	£871	£871
D	£1,307	£1,307	£1,307	£1,307	£1,307	£673	£1,675	£1,298	£1,307	£1,307
E	£1,743	£1,743	£1,743	£1,743	£1,743	£897	£2,233	£1,731	£1,743	£1,743
F	£2,324	£2,324	£2,324	£2,324	£2,324	£1,196	£2,977	£2,308	£2,324	£2,324
G	£3,050	£3,050	£3,050	£3,050	£3,050	£1,570	£3,908	£3,029	£3,050	£3,050
H	£3,921	£3,921	£3,921	£3,921	£3,921	£2,018	£5,024	£3,895	£3,921	£3,921
I									£5,229	£5,229
J									£6,971	£6,971
K										£9,150
L										£11,764
M										£14,814
N										£18,300
O										£22,221
P										£26,578
Q										£31,371
R										£36,600

Source: GLA Economics

Table 4.22: Council tax revenue in London under various progressive reform options in 2015–16, £millions

Band	Base model Current system	Option 2 Revaluation and London specific bands		Option 3 Equal bands	Option 4 London-wide council tax rates				Option 5 New band	
		2a Property prices	**2b** HPI		**4a** Average	**4b** Lowest	**4c** Highest	**4d** Fiscally neutral	**5a** Two new bands	**5b** Ten new bands
A	£26.4	£26.9	£65.7	£92.6	£26.8	£13.8	£34.3	£26.6	£104.3	£104.3
B	£165.5	£190.1	£175.5	£173.6	£165.3	£85.1	£211.7	£164.2	£322.2	£322.2
C	£570.8	£597.7	£456.4	£278.2	£564.6	£290.6	£723.3	£560.8	£433.2	£433.2
D	£877.7	£866.1	£635.2	£408.9	£861.9	£443.6	£1,104.2	£856.0	£640.6	£427.6
E	£718.7	£663.5	£741.5	£612.2	£714.5	£367.7	£915.4	£709.7	£321.0	£371.0
F	£486.2	£443.7	£555.5	£697.2	£495.8	£255.2	£635.3	£492.5	£442.1	£312.1
G	£494.0	£450.8	£703.0	£966.3	£525.1	£270.3	£672.7	£521.5	£237.0	£286.4
H	£172.5	£164.6	£379.8	£1,224.7	£204.5	£105.3	£262.1	£203.2	£194.3	£377.8
I									£269.2	£665.4
J									£529.5	£358.9
K										£205.9
L										£157.9
M										£123.5
N										£110.5
O										£80.5
P										£72.2
Q										£358.9
R										£288.0
Total	**£3,511.9**	**£3,403.4**	**£3,712.7**	**£4,453.6**	**£3,558.5**	**£1,831.5**	**£4,559.0**	**£3,534.4**	**£3,493.4**	**£5,056.3**
As a %	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
In London	**£1,143.4**	**£1,364.0**	**£1,530.4**	**£1,861.3**	**£1,390.3**	**£715.5**	**£1,781.1**	**£1,380.8**	**£1,587.2**	**£2,606.5**
As a %	32.6%	40.1%	41.2%	41.8%	39.1%	39.1%	39.1%	39.1%	45.4%	51.5%
Out London	**£2,368.5**	**£2,039.3**	**£2,182.3**	**£2,592.3**	**£2,168.3**	**£1,115.9**	**£2,777.9**	**£2,153.6**	**£1,906.1**	**£2,449.8**
As a %	67.4%	59.9%	58.8%	58.2%	60.9%	60.9%	60.9%	60.9%	54.6%	48.5%

Source: GLA Economics

The base model that simulates the existing council tax system can show the impact of the alternative tax ratios without any other changes to council tax. This estimates that £3,512 million in revenue would be raised in 2015-16, approximately £17.5 million less than the current regressive system. That said, over two-thirds (69.8 per cent) of properties would be the same or better off from the switch by paying less than or equal to the current amount of council tax (i.e. Bands A-D). Figure 4.16 also shows the progressiveness of the base model (and selected reform options). For instance, council tax represents 0.2 per cent of a property's value in Band A, which rises to 0.3 per cent for Band F and then back down to 0.2 per cent for Band H.

Figure 4.16: Effective rate of council tax as a percentage of average property prices by band in London for selected progressive reform options in 2015-16
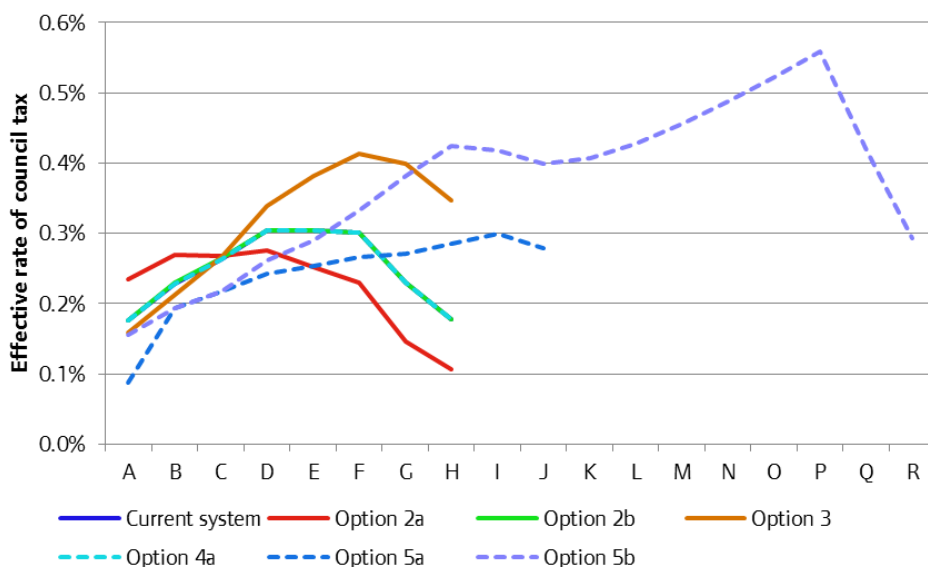
Note: the current system follows the same trend as Option 2b as well as Option 3 (hence these lines are not visible in the chart). Source: GLA Economics

This trait of the effective tax rate falling at the top-end is exhibited in all the progressive tax models. This could be overcome by raising council tax further at the top-end but, to achieve this, the levels would need to get, arguably, unrealistically large.

5. Further considerations

Summary

With any reform there would be a number of practical issues to deal with. For instance, a reformed system could lead to some significant changes in council tax bills. As a result, there would probably be a need for any changes to be phased in over a period of transition which needs further discussion before any reforms can be implemented. Other challenges include the frequency of revaluations and whether there is a need for a redistribution mechanism between local authorities.

In addition to the potential council tax reforms discussed in the previous chapter, there are other considerations such as the frequency of revaluations and transition relief for switching to a new system and potentially during revaluation years.

Revaluations

Currently, the existing council tax system uses property prices from 1991 and, as this paper has shown, this has created distortions in that they do not reflect the current property market. Wales and Northern Ireland have uprated their residential property prices to 2003 and 2005 respectively, but this is not the case for England or Scotland. Therefore, one of the main options for reform discussed above is to revalue properties.

Following this, it is important that further revaluations happen frequently in order for council tax to remain relevant. Other property taxes like business rates are currently revaluated every five years, though the government is looking to do this at least every three years – and possibly more frequently - in the future[48]. It may be beneficial in linking the council tax revaluation to this business rates cycle, so occurring at least every three years.

However, there is also a question as to how more frequent revaluations can actually be done in a cost-effective and accurate manner. Currently, the Valuations Office Agency values and manages the valuations list. However, the government has already noted as part of the business rates revaluation consultation that reforms to this approach would be required if the frequency of revaluations increases[49]. Other options being explored for business rates revaluations – which could be relevant to council tax – are a self-assessment (for example, people could view the price of properties sold nearby using Land Registry data and also get free online estimates) and a formula approach, though each has its own pros and cons.

Given that the growth in house prices has been stronger in London than the rest of England (see Figure 3.3 for example), it could be argued that revaluations should happen independently in London. That is, council tax bands are set based on London property values instead of England as a whole. This would then create a council tax that is specifically relevant to London's property market.

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[48] HM Government (2016). Business rates: delivering more frequent revaluations. Available at:
https://www.gov.uk/government/consultations/business-rates-delivering-more-frequent-revaluations
[49] Ibid.

Transition relief

There will be a number of households that would see a change in council tax following any reform or revaluation. In some cases, these changes could be relatively large. The same applies to local authorities whose tax take could vary substantially following a revaluation or reform. Therefore, there could be a need for some transitional relief to implement these changes gradually.

Business rates currently has a transitional relief set and funded by government. It works by limiting the rate at which individual business rates bills can increase or decrease each year – set by government – until the point at which the bills reach their full amounts. A similar system could work for council tax but would require funding to cover the transitional arrangements. Funding for transitional arrangements would either be needed from central government or alternatively could be raised under a reformed system by:

- Any additional council tax revenue above and over the current tax take from the existing system.
- A proportion of the difference in council tax before and after a change from households that would see a reduction in council tax bills. That is, a proportion of the 'gain' from 'winners' following a council tax reform.
- An additional 'levy' on top of council tax that would only be used to fund the transitional relief, perhaps for certain council tax bands only.

6. Conclusions

This paper looked at the council tax system in London and, in doing so, identified a number of issues associated with it. Firstly, if viewed as a consumption tax for housing services, then it is ineffective as it uses house prices that are 25 years out of date and, consequently, creates inefficiencies in housing supply. Council tax is also perceived to be unfair, particularly as a result of its spatial inequality, and is regressive by design. Ultimately, these issues have meant that council tax is widely regarded as being an unsatisfactory tax with some commentators, such as the Commission on Local Tax Reform, calling for the current system to end.

Given this, the devolution of property taxes, as recommended by the London Finance Commission, provides an opportunity to improve the efficiency of council tax and make it 'fairer' for Londoners.

Seven potential options for reform has been discussed in this paper ranging from reforming the Council Tax Support system, conducting a revaluation, introducing a London-wide council tax rate and also introducing additional council tax bands. These options produced various distributional impacts on the amount of tax collected and the amount that individual households would pay which were discussed throughout the paper and also in the appendices. As well as understanding the distributional impact of the reforms, further consideration should also be given to the process of future revaluations and whether a transitional relief would be required.

Appendix 1: Residential property taxes in other countries

This appendix briefly discusses how residential property taxes, similar to council tax in England, work in other countries.

France

The annual property tax (*taxe d'habitation*) is used to fund local services for residents and community facilities. It is set by the local council and municipality, yet collected by central government, and is based on a percentage of a property's rental value. The rental value is based on the theoretical rental market price in 1970 and takes into account a property's size, location and overall condition.

The property tax is paid by the occupiers of the properties who are not necessarily the property owners (instead, owners are liable for the land tax (*taxe foncière*)). It also applies to all furnished and habitable properties, so second homes are liable for the tax but not necessarily empty homes. There are a number of allowances and reliefs including households with dependents (children, elderly or disabled people) and those that are on low income.

In Paris, the tax rate was 13.38 per cent in 2016. In addition to this, there were a further two provisions of tax for development corporation (0.219 per cent) and the union of Greater Paris (0.283 per cent). Moreover, a levy is payable for main properties whose rateable value exceeds €4,573 in 1970 prices that is used to partially fund the property relief scheme.

Germany

The real property tax (*grundsteuer*) is a municipal tax on the ownership of land and its development. As such, this tax applies to both residential and commercial properties, including undeveloped land. It is based on a percentage of the assessed property value (or land value if undeveloped) set by central government, which is then multiplied by a ratio set by local government within each municipality. The assessed property value is typically based on its market price in 1964 (though this varies depending on the municipality area and type of property) which has been uprated to 1974 prices. All new developments are valued in 1974 prices.

The tax is payable every three months. There are no explicit tax relief schemes, though the base tax rate set by the federal government varies depending on social policy objectives[50]. For example, the base tax rate is lower for smaller, one-family dwellings.

The tax rate is set by the federal government at between 0.26 per cent and 1 per cent depending on the type of property. In Berlin, the municipality multiplier is set at 150 per cent for agricultural and forestry land and 800 per cent for all other types.

United States

Property taxes in the United States (US) vary across states in the way they are taxed and the tax rates applied; they also vary by local authorities. One common aspect is that they are a main

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[50] World Bank (2003). Land taxation in Germany. Available at:
http://www1.worldbank.org/publicsector/decentralization/June2003Seminar/Germany.pdf

source of revenue for local government, though the extent of this depends on how much can be raised from other revenue streams.

There are two main methods used in the US for calculating property tax. The first is by setting the tax at a specific amount related to the property's value (similar to council tax in England). The second is by setting the tax rate as a percentage of the property's value. The assessment date and revaluation of property values is usually devolved to local jurisdictions. The tax rate itself is usually set by local jurisdictions themselves, which may be constrained by state laws. A jurisdiction does not only include councils or municipality governments, but also school boards, fire departments and utility commissions.

For New York City, properties are valued based on their current market value. This is then converted into assessment values which is a percentage of the market value and varies depending on the type of property. The assessment value is then multiplied with the tax rate that varied from 10.574 per cent to 19.991 per cent in 2016-17. Exemptions and discounts for seniors, veterans, disabled people and properties with green and solar roofs are available.

Japan

In Japan, property owners are liable to pay the fixed assets tax (*koteishisan-zei*). It is based on the assessed value of the land and structures and is applicable to both residential and non-residential property owners. Central government actually sets the base tax rate of 1.4 per cent of the assessed value, though local municipalities can choose to increase the tax rate up to 2.1 per cent. The tax rate applies to all types of properties and the revenue is shared between central and local government.

The assessment of property values is done by local authorities. For land used for housing, the appraised value is reduced by one-sixth for land under 200 million^2 and by one-third for land over 200 million^2. The assessed value of residential land cannot exceed ¥200,000 or ¥300,000 for non-residential land.

In addition to the fixed assets tax, some property and landowners in urban districts are also liable for the city planning tax (*toshikeikaku-zei*). This is a flat rate of 0.3 per cent of the assessed value though the appraisal value is reduced depending on land size like above.

Appendix 2: Methodology

This appendix outlines the methodology used to model the various council tax reform options outlined in this paper.

Firstly, housing stock numbers from DCLG[51] and council tax rates and revenue figures from London Councils[52] – both of which relate to the 2015-16 fiscal year – are used to create the council tax base model that simulates the current system. The former is **total stock** which is the overall number of properties that are liable for council tax. This data is available by borough and council tax band.

However, some households are applicable for tax discounts and premiums, such as the single person supplement and empty and second homes. This is accounted for in the models by estimating the **paying stock**, which is defined as revenue by council tax band (from DCLG) divided by the relevant council tax rate (from London Councils). The proportion that pays **100% council tax on an equivalent basis** can then be calculated as paying stock divided by total stock (i.e. **propensity to pay ratios**) and is available by borough and council tax band.

Total stock figures can be separated into different price categories by introducing London house sale prices data for the 2015-16 fiscal year[53] from Land Registry[54]. It is assumed that the distribution of house sale prices is representative of the real distribution of house prices across London. First, property prices have been grouped into £5,000 bands as a means of simplifying the dataset (and the model). Then the sum of the number of property sales for each borough is divided by the total housing stock from DCLG. This ratio is applied to each £5,000 price category and scales up the number of properties to match that from DCLG to produce an estimate of **total stock by £5,000 price category** by borough.

Modelling of various council tax systems is primarily based on these total stock by £5,000 price category estimates. For instance, different band thresholds can be tested by summing the number of properties within certain price ranges. However, to be comparable against the current council tax system, the models would need to consider the impact of tax discounts and premiums by focussing on paying stock.

To estimate **paying stock by £5,000 price category** by borough, the propensity to pay ratios are retrospectively applied to the total stock by £5,000 price category numbers. To do this, the council tax band thresholds (for which the propensity to pay ratios relate to) need to be approximated in the £5,000 price categories. This can be estimated by matching the number of properties in each council tax band from DCLG with the sum of specific total stock by £5,000 price category groups. In essence, this approach effectively updates the council tax bands from 1991 property prices to 2015 values. It should be noted that as different boroughs have seen various rates of house price growth, the updated council tax bands are not the same across London.

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[51] DCLG Council Tax Base statistics
[52] London Councils Council Tax Monitor
[53] This refers to the 5 April 2015 to 4 April 2016 period.
[54] Land Registry Prices Paid data © Crown copyright 2016.

A more detailed geographical level can be added to this modelling approach. This is primarily based on the middle super output area (MSOA) of which the Valuation Office Agency (VOA) publishes council tax base statistics for England[55].

The VOA council tax base statistics are inconsistent with those published by DLCG (used above). Therefore, the number of properties by MSOA from the VOA needs to be scaled to the DCLG figures in order to be consistent. This is done at a borough level by dividing the sum of properties by MSOA in a particular borough from the VOA with the total number of properties by borough from DCLG. Overall, this results in **total stock by MSOA** by borough and council tax band. It is assumed that the same propensity to pay ratios at the borough level applies to MSOAs within a specific local authority. Therefore, this gives **paying stock by MSOA**.

The Land Registry house prices data contains postcode information. These postcodes have been matched with MSOA definitions and then grouped into £5,000 price bands to estimate **total stock by MSOA and £5,000 price category**[56]. These have again been scaled so that the sum of £5,000 price categories and the sum of MSOAs are equal to the borough estimates from above. Total stock has been converted into **paying stock by MSOA and £5,000 price category** using a similar approach to that used at the borough level where it has been assumed that the propensity to pay ratios are the same across MSOAs.

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[55] VOA Council Tax: Stock of Properties
[56] Around 10 per cent of postcodes were not matched to MSOAs. This could be due to a number of reasons such as the postcodes being new and not yet included in the MSOA definitions. These observations have not been removed from the model, but left as being unmatched to remain consistent with the borough-level analysis. However, it does mean that the MSOA analysis may not be reflective of all the properties within that area.

Appendix 3: Summary of council tax reform options

This appendix summarises the various council tax reform options presented in this paper.

Table A3.1: Number of dwellings by council tax band in London under various options in 2015-16

Band	Base model Current system	Option 2 Revaluation and London specific bands		Option 3 Equal bands	Option 4 London-wide council tax rates				Option 5 New bands		Option 6 Flat tax rates		
		2a Property prices	2b HPI		4a Average	4b Lowest	4c Highest	4d Fiscally neutral	5a Two new bands	5b Ten new bands	6a 0.2%	6b 0.25%	6c 0.3%
A	130,000	131,000	323,000	453,000	130,000	130,000	130,000	130,000	510,000	510,000			
B	473,000	465,000	424,000	418,000	473,000	473,000	473,000	473,000	767,000	767,000			
C	948,000	945,000	719,000	438,000	948,000	948,000	948,000	948,000	680,000	680,000			
D	895,000	908,000	666,000	429,000	895,000	895,000	895,000	895,000	671,000	448,000			
E	527,000	523,000	583,000	481,000	527,000	527,000	527,000	527,000	253,000	291,000			
F	264,000	265,000	330,000	410,000	264,000	264,000	264,000	264,000	264,000	185,000			
G	207,000	208,000	322,000	436,000	207,000	207,000	207,000	207,000	108,000	130,000			
H	61,000	61,000	139,000	439,000	61,000	61,000	61,000	61,000	70,000	134,000			
I									72,000	178,000			
J									109,000	72,000			
K										32,000			
L										19,000			
M										12,000			
N										9,000			
O										5,000			
P										4,000			
Q										17,000			
R										11,000			
Total	**3,505,000**	**3,505,000**	**3,505,000**	**3,505,000**	**3,505,000**	**3,505,000**	**3,505,000**	**3,505,000**	**3,505,000**	**3,505,000**	**3,505,000**	**3,505,000**	**3,505,000**

Note: rounded to nearest thousand. Source: GLA Economics

Table A3.2: Percentage of dwellings by council tax band in London under various options in 2015–16

| Band | Base model Current system | Option 2 Revaluation and London specific bands | | Option 3 Equal bands | Option 4 London-wide council tax rates | | | | Option 5 New bands | | Option 6 Flat tax rates | | |
		2a Property prices	2b HPI		4a Average	4b Lowest	4c Highest	4d Fiscally neutral	5a Two new bands	5b Ten new bands	6a 0.2%	6b 0.25%	6c 0.3%
A	3.7%	3.7%	9.2%	12.9%	3.7%	3.7%	3.7%	3.7%	14.6%	14.6%			
B	13.5%	13.3%	12.1%	11.9%	13.5%	13.5%	13.5%	13.5%	21.9%	21.9%			
C	27.1%	26.9%	20.5%	12.5%	27.1%	27.1%	27.1%	27.1%	19.4%	19.4%			
D	25.5%	25.9%	19.0%	12.2%	25.5%	25.5%	25.5%	25.5%	19.2%	12.8%			
E	15.0%	14.9%	16.6%	13.7%	15.0%	15.0%	15.0%	15.0%	7.2%	8.3%			
F	7.5%	7.6%	9.4%	11.7%	7.5%	7.5%	7.5%	7.5%	7.5%	5.3%			
G	5.9%	5.9%	9.2%	12.4%	5.9%	5.9%	5.9%	5.9%	3.1%	3.7%			
H	1.7%	1.7%	4.0%	12.5%	1.7%	1.7%	1.7%	1.7%	2.0%	3.8%			
I									2.1%	5.1%			
J									3.1%	2.1%			
K										0.9%			
L										0.5%			
M										0.3%			
N										0.2%			
O										0.1%			
P										0.1%			
Q										0.5%			
R										0.3%			
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: GLA Economics

Table A3.3: Average council tax rates by band in London under various options in 2015-16

| Band | Base model Current system | Option 2 Revaluation and London specific bands | | Option 3 Equal bands | Option 4 London-wide council tax rates | | | | Option 5 New bands | | Option 6 Flat tax rates | | |
		2a Property prices	2b HPI		4a Average	4b Lowest	4c Highest	4d Fiscally neutral	5a Two new bands	5b Ten new bands	6a 0.2%	6b 0.25%	6c 0.3%
A	£871	£871	£871	£871	£871	£448	£1,116	£866	£871	£871			
B	£1,017	£1,017	£1,017	£1,017	£1,017	£523	£1,303	£1,010	£1,017	£1,017			
C	£1,162	£1,162	£1,162	£1,162	£1,162	£598	£1,489	£1,154	£1,162	£1,162			
D	£1,307	£1,307	£1,307	£1,307	£1,307	£673	£1,675	£1,298	£1,307	£1,307			
E	£1,598	£1,598	£1,598	£1,598	£1,598	£822	£2,047	£1,587	£1,598	£1,598			
F	£1,888	£1,888	£1,888	£1,888	£1,888	£972	£2,419	£1,875	£1,888	£1,888			
G	£2,179	£2,179	£2,179	£2,179	£2,179	£1,121	£2,791	£2,164	£2,179	£2,179			
H	£2,614	£2,614	£2,614	£2,614	£2,614	£1,345	£3,349	£2,597	£2,614	£2,614			
I									£3,050	£3,050			
J									£3,486	£3,486			
K										£3,921			
L										£4,357			
M										£4,793			
N										£5,229			
O										£5,664			
P										£6,100			
Q										£6,536			
R										£6,971			

Source: GLA Economics

Table A3.4: Council tax revenue by band in London under various options in 2015-16, £millions

Band	Base model Current system	Option 2 Revaluation and London specific bands		Option 3 Equal bands	Option 4 London-wide council tax rates				Option 5 New bands		Option 6 Flat tax rates		
		2a Property prices	2b HPI		4a Average	4b Lowest	4c Highest	4d Fiscally neutral	5a Two new bands	5b Ten new bands	6a 0.2%	6b 0.25%	6c 0.3%
A	£79.2	£80.8	£197.2	£277.7	£80.4	£41.4	£103.0	£79.9	£312.8	£312.8			
B	£289.6	£332.7	£307.2	£303.7	£289.2	£148.9	£370.5	£287.3	£563.8	£563.8			
C	£761.1	£797.0	£608.5	£371.0	£752.8	£387.4	£964.4	£747.7	£577.6	£577.6			
D	£877.7	£866.1	£635.2	£408.9	£861.9	£443.6	£1,104.2	£856.0	£640.6	£427.6			
E	£658.8	£608.2	£679.7	£561.1	£655.0	£337.1	£839.1	£650.5	£294.3	£340.1			
F	£395.0	£360.5	£451.3	£566.4	£402.9	£207.3	£516.1	£400.1	£359.2	£253.6			
G	£352.9	£322.0	£502.2	£690.2	£375.1	£193.0	£480.5	£372.5	£169.3	£204.6			
H	£115.0	£109.7	£253.2	£816.5	£136.4	£70.2	£174.7	£135.4	£129.5	£251.9			
I									£157.0	£388.1			
J									£264.7	£179.5			
K										£88.2			
L										£58.5			
M										£39.9			
N										£31.6			
O										£20.5			
P										£16.6			
Q										£74.8			
R										£54.9			
Total	**£3,529.4**	**£3,477.0**	**£3,634.5**	**£3,995.6**	**£3,553.5**	**£1,828.9**	**£4,552.7**	**£3,529.4**	**£3,468.9**	**£3,884.5**	**£3,584.9**	**£4,481.1**	**£5,377.3**

Source: GLA Economics

Table A3.5: Council tax revenue by London borough under various options in 2015-16, £millions

Borough	Base model Current system	Option 2 Revaluation and London specific bands		Option 3 Equal bands
		2a Property prices	2b HPI	
Barking & Dagenham	£56.76	£53.00	£50.95	£50.17
Barnet	£184.62	£169.18	£178.94	£200.14
Bexley	£111.74	£95.60	£94.27	£96.82
Brent	£112.10	£113.68	£119.77	£132.92
Bromley	£165.81	£143.82	£149.26	£163.77
Camden	£113.88	£129.50	£139.76	£158.15
City of London	£5.89	£6.15	£6.66	£7.43
City of Westminster	£82.00	£87.75	£94.54	£105.13
Croydon	£167.01	£145.94	£147.34	£155.26
Ealing	£141.72	£142.77	£150.50	£168.29
Enfield	£127.97	£114.92	£117.74	£126.22
Greenwich	£88.94	£90.76	£93.33	£101.16
Hackney	£82.65	£98.55	£105.87	£120.28
Hammersmith & Fulham	£73.62	£81.73	£88.98	£101.13
Haringey	£104.75	£113.14	£119.53	£133.25
Harrow	£122.04	£109.26	£114.13	£125.91
Havering	£125.83	£109.71	£109.01	£112.71
Hillingdon	£128.40	£114.19	£117.25	£126.41
Hounslow	£108.28	£103.88	£107.48	£116.58
Islington	£91.89	£103.00	£111.45	£127.32
Kensington & Chelsea	£99.98	£107.15	£115.04	£125.94
Kingston-upon-Thames	£99.31	£91.98	£97.11	£108.06
Lambeth	£121.12	£131.66	£140.22	£158.23
Lewisham	£102.36	£107.78	£110.91	£120.17
Merton	£97.59	£97.66	£102.95	£113.81

Newham	£83.24	£83.82	£83.75	£86.89
Redbridge	£112.04	£102.60	£105.19	£114.17
Richmond-upon-Thames	£135.61	£131.01	£141.32	£160.22
Southwark	£105.90	£121.73	£129.45	£146.01
Sutton	£101.70	£89.58	£90.70	£96.44
Tower Hamlets	£93.07	£95.27	£100.68	£112.53
Waltham Forest	£99.17	£102.56	£105.71	£115.60
Wandsworth	£82.43	£87.64	£94.66	£108.47
London total	**£3,529.4**	**£3,477.0**	**£3,634.5**	**£3,995.6**
As a percentage	100.0%	100.0%	100.0%	100.0%
Inner London total	**£1,143.7**	**£1,248.7**	**£1,331.5**	**£1,491.9**
As a percentage	32.4%	35.9%	36.6%	37.3%
Outer London total	**£2,385.7**	**£2,228.3**	**£2,302.9**	**£2,503.6**
As a percentage	67.6%	64.1%	63.4%	62.7%

Source: GLA Economics

Table A3.5 (cont.): Council tax revenue by London borough under various options in 2015-16, £millions

Borough	Option 4 London-wide council tax rates			
	4a Average	**4b** Lowest	**4c** Highest	**4d** Fiscally neutral
Barking & Dagenham	£55.72	£28.68	£71.38	£55.34
Barnet	£172.74	£88.90	£221.31	£171.57
Bexley	£101.05	£52.00	£129.46	£100.36
Brent	£108.23	£55.70	£138.66	£107.49
Bromley	£163.56	£84.18	£209.55	£162.45
Camden	£111.33	£57.30	£142.63	£110.57
City of London	£8.16	£4.20	£10.45	£8.10
City of Westminster	£159.33	£82.00	£204.12	£158.25
Croydon	£148.87	£76.62	£190.73	£147.86

Ealing	£136.72	£70.37	£175.16	£135.79
Enfield	£119.88	£61.70	£153.59	£119.07
Greenwich	£91.11	£46.89	£116.73	£90.49
Hackney	£83.52	£42.99	£107.00	£82.95
Hammersmith & Fulham	£94.09	£48.43	£120.55	£93.45
Haringey	£92.56	£47.64	£118.58	£91.93
Harrow	£104.30	£53.68	£133.63	£103.59
Havering	£108.64	£55.91	£139.18	£107.90
Hillingdon	£119.21	£61.35	£152.73	£118.40
Hounslow	£102.95	£52.99	£131.90	£102.25
Islington	£94.11	£48.44	£120.58	£93.48
Kensington & Chelsea	£121.27	£62.42	£155.37	£120.45
Kingston-upon-Thames	£77.52	£39.90	£99.31	£76.99
Lambeth	£127.81	£65.78	£163.75	£126.94
Lewisham	£98.72	£50.81	£126.48	£98.05
Merton	£91.03	£46.85	£116.62	£90.41
Newham	£87.70	£45.14	£112.36	£87.11
Redbridge	£105.32	£54.20	£134.93	£104.60
Richmond-upon-Thames	£112.02	£57.65	£143.51	£111.26
Southwark	£114.67	£59.02	£146.91	£113.89
Sutton	£91.14	£46.91	£116.76	£90.52
Tower Hamlets	£103.05	£53.04	£132.03	£102.36
Waltham Forest	£89.57	£46.10	£114.76	£88.96
Wandsworth	£157.65	£81.14	£201.97	£156.58
London total	**£3,553.5**	**£1,828.9**	**£4,552.7**	**£3,529.4**
As a percentage	100.0%	100.0%	100.0%	100.0%
Inner London total	**£1,364.8**	**£702.4**	**£1,748.6**	**£1,355.6**
As a percentage	38.4%	38.4%	38.4%	38.4%
Outer London total	**£2,188.7**	**£1,126.5**	**£2,804.1**	**£2,173.9**
As a percentage	61.6%	61.6%	61.6%	61.6%

Table A3.5 (cont.): Council tax revenue by London borough under various options in 2015-16, £millions

Borough	Option 5 New bands		Option 6 Flat tax rates		
	5a Two new bands	**5b** Ten new bands	**6a** 0.2%	**6b** 0.25%	**6c** 0.3%
Barking & Dagenham	£47.96	£48.42	£25.99	£32.48	£38.98
Barnet	£168.70	£189.65	£141.33	£176.66	£212.00
Bexley	£87.61	£89.03	£48.15	£60.19	£72.23
Brent	£112.25	£123.74	£93.70	£117.13	£140.55
Bromley	£137.74	£148.30	£104.63	£130.79	£156.95
Camden	£146.96	£184.01	£228.78	£285.97	£343.17
City of London	£6.97	£9.17	£29.61	£37.02	£44.42
City of Westminster	£104.41	£136.30	£426.76	£533.46	£640.15
Croydon	£135.50	£140.51	£84.28	£105.35	£126.42
Ealing	£142.03	£159.30	£122.45	£153.06	£183.67
Enfield	£108.87	£115.81	£78.89	£98.62	£118.34
Greenwich	£86.09	£91.39	£68.65	£85.82	£102.98
Hackney	£99.37	£114.04	£88.87	£111.08	£133.30
Hammersmith & Fulham	£91.88	£110.95	£139.93	£174.91	£209.89
Haringey	£115.00	£130.00	£94.06	£117.57	£141.09
Harrow	£105.16	£113.69	£70.95	£88.69	£106.43
Havering	£100.94	£103.74	£55.94	£69.93	£83.91
Hillingdon	£107.63	£113.91	£78.85	£98.56	£118.27
Hounslow	£101.94	£110.56	£83.01	£103.76	£124.51
Islington	£109.35	£129.95	£123.41	£154.26	£185.11
Kensington & Chelsea	£132.67	£178.59	£315.62	£394.53	£473.44
Kingston-upon-Thames	£90.45	£99.90	£63.06	£78.83	£94.59
Lambeth	£131.00	£147.06	£121.61	£152.01	£182.41

Lewisham	£102.02	£108.61	£79.65	£99.56	£119.47
Merton	£97.73	£109.87	£80.69	£100.87	£121.04
Newham	£77.14	£78.64	£55.12	£68.90	£82.67
Redbridge	£96.59	£102.34	£67.94	£84.93	£101.91
Richmond-upon-Thames	£138.69	£162.78	£117.06	£146.32	£175.59
Southwark	£123.60	£141.02	£124.26	£155.32	£186.39
Sutton	£83.37	£86.92	£52.04	£65.05	£78.06
Tower Hamlets	£92.85	£101.85	£95.49	£119.37	£143.24
Waltham Forest	£95.62	£99.01	£61.39	£76.73	£92.08
Wandsworth	£90.88	£105.46	£162.72	£203.40	£244.08
London total	**£3,468.9**	**£3,884.5**	**£3,584.9**	**£4,481.1**	**£5,377.3**
As a percentage	100.0%	100.0%	100.0%	100.0%	100.0%
Inner London total	**£1,318.0**	**£1,558.4**	**£2,005.4**	**£2,506.7**	**£3,008.0**
As a percentage	38.0%	40.1%	55.9%	55.9%	55.9%
Outer London total	**£2,150.9**	**£2,326.1**	**£1,579.5**	**£1,974.4**	**£2,369.3**
As a percentage	62.0%	59.9%	44.1%	44.1%	44.1%

Source: GLA Economics

Appendix 4: Distributional impact of the potential council tax reforms

This appendix looks at the distributional impact of the potential council tax reforms discussed in this paper in greater depth. Broadly speaking, this is a mapping exercise whereby the impact of the reforms on certain locations is compared with the characteristics of those areas. The main characteristic of interest here is income which is an indicator of ability to pay and also can show whether council tax is more progressive.

Although this analysis can be replicated for all the potential council tax reforms discussed in this paper, only a few of these options are included at this stage. This includes Option 2a that conducts a revaluation and introduces London-specific council tax bands and Option 6a that introduces a flat council tax rate of 0.25 per cent.

Household income

The ONS publishes average (mean) income estimates for small areas[57]; though the smallest geography available is MSOA and the latest estimates refer to 2011-12. Due to the difficulty in producing estimates at this level of detail, estimates are calculated using a model-based method which uses information from a number of different datasets. As such, income estimates for MSOAs are subject to some variation and consequently this analysis should be treated with caution.

Acknowledging the above, Map A4.1 shows the average total gross weekly household income by MSOA in 2011-12 for London. These income estimates have been grouped into deciles – that is, ten equal groups based on size. The lowest decile includes 10 per cent of MSOAs in London with the lowest total weekly income; whereas the highest decile includes 10 per cent of MSOAs in London with the highest total weekly income. Overall, Map A4.1 largely shows gross weekly income to be lower in east London and higher in central and west London.

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[57] ONS (2015). Small area model-based income estimates: 2011-12.

Map A4.1: Average total gross weekly household income by decile and London MSOA in 2011–12
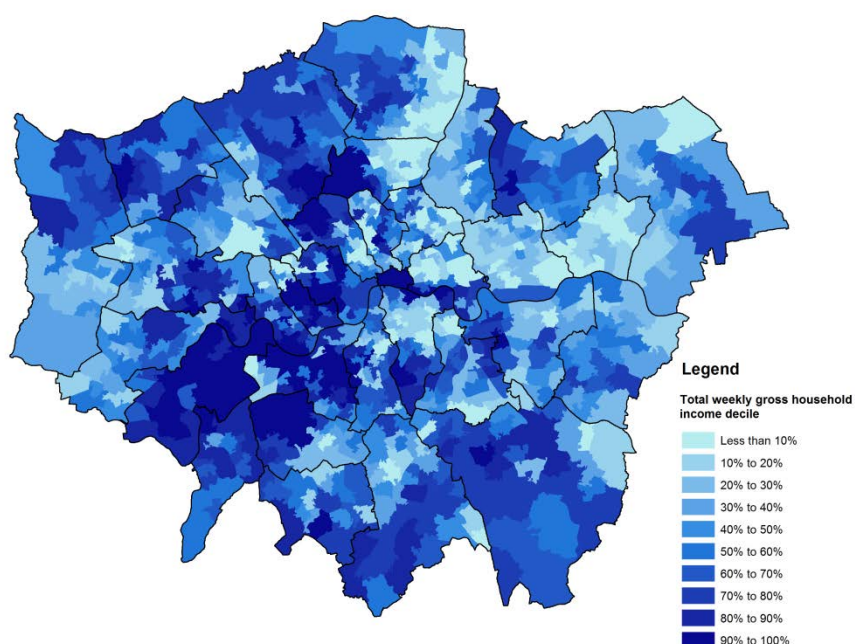
Source: ONS Small area model-based income estimates

This information can be combined with the distributional impact of the potential council tax reforms discussed throughout this paper.

For Option 2a which includes a revaluation and the creation of London-specific council tax bands, the distributional impact is shown in Map 4.1. These suggest that the gainers from this reform were mostly in outer London and the losers were mostly in inner London. This information can be summarised by looking at the net impact – that is, the percentage of gainers minus the percentage of losers. If the net impact is positive, it suggests that there are more gainers than losers and vice versa. The net impact at the MSOA level is shown in Maps A4.2 and A4.3. Darker blues suggest that these areas are net gainers and darker reds suggest that these areas are net losers.

Maps A4.2 and A4.3 also show the bottom and top deciles in terms of average total gross household weekly income in 2011-12, illustrated by the crosshatched areas. These maps suggest that there is no clear relationship between being in the top/bottom income decile and being net gainers/losers following the Option 2a reform. For example, Havering 002 which covers some parts of the Harold Hill area is in the lowest decile and would see 80.3 per cent of households paying less council tax. In contrast, Hackney 024 which is the area around Haggerston and is also in the lowest income decile would see almost all households (95.6 per cent) paying more council tax.

Map A4.2: Net impact of Option 2a and lowest gross total weekly household income decile by London MSOA

Map A4.3: Net impact of Option 2a and highest gross total weekly household income by London MSOA
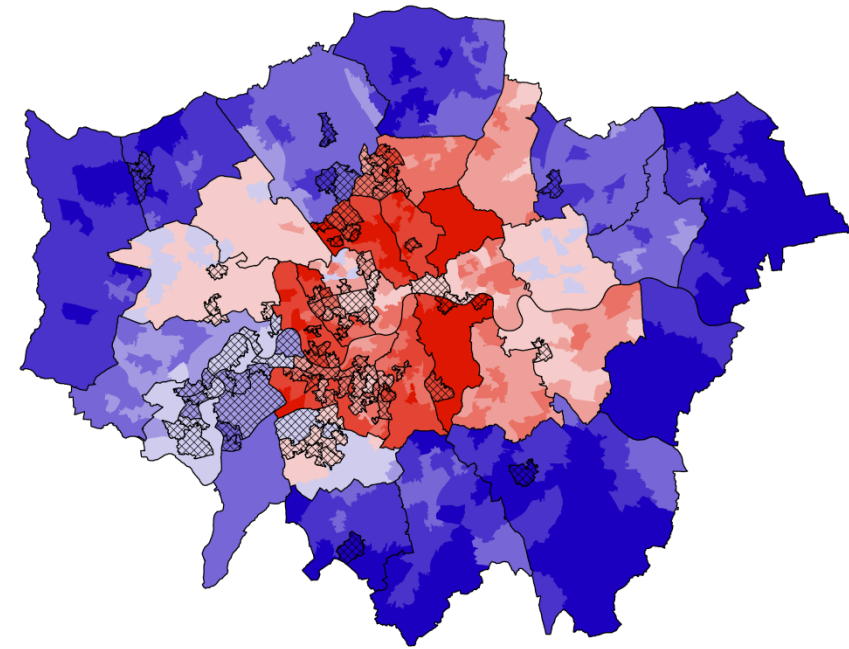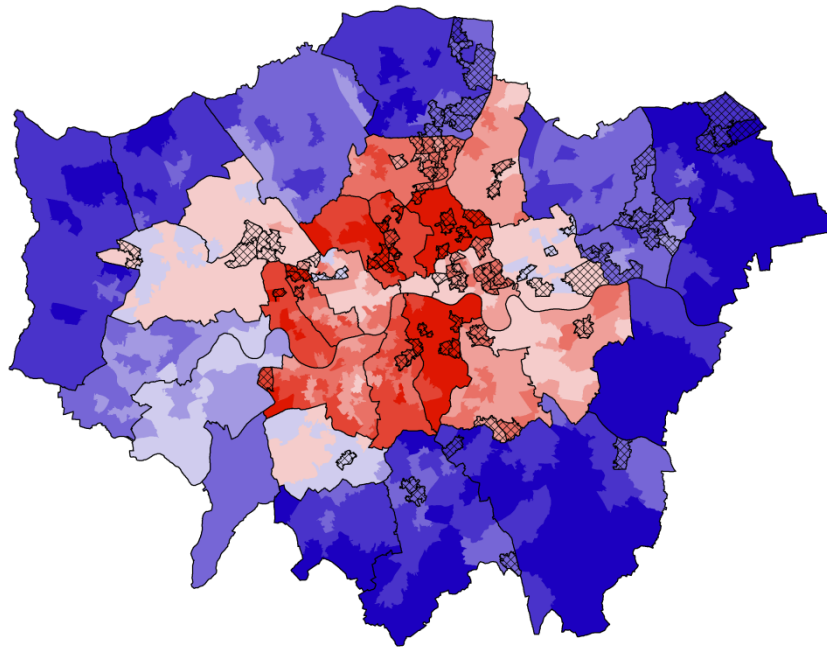
Legend

Percentage of households that are net gainers
- 80% to 100%
- 60% to 80%
- 40% to 60%
- 20% to 40%
- 0% to 20%

Percentage of households that are net losers
- 80% to 100%
- 60% to 80%
- 40% to 60%
- 20% to 40%
- 0% to 20%

Percentage of households that are neither net gainers or net losers
- Equal percentage of gainers and losers

Income decile
- Lowest/highest income decile

Source: GLA Economics, ONS small area model-based income estimates

In contrast, Option 6a which introduces a flat council tax rate of 0.25 per cent has more progressive characteristics than Option 2a. That is, areas belonging to the lowest income decile are more likely to be net gainers from this reform (and vice versa) than the previous option as seen in Maps A4.4 and A4.5. This in part can be attributed to the negative impact of a flat tax being more concentrated in inner London which, as noted earlier, typically has higher household income.

Map A4.4: Net impact of Option 6a and lowest gross total weekly household income decile by London MSOA

Map A4.5: Net impact of Option 6a and highest gross total weekly household income by London MSOA
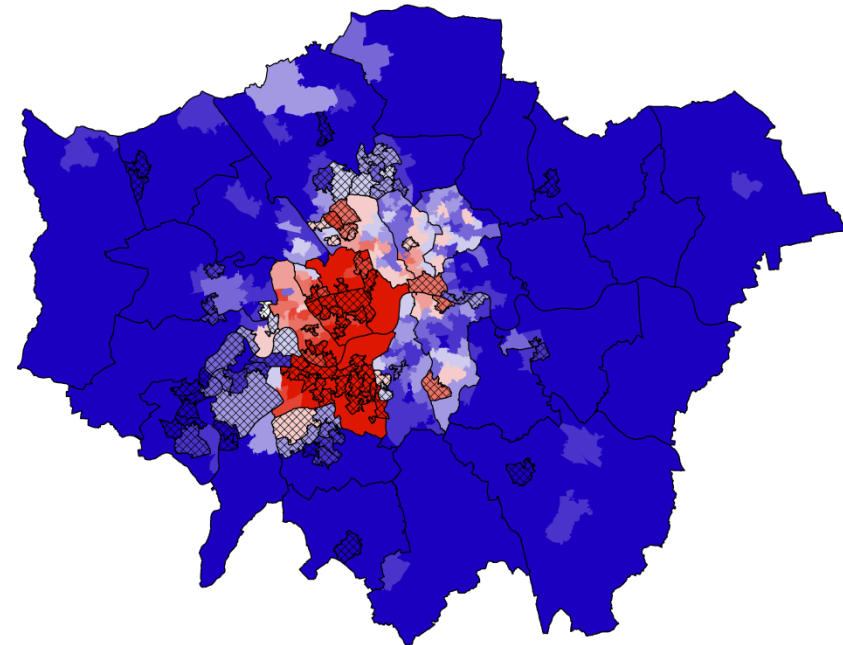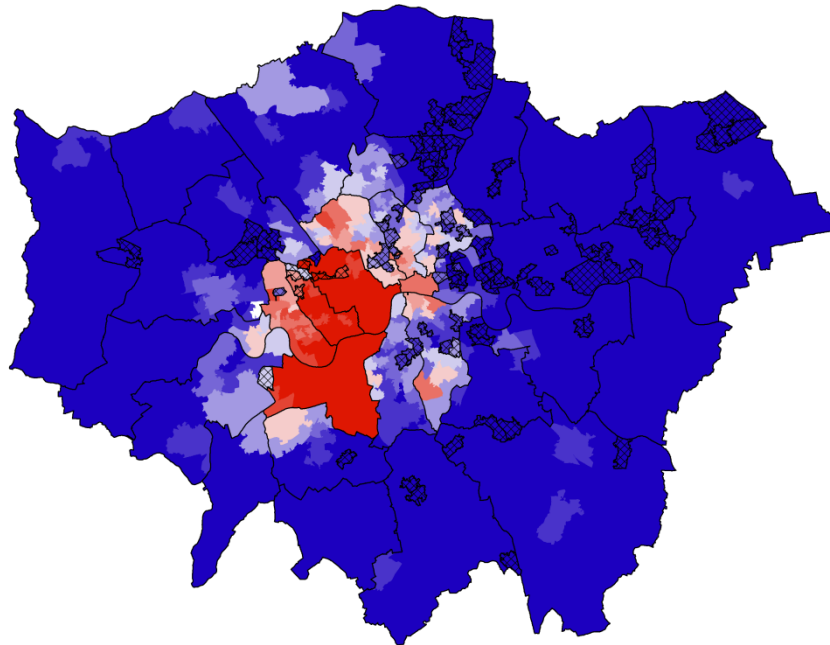
Legend

Percentage of households that are net gainers
- 80% to 100%
- 60% to 80%
- 40% to 60%
- 20% to 40%
- 0% to 20%

Percentage of households that are net losers
- 80% to 100%
- 60% to 80%
- 40% to 60%
- 20% to 40%
- 0% to 20%

Percentage of households that are neither net gainers or net losers
- Equal percentage of gainers and losers

Income decile
- Lowest/highest income decile

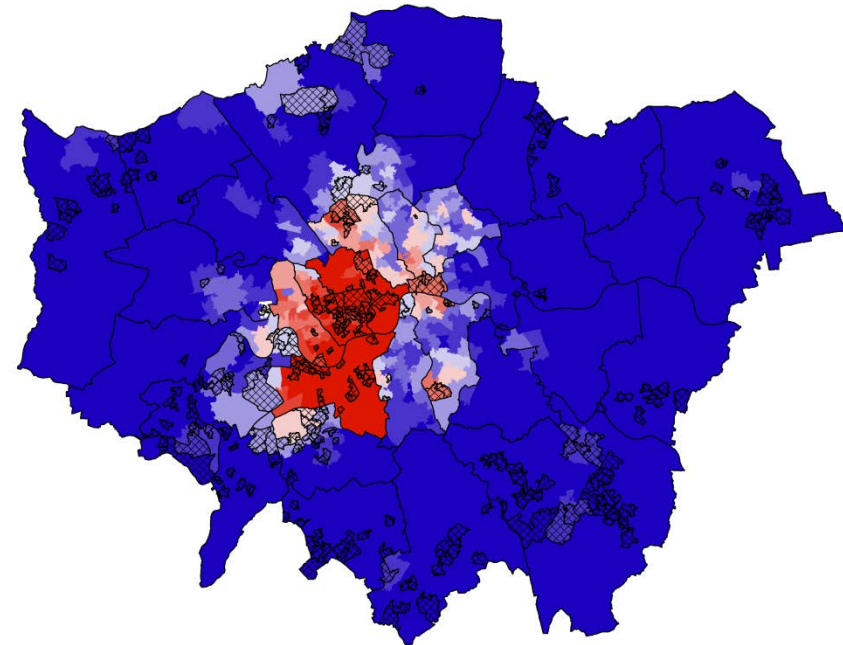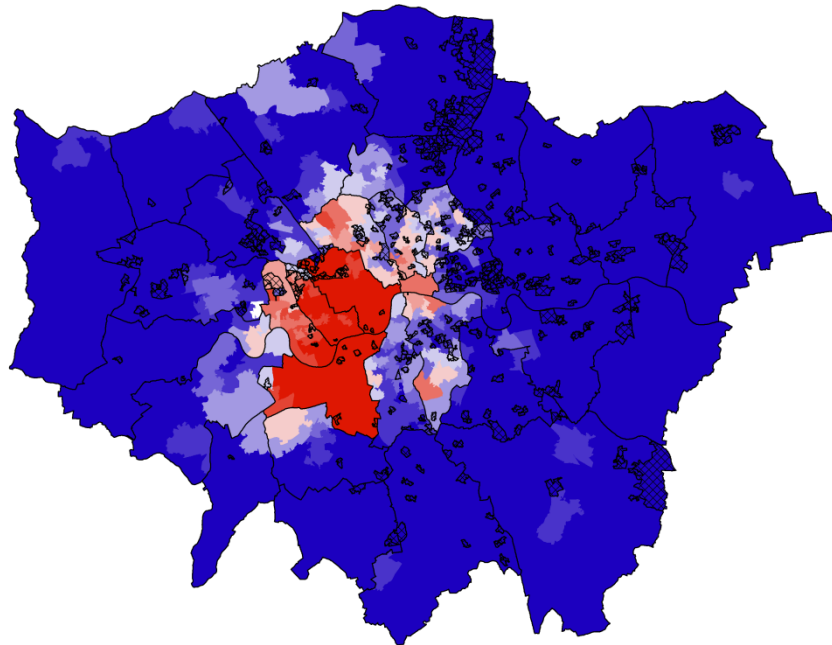*Source: GLA Economics, ONS small area model-based income estimates*

Income deprivation

An alternative measure of 'ability to pay' is income deprivation. This measures the proportion of people in an area who are living on low incomes. The definition of low income itself includes people who are out-of-work and those who are dependent on means-tested benefits such as Income Support, Income Based Job Seekers Allowance, and Child and Working Tax Credit[58].

The latest estimates of income deprivation are from DCLG English Indices of Deprivation 2015 release (IMD2015), with most indicators referring to 2012-13 and only available at the lower super output area (LSOA)[59]. As MSOAs often contain several LSOAs, these estimates do not necessarily correlate with the council tax distributional analysis presented in this paper.

Map A4.6 shows the distribution of income deprivation across London according to the IMD2015. Overall, more than a quarter (25.1 per cent) of LSOAs in London were among the 20 per cent most income deprived areas in England. However, there is quite significant variation across London (and even across boroughs). For example, London also contains some of the least income deprived LSOAs, mostly in inner London boroughs of Westminster, City of London and Southwark.

Map A4.6: Income deprivation domain by London LSOA, 2015
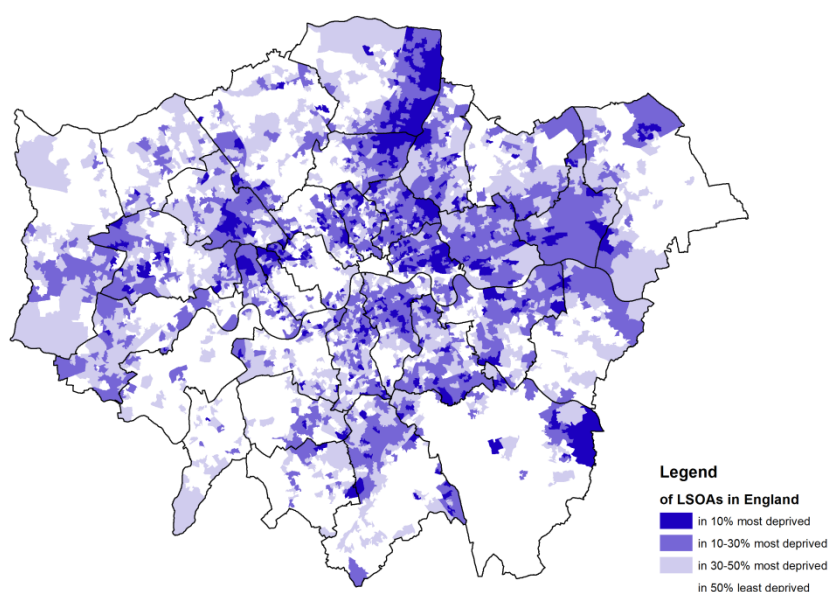
Source: DCLG Indices of Deprivation

Following a similar approach to the above, Map A4.7 show the net impact of reform Option 2a by MSOA in London with the top 10 per cent most deprived LSOAs in England. In contrast, Map

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[58] See GLA Intelligence Briefing Note 2016-01 for more information about the definition of income deprivation. Available at: http://data.london.gov.uk/dataset/indices-of-deprivation-2015/resource/ce3afc23-78ce-4df5-b035-96bb06b0a2e2#
[59] DCLG (2015). The English indices of deprivation 2015. Available at: https://www.gov.uk/government/statistics/english-indices-of-deprivation-2015

A4.8 shows the net impact with the top 10 per cent least deprived LSOAs in England. Like with comparing the distributional impact with household income, there appears to be little correlation between areas that are net gainers and areas that are most income deprived and vice versa.

That said, despite a few exceptions, the most deprived areas are likely to see a reduction in council tax bills if a flat tax rate is implemented as shown in Map A4.9.

Map A4.7: Net impact of Option 2a by London MSOA and top 10 per cent most income deprived LSOAs in England

Map A4.8: Net impact of Option 2a by London MSOA and top 10 per cent least income deprived LSOAs in England

Legend

Percentage of households that are net gainers
- 80% to 100%
- 60% to 80%
- 40% to 60%
- 20% to 40%
- 0% to 20%

Percentage of households that are net losers
- 80% to 100%
- 60% to 80%
- 40% to 60%
- 20% to 40%
- 0% to 20%

Percentage of households that are neither net gainers or net losers
- Equal percentage of gainers and losers

Income deprivation
- Most/least income deprived LSOAs in England

Source: GLA Economics, ONS small area model-based income estimates

Map A4.9: Net impact of Option 6a by London MSOA and top 10 per cent most income deprived LSOAs in England

Map A4.10: Net impact of Option 6a by London MSOA and top 10 per cent least income deprived LSOAs in England

Legend

Percentage of households that are net gainers
- 80% to 100%
- 60% to 80%
- 40% to 60%
- 20% to 40%
- 0% to 20%

Percentage of households that are net losers
- 80% to 100%
- 60% to 80%
- 40% to 60%
- 20% to 40%
- 0% to 20%

Percentage of households that are neither net gainers or net losers
- Equal percentage of gainers and losers

Income deprivation
- Most/least income deprived LSOAs in England

Source: GLA Economics, ONS small area model-based income estimates

Income deprivation affecting children and older people
The income deprivation indicator can be split into two additional measures looking at income deprivation affecting children and older people. The former is defined as the proportion of children aged 0-15 years living in income deprived families, whereas the latter is defined as the proportion of all people aged 60 years and over who experience income deprivation. As these indicators are a subset of the main indicator deprivation measure, they all have similar distributions though there are main areas with income deprivation affecting children and older people (Map A4.11).

Map A4.11: 10 per cent most income deprived LSOAs in England for London, 2015
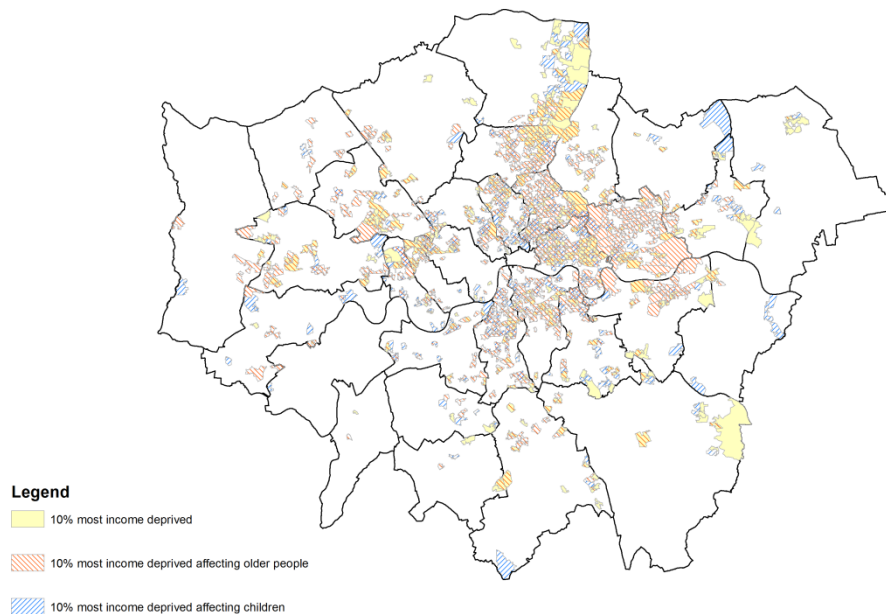
Source: DCLG Indices of Deprivation

Focussing on Option 6a – the flat council tax rate – which seems to have a better relationship with income deprivation, Maps A4.12 and A4.13 show the distributional impact of this reform with income deprivation affecting children and older people respectively. For both these groups, more areas would be negatively affected by the flat tax, in particular areas around Battersea and Clapham Junction in Wandsworth and Old Oak in Hammersmith & Fulham.

Map A4.12: Net impact of Option 6a by London MSOA and top 10 per cent most income deprived affecting children LSOAs in England

Map A4.13: Net impact of Option 6a by London MSOA and top 10 per cent least income deprived affecting older people LSOAs in England
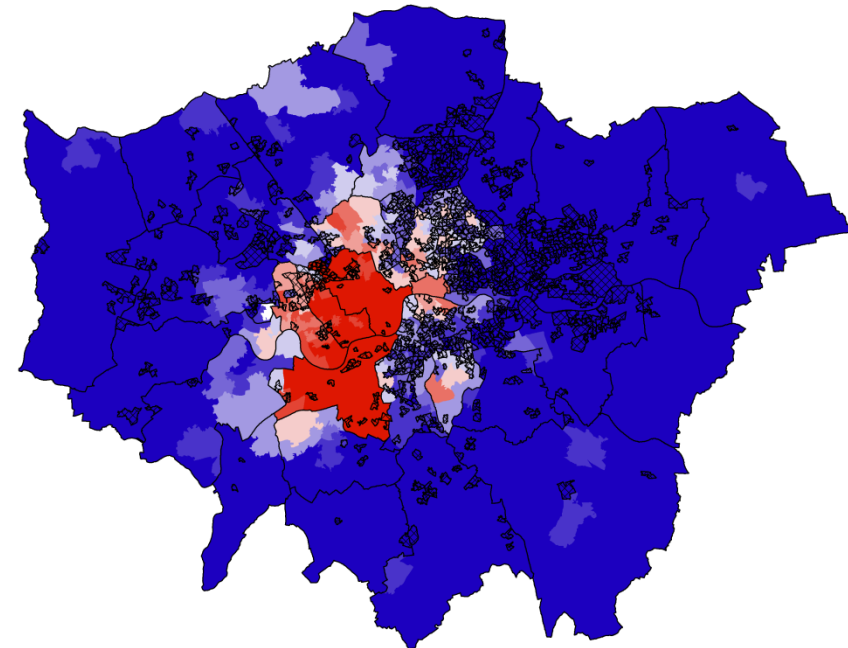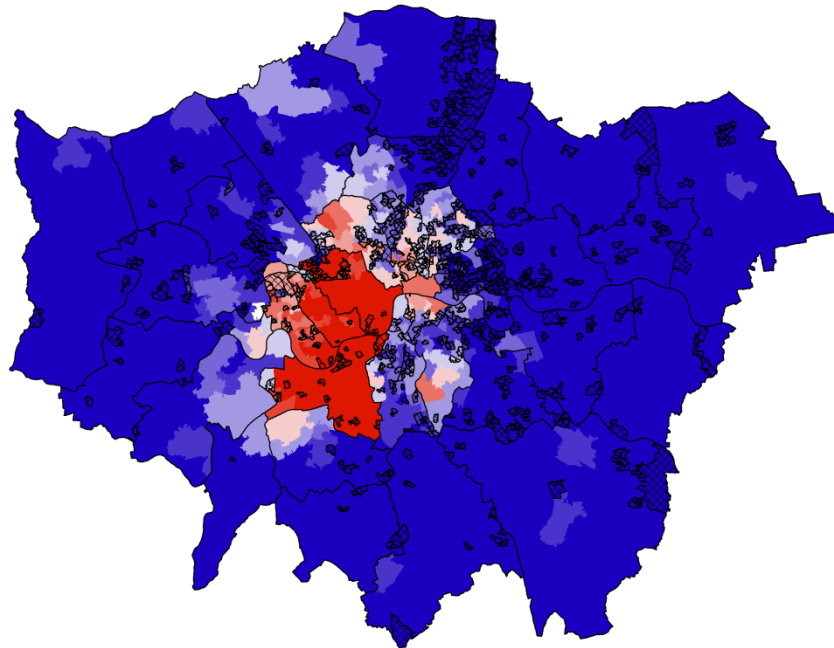
Legend

Percentage of households that are net gainers
- 80% to 100%
- 60% to 80%
- 40% to 60%
- 20% to 40%
- 0% to 20%

Percentage of households that are net losers
- 80% to 100%
- 60% to 80%
- 40% to 60%
- 20% to 40%
- 0% to 20%

Percentage of households that are neither net gainers or net losers
- Equal percentage of gainers and losers

Income deprivation
- Most/least income deprived LSOAs in England

*Source: GLA Economics, ONS small area model-based income estimates*

Index of multiple deprivation

The Index of Multiple Deprivation (IMD) is a weighted composite measure of seven distinct dimensions of deprivation and as such is a more comprehensive indicator. This includes:

- Income deprivation (discussed above)
- Employment deprivation
- Health deprivation and disability
- Education, skills and training deprivation
- Barriers to housing and services
- Living environment deprivation
- Crime

Map A4.14 shows the distribution of IMD by LSOA across London. IMD is widely distributed across London and, unlike with income deprivation, relatively few areas are in the top 10 per cent most deprived areas in England (though 22.5 per cent are in the top 20 per cent most deprived areas). Nonetheless, LSOAs with higher levels of multiple deprivation appear to be clustered in the north-east of London.

**Map A4.14: Index of Multiple Deprivation by London LSOA, 2015**
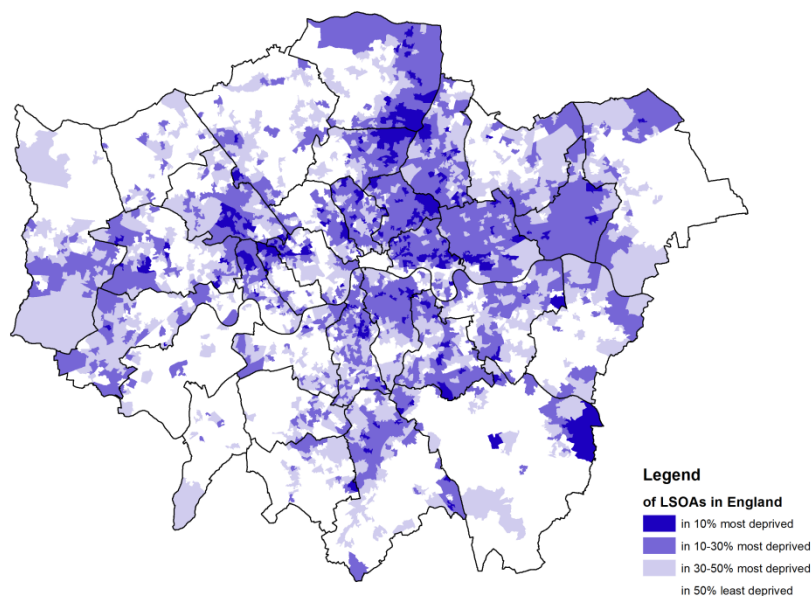
Source: DCLG Indices of Deprivation 2015

Maps A4.15 and A4.16 compare the distributional impact of Option 2a and 6a with London's top 20 per cent most deprived areas in England. Again, Option 2a results in a large number of deprived areas being net losers from this reform, whereas fewer are negatively affected by Option 6a.

Map A4.15: Net impact of Option 2a by London MSOA and top 20 per cent most deprived LSOAs in England

Map A4.16: Net impact of Option 6a by London MSOA and top 20 per cent most deprived LSOAs in England
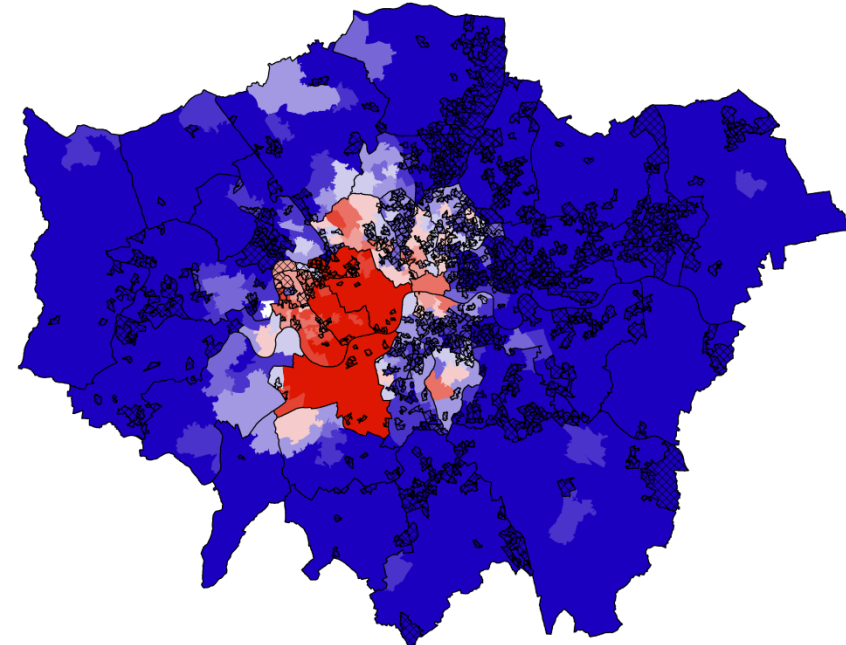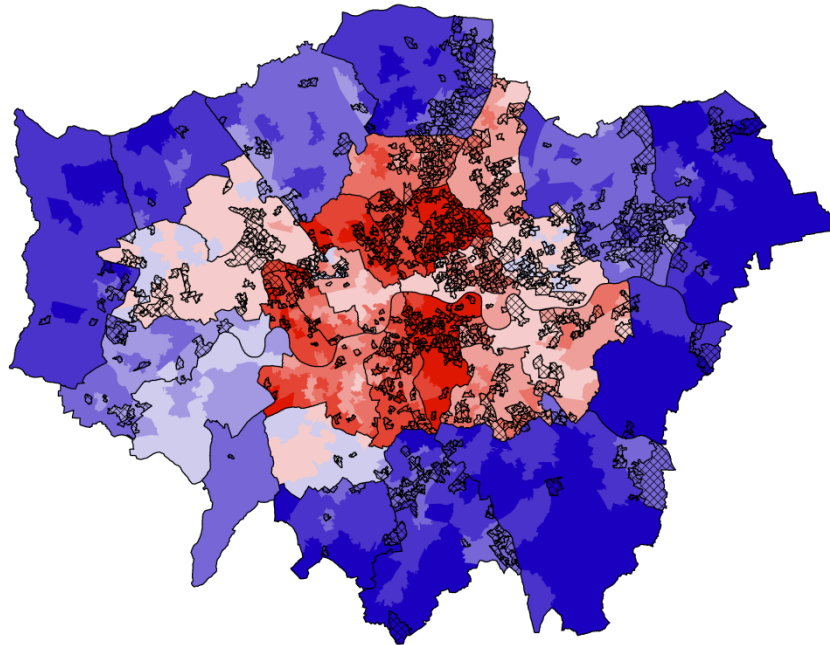
Legend

Percentage of households that are net gainers
- 80% to 100%
- 60% to 80%
- 40% to 60%
- 20% to 40%
- 0% to 20%

Percentage of households that are net losers
- 80% to 100%
- 60% to 80%
- 40% to 60%
- 20% to 40%
- 0% to 20%

Percentage of households that are neither net gainers or net losers
- Equal percentage of gainers and losers

Multiple deprivation
- Most/least deprived LSOAs in England

Source: GLA Economics, ONS small area model-based income estimates

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