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From: R T J Wilson
22 September 1989

MR GRAY

P 03534

TRANSITIONAL RELIEF FOR THE COMMUNITY CHARGE

1. At the Prime Minister's meeting on 14 September the Cabinet Office were asked to chair an official group to analyse possible schemes of transitional relief from the Community Charge.

2. We have done some intensive work on this with the Treasury, the Department of the Environment and the Department of Social Security and will be circulating a paper in final form next Tuesday in preparation for the Prime Minister's meeting on Thursday.

3. I attach a copy of the latest draft of the paper. It needs further refinement, in particular of the figures, but the Prime Minister might find it helpful to see where we have got to. The draft is being shown in parallel to the Chancellor of the Duchy of Lancaster, the Secretary of State for the Environment, the Chief Secretary and the Secretary of State for Social Security.

4. The kernel of the paper is in paragraphs 14 to 17, which set out eight options, and table 2 which costs them on two different bases. Option V which concentrates relief on former ratepayers and pensioners living with them may be the nearest to what the Prime Minister had in mind at the last meeting.

5. There are two further points which the Prime Minister may wish to note.

6. First, legislation will be needed. It would be highly convenient if this could take the form of general enabling provisions in the Local Government and Housing Bill this Session,

rather than a new, urgent and contentious Bill next Session, but the Department of the Environment are very concerned about the risks which this would involve. I think it would be helpful if they could consult Parliamentary Counsel before decisions are taken.

6. Second, setting up a scheme will be a considerable administrative task. The Prime Minister may feel that the arguments at present point in the direction of asking local authorities to undertake the task, rather than the Government setting up a central unit for the purpose. Whatever route is taken it will be important to stand back from the detail before any decision is taken and make sure that it is practicable and sufficiently simple.

RW.

R T J WILSON

No. 10

DRAFT: 22 September

LOCAL AUTHORITY GRANT SETTLEMENT

TRANSITIONAL RELIEF FOR THE COMMUNITY CHARGE

Note by the Cabinet Office

1. We were asked to consider the scope and extent of individual losses from the introduction of the community charge and to analyse possible options for transitional relief.

INTRODUCTION

2. We have concentrated first, on establishing the extent of the losses; second, on devising and costing a variety of options; and third, on taking a preliminary look at their administration. We have not addressed affordability but it is an important aspect which Ministers will wish to consider. If Ministers decide that further action and therefore expenditure is necessary, this will need to be taken into account in the Survey.

3. Practical considerations will also be important. In an ideal world any scheme of relief should take the form of lower community charge bills for selected groups next April. In practice, however, local authorities do not have the legal power to set different community charges for different categories of people, and have been prevented by data protection legislation from putting on computer the information which would enable them to identify, say, couples and pensioners.

as opposed to households will

4. This means that legislation will be needed, at the very least to give local authorities the necessary powers; that any scheme for individuals ~~would~~ have to be based on their applying for relief rather than automatically being given it; and that it may have to take the form of full community charges being sent out next April, with relief following later. It will be important to cut down as much as possible the expense and

bureaucracy, and to minimise the risk of disrupting local authority arrangements for introducing the community charge and the rebate system. Administrative simplicity may also point to calculating relief before community charge rebates are deducted, not after. These points are considered further below.

SCOPE AND EXTENT OF LOSSES

Losers

5. There will be approximately 36 million individuals in England liable to the community charge of whom about 19 million formerly paid rates. Over 11 million are partners of someone who previously paid rates and can be considered to have made a contribution. Roughly 6 million are first-time payers.

6. The Government has already put in place arrangements for community charge benefit which will be available to 11 million chargepayers and will finance nearly £1.6 billion of the £9.7 billion of expenditure expected to be raised by community charges: see Annex A attached. This is in addition to Government funding through income support - around £0.5 billion.

7. We have considered how many losers there will be after payment of community charge benefit. This analysis concentrates primarily on losses at the level of the 'charge unit': that is, single people and couples (who are jointly and severally responsible for each others' community charges). But we have also made some assessment of the impact on households: see Annex C.

8. The number of losers and size of losses also depend on the basis of comparison between rates and community charges. For the purposes of illustration we have selected two out of the many possible bases:

i. a "cash basis". Actual rate bills in 1989-90 have been compared with community charge bills for 1990-91, on the assumption that spending is 7% above 1989-90 budgets;

ii. a "real terms" basis". 1989-90 rate bills have been uprated by 7% and compared with community charge bills, again on the assumption that spending is 7% above 1989-90 budgets.

The results are summarised in table 1, overleaf.

9. On the "cash" basis about 14.5 million single adults or couples (charge units) would lose from the introduction of the charge after taking account of their entitlement to community charge benefit. Roughly half would be single people and half couples. About 8.5 million single adults or couples would lose more than £2 a week. About 2.3 million of them would be single pensioners or pensioner couples, but most of them would lose less than £2 a week because they are entitled to community charge benefit.

10. On the "real terms" basis about 13.5 million single adults or couples would be losers, of whom 7.7 million would lose more than £2 a week. Just over half the losers on this basis would be single people. 1.7 million pensioner single adults or couples would lose.

11. Both distributions show a bunching of losers in the £5-£7 a week region. These are mainly single people who have not previously paid rates and with incomes above benefit levels.

Proportion of expenditure met by chargepayers (annex B)

12. Ministers asked whether there had been an increase in the 25 per cent of local authority expenditure to be financed from the community charge. Annex B sets out the position. It concludes that if authorities' expenditure is at the level assumed in the settlement for 1990-91, 24.7% will have to be met by chargepayers. If authorities spend above the settlement level assumed in the settlement, the proportion will be higher: for example, at 7 per cent it would be 26.6%. (For comparison the

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IMPACT OF THE COMMUNITY CHARGE WITH SAFETY NET — Table 1

IN CASH TERMS

Breakdown of Gainers and Losers

	Single pensioner	Single parent	Other single	Pensioner couple	Couple with no children	Couple with children	Total
	Charge units (thousands)						
Loss of over £ 8	0	1	64	6	86	79	237
Loss of £ 5 to £ 8	98	15	2875	99	446	398	3930
Loss of £ 4 to £ 5	49	7	881	87	279	307	1610
Loss of £ 3 to £ 4	34	4	214	120	382	383	1137
Loss of £ 2 to £ 3	69	12	330	156	487	542	1596
Loss of £ 1 to £ 2	275	59	1021	246	526	651	2778
Loss of £ 0 to £ 1	539	68	659	542	621	851	3280
Losers : Number	1064	164	6044	1257	2827	3212	14568
: Percentage	26%	20%	68%	58%	67%	64%	58%
Gain of £ 0 to £ 1	1331	318	672	387	376	468	3551
Gain of £ 1 to £ 2	514	101	453	164	259	361	1851
Gain of £ 2 to £ 5	730	156	1073	234	478	558	3229
Gain of over £ 5	379	96	621	115	292	406	1909
Gainers : Number	2954	670	2819	899	1405	1792	10539
: Percentage	74%	80%	32%	42%	33%	36%	42%

IN REAL TERMS

Breakdown of Gainers and Losers

	Single pensioner	Single parent	Other single	Pensioner couple	Couple with no children	Couple with children	Total
	Charge units (thousands)						
Loss of over £ 8	0	1	64	6	72	64	207
Loss of £ 5 to £ 8	98	15	2875	84	360	335	3766
Loss of £ 4 to £ 5	49	7	880	46	241	222	1443
Loss of £ 3 to £ 4	34	3	198	113	300	341	990
Loss of £ 2 to £ 3	49	11	311	124	410	409	1314
Loss of £ 1 to £ 2	271	57	985	242	499	605	2659
Loss of £ 0 to £ 1	450	58	628	508	604	846	3094
Losers : Number	951	151	5940	1123	2486	2821	13473
: Percentage	24%	18%	67%	52%	59%	56%	54%
Gain of £ 0 to £ 1	1312	294	595	413	469	553	3637
Gain of £ 1 to £ 2	562	119	460	195	330	412	2079
Gain of £ 2 to £ 5	733	154	1046	280	558	684	3454
Gain of over £ 5	459	116	822	144	389	534	2464
Gainers : Number	3067	683	2923	1033	1746	2183	11634
: Percentage	76%	82%	33%	48%	41%	44%	46%

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proportion of expenditure met by domestic rates in 1989-90 was 23.1% for spending at settlement, and 25.0% under the actual budgets set by authorities.)

13. All these figures are based on community charges net of rebates, consistent with previous calculations. Including the £1.6bn of charges met by rebates would increase the proportion of expenditure met by gross charges to about 30%.

TRANSITIONAL RELIEF

Illustrative costings (annex C)

14. We have prepared illustrative costings of a number of possible schemes of transitional relief. They all involve a comparison between the 1989-90 rate bill on a property and the 1990-91 community charge liability of some or all of the occupants (irrespective of how long they have lived there).

15. Basing relief on actual community charges in 1990-91 would be more readily understandable by the public. But the pressures of local accountability would be much weakened. Local authorities could increase their spending in the knowledge that some charge payers would be protected by transitional relief. The Government would have underwritten local authority spending with a blank cheque.

16. We have therefore assumed that the Government would want to pay relief on the basis of the community charge for a defined level of spending. Charge payers not on rebate would have to meet in full the costs of spending above this level, even if they were eligible for transitional relief. We have based the illustrative costings on the "cash" and "real terms" bases described above.

17. The illustrative costings cover:

Option I. All adults in a household would be eligible, on the assumption that they had previously shared the cost of rates on their dwelling equally between them. A threshold would allow losses of £2 per week for each adult in the household, with full protection above that level up to the notional community charge. The relief would be calculated before community charge rebates: this would increase the cost, but would be offset partially by a saving in rebate costs (and caseload). (Example: six adults in a house where the rates for 1989-90 had been £450 and the community charge based on spending 7 per cent above budgets was £300 would each have to pay one-sixth of £450 plus £2 per week, or £179 each. They would receive relief of £121 each. If the actual community charge turned out to be £320, each adult would have to pay a further £20 as well.)

Option II. This is identical to option I, except that relief would be calculated after community charge rebates. The cost would be lower, but there would be no saving in rebate costs or caseload. (All the remaining options are also calculated after rebates.)

Option III. All couples and single adults would be eligible. In each household, one adult or couple would be assumed to have paid the rates previously. Other couples or adults would be assumed to be paying for the first time. The threshold would allow losses of £2 per week for each couple or single adult, with full protection above that level. (Example: in the same household the main couple who had previously been paying rates would be liable for two community charges totalling £600 and would have to contribute £450 (the previous level of rates) plus £2 per week, or £277 each, the balance of £23 being covered by relief. The other householders would each only have to pay £2 per week, the balance of £196 being covered by relief.)

Option IV. Only the first couple or single adult in a household would be eligible. They would be assumed to have paid the rates in the past, and the threshold would allow losses of £2 per week per couple or adult. Subsequent couples or adults living in the same household would receive no help. (Example: in the same household, the couple who had previously paid the rates would still receive relief of £23 each, as before. The other householders would pay the full community charge each.)

<u>Option V</u>. This is identical to scheme IV, except that all pensioners would also be eligible for help, whether or not they were classed as the first couple or adult in the household. (Example: in the same household the main couple (not pensioners) would continue to receive relief of £23 each. Any of the other adults who was a pensioner would have to contribute £2 per week to their community charge but would get relief of £196. All non-pensioner adults would pay the full community charge without relief.)

<u>Option VI</u>. This is identical to scheme V, but the threshold allows losses of £4 for couples, double the rate for single adults. (Example: the main couple would between them be liable for up £450 plus £4 per week and would get no relief. The pensioner would still get relief of £196.)

<u>Option VII</u>. All couples and single adults would be eligible on the same basis as under Option III, but only if they were entitled to community charge benefit. The threshold would allow losses of £2 per couple or adult after benefit payments.

<u>Option VIII</u>. This is identical to option VII, except that eligibility would be further restricted to people in certain vulnerable groups who are also eligible for rebates (for example, pensioners, widows, families with children, and the disabled).

18. Table 2 shows the illustrative costings of these schemes, and the caseload, on each of the two alternative bases for measuring losses. More detail, including the effects on numbers of losers in different categories, is in Annex C. The figures relate to 1990-91, and would fall as the transitional protection was phased out in later years.

19. The cost of administering a scheme could be substantial (see below) and would need to be added to the figures in the table. The cost would differ considerably between the options and would not be proportionate to caseload.

20. The £2 per week threshold has been adopted in each of these options solely to illustrate the overall cost but is in no way the only possibility. If the threshold were lower there would be a corresponding increase in the illustrative costings. A higher threshold would reduce the costings. Table 3 in Annex C shows the effect of adopting thresholds of £3, £4 and £5 respectively under each option (the threshold for the DSS housing benefit transitional protection was £2.50 per week). Another approach would be to meet only, say, 50% of losses above the threshold. This would halve the cost of any scheme, but leave some community charge payers with substantial losses even after transitional relief.

21. Option I differs from the other illustrative costings because relief is calculated before rebates. Under this option the threshold is in effect income-related, rising from 20 per cent of the nominal figure (eg 40p with a £2 threshold) for those on income support, to the full amount (eg £2) for people not entitled to rebates. This approach could be applied to any other option, except those restricted to benefit recipients.

22. Much further work would be needed if any of these schemes were to be adopted. Ministers will wish to decide what further work they want done, bearing in mind the issues of operational feasibility, discussed below, as well as:

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TABLE 2

SUMMARY OF ILLUSTRATIVE COSTINGS - £2 THRESHOLD

Basis of comparison of bills/community charges	Cash comparison: actual rate bill vs charge with spending 7% above budget			Real terms comparison: rate bill plus 7% vs charge if spending 7% above budget		
		Caseload ('000)			Caseload ('000)	
	Cost £m	Households or charge units*	Adults	Cost £m	Households or charge units	Adults
Universal options:						
(i) Limiting losses to+ £2 per adult in household before benefit.	1060	5160	10370	950	4360	8720
(ii) Limiting losses to £2 per adult in household after benefit.	870	3190	6360	740	2660	5290
(iii) Limiting losses to £2 per charge unit.	1260	8510	12370	1170	7720	10850
Selective options:						
(iv) Limiting losses to £2 where charge unit includes a former ratepayer. No relief for non-ratepayers.	450	4100	7870	360	3310	6350
(v) As (iv) but relief also for pensioners who were not ratepayers.	480	4310	8100	390	3520	6580
(vi) As (v) but limiting losses to £2 for single people and £4 for couples.	200	2250	3980	160	1830	3200
(vii) As (iii) but relief limited to those entitled to community charge benefit.				70	740	950
(viii) As (vii) but relief limited to vulnerable groups (pensioners, families with children, disabled etc).				20	240	400

+ Net of estimated flowback from community charge benefit cost

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See amended version attached overleaf.

i. <u>public expenditure implications</u>. If the cost were met entirely by the Exchequer it would score as an addition to the Planning Total. This would require offsetting savings elsewhere, exacerbating what is already a very difficult public expenditure round. Alternatively part of the cost could be found within the existing total of Aggregate Exchequer Finance (AEF) for local authorities, cutting the addition to the Planning Total. But this would result in higher community charges everywhere, adding to the overall cost of transitional relief, and to the RPI. In either case there would be no addition to General Government Expenditure (GGE) <u>unless</u> local authorities were encouraged by the existence of the scheme to spend more in the expectation that vulnerable charge payers would be protected from the results.

I'm not sure this is right for the former case - it is being checked. PRCG.

ii. <u>effectiveness in reducing losses for key groups</u>. Schemes I, II and III would give protection to all losers, whether or not they were previously ratepayers. Scheme III would be more generous overall, but those who had previously not paid rates would do better than former ratepayers. Scheme IV would confine help to ratepayers only: first time payers would have to pay the full charge immediately. Scheme V is similar but also helps all pensioners, whether or not they were previously ratepayers. Scheme VI is the same except that couples are expected to bear twice the loss of a single adult. Finally schemes VII and VIII provide protection for those eligible for community charge benefit or for vulnerable groups eligible for benefit.

AREA SAFETY NET (Annex D)

23. An additional question is what should happen to the safety net if any of the schemes were to be adopted. The Prime Minister's meeting on 14 September considered a proposal that

i. <u>public expenditure implications</u>. The cost would fall on the Exchequer and add to the Planning Total. It seems unrealistic to expect that any part of the cost of the transitional relief could be found within the existing total of Aggregate Exchequer Finance (AEF). In any case any such offset within AEF would result in higher community charges everywhere adding to the costs of transitional relief and to the RPI. The size of any addition to General Government Expenditure (GGE) would depend upon how local authorities responded to the availability of a transitional relief scheme. If local authorities set the same expenditure plans as they would have done otherwise, there would be no impact on GGE. But if, as could happen, some councils were encouraged by the existence of the scheme to set higher spending plans in the expectation that vulnerable chargepayers would be protected from the results, then GGE would be higher. In short there would be a risk of higher GGE with any scheme of transitional relief. In what is already a very difficult Public Expenditure Survey, this would require yet more difficult decisions in order to achieve the remit set by Cabinet.

additional Exchequer grant should be made available to finance the proposed area safety net, at a cost of about £650m. The implications for the numbers of losers from the community charge in 1990/91 are shown in Annex D. It shows that funding the area safety net reduces the number of losers by about one million, with about two-thirds of the money increasing the gains of people who are already gaining.

24. The area safety net is designed to limit increases in the <u>average</u> rate bill per adult in each local authority area. A sufficiently comprehensive scheme of transitional relief - for example scheme I II or III- might remove the rationale for such a safety net. It could then be dispensed with, a change which would respond to the strong representations of gaining authorities who would be contributors to the safety net: for example, Westminster's community charge for spending at the settlement level might drop from £303 to £228. At the same time there would be a substantial increase in the highest community charges in 1990-91: for example, Tower Hamlet's charge might rise from £240 to £513.

OPERATION OF SCHEMES (Annex E)

25. Administering a scheme of transitional relief would be a major administrative operation, particularly if one of the more comprehensive options were chosen. It would also involve risks, in terms of administrative costs per case and operational failure. Officials have considered two approaches: administration by central government or by local authorities.

26. A central government unit could be administered by a department with operational experience (eg. the Department of Social Security) on behalf of the Department of the Environment. The main points are:

i. <u>responsibilities</u>. The scheme would be seen to originate from central government and implementation would be under direct government control. Ministers would be answerable in Parliament and elsewhere for it. Local authorities would have to provide much of the information, and would be involved even in a centrally run scheme. It would probably be necessary to compel some authorities to give this help.

ii. logistics. A scheme involving 2-3 million claims could be expected to require a mainframe computer, a staff around 2000 (mainly new recruits) and appropriate accommodation (difficult to secure quickly on this scale), training and other inputs.

iii. timetable. It would probably not now be possible to have a scheme in operation earlier than about July 1990, 3 months after the introduction of the community charge. Even that would require some short cuts, for instance the suspension of normal rules on competitive tendering.

iv. administration costs. As a result of the short timetable, costs would be high. For a scheme with 2-3 million claims they are estimated at £60 to 85 million (and possibly as much as £100m) in 1990-91, and perhaps 30% and 50% less in years 2 and 3 respectively. All costings are uncertain at this stage.

27. The main points on administration by local authorities are:

i. responsibilities. The implementation of the scheme would depend on each individual local charging authority. Some might do a competent job, others might not. It would be less clear that the scheme was a Government initiative. Those authorities which are falling behind with their arrangements for introducing the community charge would use the new scheme as an excuse to shift the blame to the Government. But other authorities might prefer to do the job themselves, just as they would have preferred to have administered transitional protection for housing benefit themselves.

ii. <u>logistics</u>. The situation would vary between authorities. Some might manage with their existing computers, while some would need new facilities. Extra staff and accommodation would almost certainly be needed.

iii. <u>timetable</u>. The most competent authorities might get a scheme in operation earlier than July 1990. Others would be slower than a central body, and some might not have an effective scheme even within the first year of the community charge;

iv. <u>costs</u>. We are not able to cost these at present. Consultation with people in local authorities would be needed for an accurate costing. The costs would almost certainly need to be met through Exchequer grant.

28. <u>Ministers would need to decide whether a scheme of transitional relief should be administered by a central government body or by local authorities</u>.

LEGISLATION

29. Any scheme of transitional relief is almost certain to require new primary legislation, whether it is to be administered by a central agency or by local authorities.

30. The best solution, if it were practicable, would be to add the necessary provisions to the Local Government and Housing Bill in the Report Stage on that Bill which is due to begin in the House of Lords on 19 October. The provisions would take the form of broad enabling provisions, leaving the detail of the scheme to be spelled out in the subordinate legislation at a later date. DOE officials believe however that this course would be extremely risky. There could be no certainty that the enabling powers would

actual cover the precise scheme that was later to be drawn up; local authorities would scrutinise the legislation for possible grounds for challenge; and there might well need to be further legislation to put the matter right in the next Session. Subject to legal advice, now being sought, they consider therefore that it is now too late to introduce legislation in the current Session of Parliament, and that it would be necessary to introduce a separate Bill in the next Session.

31. It would be essential to ensure that the Bill was watertight, and that the scheme was exempt from legal challenge and other pitfalls. DOE officials believe that such a Bill could be prepared in time for introduction in mid-December. It would then be important to ensure that it was enacted on the fastest possible timescale. The implications of such a Bill for the 1989-90 legislative programme, which is already very heavy, would need to be considered.

IMPLICATIONS FOR THE RPI (annex F)

31. ~~32.~~ Annex F discusses the implications of a scheme of transitional relief for the RPI. It concludes that under existing groundrules set down by the RPI advisory committee any rebate or subsidy available only to a restricted group should be regarded as an income subvention and not be scored as a reduction in price.

Amended version

WALES AND SCOTLAND

32. The figures in this note are for England only. But we assume that Ministers would want any scheme to apply in Wales as well. Consideration would also need to be given to its extension to Scotland. There would be an expectation in Scotland that there would be a corresponding addition to public spending resources in Scotland. The legislative position would also need to be checked.

ANNEX A

HELP FOR INDIVIDUALS: EXISTING ARRANGEMENTS

1. Latest DSS estimates are that about 13 million chargepayers (in GB) will be eligible for community charge benefit and that take-up will be about 10½ million. On this basis, about 1 in 4 chargepayers will pay reduced bills, including over 4 million pensioners. This compares with 5 million ratepayers receiving help through rate rebates.

2. The cost of the scheme is estimated at nearly £2 billion in 1990-91, about £½ billion more than rate rebates. This assumes an average charge of £290. If the average charge were £325, the cost would rise to some £2¼ billion.

3. The extra cost compared with rate rebates arises from two factors. First, the larger number of people liable to pay community charge and thus eligible for help. Second, the decision already taken to cut the income taper from 20 per cent, which has applied for rate rebates, to 15 per cent. This means that, for every £1 increase in net income, a claimant loses only 15p of benefit instead of 20p. As a result of the cut in the taper, help will be available further up the income scale, and an additional 1 million chargepayers are likely to be eligible.

4. About 5 million people on income support will be entitled to the maximum 80 per cent rebate. But the scheme will also help those with incomes substantially above income support levels. Entitlements very according to net income, personal circumstances, and the level of community charge in the claimant's area. There are special arrangements for pensioners, the disabled, lone parents, and families with children, which mean that help for these groups extends further up the income scale. For example, the entitlement of a pensioner couple paying a community charge of £300 each would not run out until their net income passed £134 a week (a basic state pension, plus an average occupational pension of about £65 a week). This is £56 (or 70 per cent) above the income support level for a pensioner couple. A couple with 2 children (one under 11, one over 11) would be eligible until their net income passed £163 a week; this is 75 per cent of estimated average male earnings next year.

5. The attached table sets out these and other examples. It shows how the benefit cut-off point rises with a higher community charge, making more people eligible for help.

6. For those on benefit, 80 per cent of any increase in the charge is met by benefit. Thus, in the example, those eligible for benefit in an area with a charge of £350 instead of £300 would pay £10 of the extra charge themselves; £40 would be met by benefit.

7. In addition to the benefit scheme, provision has been included in income support to help people pay their minimum 20 per cent charge. This costs roughly £½ billion. In total, therefore, about £2½ billion is expected to be spent through the benefit system, equivalent to 25 per cent of the estimated income from the community charge.

19 September 1989

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ANNEX A

Community Charge Benefit: Maximum net income for eligibility: £ per week

	Annual community charge(£)	
	300	350
NON-PENSIONERS		
Single, aged under 25	61	66
Single, aged 25-59	69	74
Lone parent, 1 child under 11	107	112
Couple under 60, one partner disabled (no children)	151	161
Couple, 2 children: 1 under 11, 1 11-15	163	173
Couple, 3 children: 2 11-15, 1 16-17	191	201
PENSIONERS*		
Single, aged 60-74	76	81
Couple, aged 60-74	134	144
Couple, aged 75-79	137	148
Couple, 80+ or disabled	140	150

*Figures assume all income is unearned, so earnings disregards do not apply.

ANNEX B

Proportion of expenditure met by chargepayers

Government figures for the proportion of expenditure met by ratepayers/chargepayers in England have always included community charge rebates as part of Government grant. This is how the figures of chargepayers contributing 25% and government contributing 50% have been calculated. The figures for 1989/90 and 1990/91 are in the table below:

Burden on the domestic sector

		1989/90		1990/91		
		SETTLEMENT	BUDGETS	SETTLEMENT	BUDGETS plus 7%	BUDGETS plus 11%
Gross Total Standard Spend (£ billion)		29.5	31.6	32.8	33.8	35.1
Total met by Chargepayer (£ billion)	Gross:	8.3	9.4	9.7	10.7	12.0
	Net:	6.8	7.9	8.1	9.0	10.0
% met by Chargepayer	Gross:	28.1%	29.7%	29.6%	31.7%	34.2%
	Net:	23.1%	25.0%	24.7%	26.6%	28.5%

The 30% figure for England was quoted in the Secretary of State for the Environment's minute to the Prime Minister solely for comparability with the Scottish and Welsh percentages also quoted. The equivalent figures for Scotland and Wales net of rebates are not available.

The public, and correct, position will remain that if authorities spend at TSS then chargepayers will bear 25% of the cost of local spending.

But if authorities overspend then the proportion borne by chargepayers will of course be greater.

ANNEX C

MORE DETAILED ANALYSIS OF LOSSES COSTINGS; AND READY RECKONERS

1. Tables in this annex provide:

(a) a more detailed analysis of size of loss than in tables 1 and 2 of the main paper, for the cash and real terms comparisons between rate bills and safety netted community charges;

(b) ready reckoners to allow estimates of caseloads and costings of variants of the illustrative options in the main paper;

(c) further details of some of the costings in table 3 of the main paper.

2. The additional analysis is provided for three costings:

- <u>Costing I</u> is a cash comparison for charge units;

- <u>Costing II</u> is a real terms comparison for charge units;

- now attached <u>Costing III</u> is a cash comparison for households. NOT ~~YET AVAILABLE~~

3. There are two pages for each costing divided into four sections:

- <u>Section A</u> tabulates numbers of losers (in thousands) by size of loss. The bands of loss are finer than in table 1 of the main paper. Weekly losses up to £5 are tabulated in 50p bands and weekly losses between £5 and £10 are tabulated in £1 bands. Running down the first column of Section A of Costing I shows that, on this basis, no single pensioners are expected to lose more than £8 a week and that 10 thousand are expected to lose £7-£8, 24 thousand to lose £6-£7 and so on, giving 1063 single pensioner losers in all;

In costings I and II which are for charge unit based schemes, the rows show the range of loss per charge unit. Costing III is a household based scheme and here the rows show the range of loss per adult in the household.

- Section B cumulates the numbers of losers from Section A. Each cell of the table shows the number of that type of charge unit with losses greater than the lower limit of the loss band for the row. Running down the first column of Section B of Costing I shows that 10 thousand single pensioners have losses above £7, 33 thousand have losses above £6, 98 thousand above £5 and so on until at the bottom of the column 1063 single pensioners have some loss (ie the total in Section A).

This table can be used as a ready reckoner to estimate the caseload in numbers of chargepayers of the threshold for losses is set at a chosen level for each type of charge unit. For example, the fifth cell from the bottom of the final column shows that there would be a caseload of 8510 charge units with a threshold of £2 - the figure for option (iii) in the summary table of options in the main paper.

The caseload in number of adults can be found by multiplying the columns for couple charge units by two and adding to the columns for single charge unit.

This table can be used to identify the effect on caseload of setting different thresholds for different types of charge unit as in illustrative option (iv) of the main table.

- Section C on the second page of each costing is a cumulative table similar to that of Section B but shows the cumulative cost in £ million per year of setting different threshold levels. Running down the first column of Section C of Costing I shows that it would cost £ m to limit losses to single pensioners to £6 a week, £5m to limit them to £5 a week and so on until full protection against all losses for single pensioners would cost £86m a year.

Similarly the fifth figure from the bottom of the last column shows that it would cost £1257m a year to limit losses to £2 a week for all charge units - the (rounded) cost of illustrative option (iii) in the main paper.

This table can be used to identify the effect on annual costs of setting different thresholds for different types of charge units.

- <u>Section D</u> of the Costings I and II gives some illustrative costings and shows the sort of variations of thresholds that can be costed in the computer model.

Table (i) in their section shows for each type of charge unit:

(a) the threshold loss allowed;

(b) the annual cost of limiting losses for charge units which were <u>not</u> formerly ratepayers;

(c) the caseload in charge units of non-ratepayers;

(d) the annual cost of limiting losses for former ratepayers;

(e) the caseload in charge units of former ratepayers.

Table (ii) in this section shows:

(a) the caseload in charge units and adults and the annual cost of the chosen set of thresholds if relief applied to all charge units;

(b) equivalent figures for former ratepayers only;

(c) equivalent figures for charge units which were not formerly ratepayers.

The layout of Section D of Costing III is slightly different as more categories of household are shown. There is a single table which shows the threshold per adult for each household size/type; the caseload in households and adults for each; and the annual cost of giving protection to each.

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Annex C
cont

COSTING I: Cash comparison: protecting cash losses between 1989/90 rate bills & safety netted charges with 7% increase in spending

SECTION A — Breakdown of losers

ALL CHARGE UNITS	Single pensioner	Single parent	Other single	Pensioner couple	Couple with no children	Couple with children	Total
	Charge units (thousands)						
Loss of over £ 15	0	0	0	0	2	0	2
Loss of £ 10 to £ 15	0	0	30	0	21	25	76
Loss of £ 9 to £ 10	0	0	2	0	16	12	29
Loss of £ 8 to £ 9	0	1	33	6	48	42	130
Loss of £ 7 to £ 8	10	0	229	20	100	89	448
Loss of £ 6 to £ 7	24	8	920	31	135	106	1223
Loss of £ 5 to £ 6	64	7	1726	48	211	203	2259
Loss of £ 4.5 to £ 5	31	1	617	37	133	137	955
Loss of £ 4 to £ 4.5	19	6	264	50	146	170	655
Loss of £ 3.5 to £ 4	17	2	107	51	185	184	547
Loss of £ 3 to £ 3.5	17	2	107	69	197	199	591
Loss of £ 2.5 to £ 3	25	6	128	65	247	253	724
Loss of £ 2 to £ 2.5	44	6	202	91	240	289	872
Loss of £ 1.5 to £ 2	66	8	180	102	251	290	898
Loss of £ 1 to £ 1.5	209	51	841	144	275	361	1880
Loss of £ 0.5 to £ 1	144	18	411	269	325	444	1610
Loss of £ 0 to £ 0.5	394	50	247	273	295	407	1667
Losers : Number	1063	165	6043	1257	2826	3212	14566
: Percentage	26%	20%	68%	58%	67%	64%	58%
Gainers	2955	669	2820	899	1406	1792	10541
TOTAL	4018	834	8863	2156	4232	5004	25107

SECTION B

ALL CHARGE UNITS	Single pensioner	Single parent	Other single	Pensioner couple	Couple with no children	Couple with children	Total
	Cumulative numbers						
Loss of over £ 15	0	0	0	0	2	0	
Loss of £ 10 to £ 15	0	0	30	0	23	25	78
Loss of £ 9 to £ 10	0	0	32	0	38	37	107
Loss of £ 8 to £ 9	0	1	64	6	86	79	237
Loss of £ 7 to £ 8	10	1	293	26	187	168	685
Loss of £ 6 to £ 7	33	9	1213	56	321	274	1908
Loss of £ 5 to £ 6	98	16	2939	105	532	477	4167
Loss of £ 4.5 to £ 5	128	17	3556	142	665	614	5122
Loss of £ 4 to £ 4.5	147	22	3820	192	811	784	5777
Loss of £ 3.5 to £ 4	164	24	3927	243	996	969	6324
Loss of £ 3 to £ 3.5	181	26	4034	312	1193	1168	6914
Loss of £ 2.5 to £ 3	206	32	4162	377	1441	1421	7639
Loss of £ 2 to £ 2.5	250	38	4364	468	1680	1710	8510
Loss of £ 1.5 to £ 2	316	45	4544	571	1932	2000	9408
Loss of £ 1 to £ 1.5	525	96	5385	714	2207	2361	11288
Loss of £ 0.5 to £ 1	669	114	5796	983	2532	2805	12899
Loss of £ 0 to £ 0.5	1063	165	6043	1257	2826	3212	14566

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COSTING I: Cash comparison: protecting cash losses between 1989/90 rate bills & safety netted charges with 7% increase in spending

SECTION C	Single pensioner	Single parent	Other single	Pensioner couple	Couple with no children	Couple with children	Total
ALL CHARGE UNITS			Cumulative costs (£m annual)				
Loss of over £ 15	0	0	0	0	0	0	0
Loss of £ 10 to £ 15	0	0	2	0	3	2	7
Loss of £ 9 to £ 10	0	0	3	0	4	4	11
Loss of £ 8 to £ 9	0	0	6	0	7	7	20
Loss of £ 7 to £ 8	0	0	15	1	14	13	43
Loss of £ 6 to £ 7	1	0	52	3	27	24	107
Loss of £ 5 to £ 6	5	1	161	7	49	44	266
Loss of £ 4.5 to £ 5	8	2	246	10	64	58	387
Loss of £ 4 to £ 4.5	11	2	343	15	83	76	530
Loss of £ 3.5 to £ 4	15	3	444	20	107	99	687
Loss of £ 3 to £ 3.5	20	3	547	28	135	126	859
Loss of £ 2.5 to £ 3	25	4	653	37	169	160	1047
Loss of £ 2 to £ 2.5	31	5	764	48	209	200	1257
Loss of £ 1.5 to £ 2	38	6	880	61	256	249	1489
Loss of £ 1 to £ 1.5	48	8	1006	78	310	305	1755
Loss of £ 0.5 to £ 1	64	11	1153	99	371	372	2071
Loss of £ 0 to £ 0.5	86	14	1307	129	441	450	2427

SECTION D	Single pensioner	Single parent	Other single	Pensioner couple	Couple with no children	Couple with children
(a) Threshold	2.00	2.00	2.00	2.00	2.00	2.00
Non-Ratepayers						
(b) Cost (£m)	29	5	750	2	12	15
(c) Caseload (000s)	197	28	4105	12	33	37
Ratepayers						
(d) Cost (£m)	2	0	14	46	198	186
(e) Caseload (000s)	53	10	259	456	1647	1673

	Caseload Charge units	Caseload Adults	Cost £m
All charge units	8510	12369	1257
Ratepayers	4097	7873	445
Non-ratepayers	4413	4495	812

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COSTING II: Real terms comparison: protecting losses between 1989/90 rate bills + 7% & safety netted charges with 7% increase in spending

SECTION A

Breakdown of losers

ALL CHARGE UNITS — Charge units (thousands)

	Single pensioner	Single parent	Other single	Pensioner couple	Couple with no children	Couple with children	Total
Loss of over £ 15	0	0	0	0	2	0	2
Loss of £ 10 to £ 15	0	0	30	0	20	24	74
Loss of £ 9 to £ 10	0	0	2	0	11	8	20
Loss of £ 8 to £ 9	0	1	33	6	39	32	111
Loss of £ 7 to £ 8	10	0	229	17	73	64	392
Loss of £ 6 to £ 7	24	8	920	20	118	112	1202
Loss of £ 5 to £ 6	64	7	1726	46	170	159	2172
Loss of £ 4.5 to £ 5	31	1	611	23	110	92	868
Loss of £ 4 to £ 4.5	19	6	268	23	131	129	575
Loss of £ 3.5 to £ 4	15	2	90	55	136	160	459
Loss of £ 3 to £ 3.5	19	1	108	57	164	181	530
Loss of £ 2.5 to £ 3	18	5	105	63	189	176	555
Loss of £ 2 to £ 2.5	32	6	206	61	222	233	760
Loss of £ 1.5 to £ 2	71	6	156	93	251	265	842
Loss of £ 1 to £ 1.5	200	51	830	149	247	340	1817
Loss of £ 0.5 to £ 1	141	18	372	216	320	427	1494
Loss of £ 0 to £ 0.5	309	41	253	292	283	419	1597
Losers : Number	951	151	5938	1123	2485	2821	13470
: Percentage	24%	18%	67%	52%	59%	56%	54%
Gainers	3067	683	2925	1033	1747	2183	11637
TOTAL	4018	834	8863	2156	4232	5004	25107

SECTION B

ALL CHARGE UNITS — Cumulative numbers

	Single pensioner	Single parent	Other single	Pensioner couple	Couple with no children	Couple with children	Total
Loss of over £ 15	0	0	0	0	2	0	
Loss of £ 10 to £ 15	0	0	30	0	22	24	76
Loss of £ 9 to £ 10	0	0	32	0	32	32	96
Loss of £ 8 to £ 9	0	1	64	6	72	64	207
Loss of £ 7 to £ 8	10	1	293	23	144	127	599
Loss of £ 6 to £ 7	33	9	1213	44	262	240	1801
Loss of £ 5 to £ 6	98	16	2939	90	432	398	3973
Loss of £ 4.5 to £ 5	128	17	3550	113	542	491	4841
Loss of £ 4 to £ 4.5	147	22	3819	136	673	620	5417
Loss of £ 3.5 to £ 4	162	24	3909	191	809	780	5876
Loss of £ 3 to £ 3.5	181	25	4017	249	973	961	6406
Loss of £ 2.5 to £ 3	199	30	4121	312	1162	1137	6961
Loss of £ 2 to £ 2.5	231	36	4328	373	1384	1370	7720
Loss of £ 1.5 to £ 2	302	42	4483	465	1635	1635	8562
Loss of £ 1 to £ 1.5	502	93	5313	615	1882	1975	10379
Loss of £ 0.5 to £ 1	642	111	5685	831	2203	2402	11874
Loss of £ 0 to £ 0.5	951	151	5938	1123	2485	2821	13471

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COSTING II: Real terms comparison: protecting losses between 1989/90 rate bills + 7% & safety netted charges with 7% increase in spending

SECTION C

ALL CHARGE UNITS — Cumulative costs (£m annual)

	Single pensioner	Single parent	Other single	Pensioner couple	Couple with no children	Couple with children	Total
Loss of over £ 15	0	0	0	0	0	0	0
Loss of £ 10 to £ 15	0	0	2	0	2	2	7
Loss of £ 9 to £ 10	0	0	3	0	4	4	11
Loss of £ 8 to £ 9	0	0	6	0	6	6	19
Loss of £ 7 to £ 8	0	0	15	1	12	11	39
Loss of £ 6 to £ 7	1	0	52	2	22	21	99
Loss of £ 5 to £ 6	5	1	161	6	40	36	249
Loss of £ 4.5 to £ 5	8	2	246	8	53	48	364
Loss of £ 4 to £ 4.5	11	2	342	12	69	62	498
Loss of £ 3.5 to £ 4	15	3	443	16	88	81	645
Loss of £ 3 to £ 3.5	20	3	546	22	111	103	805
Loss of £ 2.5 to £ 3	25	4	652	29	139	130	978
Loss of £ 2 to £ 2.5	30	5	761	38	172	163	1169
Loss of £ 1.5 to £ 2	37	6	876	48	211	202	1380
Loss of £ 1 to £ 1.5	47	7	1001	62	256	249	1623
Loss of £ 0.5 to £ 1	62	10	1146	81	309	305	1913
Loss of £ 0 to £ 0.5	82	13	1297	106	370	373	2242

SECTION D

	Single pensioner	Single parent	Other single	Pensioner couple	Couple with no children	Couple with children
(a) Threshold	2.00	2.00	2.00	2.00	2.00	2.00
Non-Ratepayers						
(b) Cost (£m)	29	5	750	2	12	15
(c) Caseload (000s)	197	28	4105	12	33	37
Ratepayers						
(d) Cost (£m)	1	0	11	36	160	148
(e) Caseload (000s)	33	8	222	360	1350	1333

	Caseload Charge units	Caseload Adults	Cost £m
All charge units	7720	10847	1169
Ratepayers	3307	6351	356
Non-ratepayers	4413	4495	812

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COSTING III: Cash comparison : limiting loss per adult in household between 1989/90 rate bill and 1990/91 safety netted charges assuming 7% increase in spending

Breakdown of losers by household type

SECTION A

Households (thousands)

Loss per adult	Single pensioner	2 adult pensioner	Single parent	Other single adult	2 adults	3 adults	4 adults	5 adults	6 or more adults	Total
Loss of over £ 15	0	0	0	0	0	0	0	0	0	0
Loss of £ 10 to £ 15	0	0	0	0	0	0	0	0	0	0
Loss of £ 9 to £ 10	0	0	0	0	2	0	0	0	0	2
Loss of £ 8 to £ 9	0	0	0	0	1	0	0	0	0	1
Loss of £ 7 to £ 8	0	0	0	0	0	0	0	0	0	0
Loss of £ 6 to £ 7	0	0	0	1	2	2	1	1	0	9
Loss of £ 5 to £ 6	1	1	0	3	8	6	2	2	0	24
Loss of £ 4.5 to £ 5	0	0	0	6	19	13	16	1	0	55
Loss of £ 4 to £ 4.5	0	2	0	14	84	35	19	8	3	165
Loss of £ 3.5 to £ 4	2	23	0	35	188	88	63	10	1	409
Loss of £ 3 to £ 3.5	6	31	2	42	241	139	84	16	1	562
Loss of £ 2.5 to £ 3	12	52	2	56	402	210	104	18	7	864
Loss of £ 2 to £ 2.5	24	85	3	73	556	256	85	9	6	1097
Loss of £ 1.5 to £ 2	25	146	4	74	680	242	77	14	3	1264
Loss of £ 1 to £ 1.5	38	206	7	88	976	268	60	10	0	1653
Loss of £ 0.5 to £ 1	77	332	11	187	1091	265	57	4	2	2026
Loss of £ 0 to £ 0.5	387	580	48	216	1369	157	32	6	0	2795
Losers : Number	572	1458	77	795	5619	1681	601	98	24	10926
Percentage	19%	60%	12%	30%	67%	84%	94%	97%	95%	55%
Gainers	2439	960	544	1856	2710	332	37	3	1	8880
TOTAL	3011	2418	621	2651	8329	2013	637	101	26	19807

SECTION B

Cumulative numbers

Loss per adult	Single pensioner	2 adult pensioner	Single parent	Other single adult	2 adults	3 adults	4 adults	5 adults	6 or more adults	Total
Loss of over £ 15	0	0	0	0	0	0	0	0	0	0
Loss of £ 10 to £ 15	0	0	0	0	0	0	0	0	0	0
Loss of £ 9 to £ 10	0	0	0	0	2	0	0	0	0	2
Loss of £ 8 to £ 9	0	0	0	0	2	0	0	0	0	2
Loss of £ 7 to £ 8	0	0	0	0	2	0	0	0	0	2
Loss of £ 6 to £ 7	0	0	0	1	5	2	1	1	0	11
Loss of £ 5 to £ 6	1	1	0	4	13	9	4	4	0	35
Loss of £ 4.5 to £ 5	1	1	0	10	32	22	19	5	0	90
Loss of £ 4 to £ 4.5	1	4	0	24	116	57	39	12	3	256
Loss of £ 3.5 to £ 4	3	26	0	59	304	145	102	22	4	665
Loss of £ 3 to £ 3.5	9	57	2	101	545	283	186	38	5	1227
Loss of £ 2.5 to £ 3	21	110	4	157	948	493	290	56	13	2091
Loss of £ 2 to £ 2.5	45	195	7	230	1504	749	375	65	19	3188
Loss of £ 1.5 to £ 2	70	341	11	303	2183	991	452	79	22	4452
Loss of £ 1 to £ 1.5	108	547	18	392	3159	1259	512	89	22	6105
Loss of £ 0.5 to £ 1	185	878	29	579	4250	1524	568	92	25	8131
Loss of £ 0 to £ 0.5	572	1458	77	795	5619	1681	601	98	25	10926

COSTING III: Cash comparison : limiting loss per adult in household between 1989/90 rate bill and 1990/91 safety netted charges assuming 7% increase in spending

SECTION C

Loss per adult	Single pensioner	2 adult pensioner	Single parent	Other single adult	2 adults	3 adults	4 adults	5 adults	6 or more adults	Total
	Cumulative costs (£m annual)									
Loss of over £ 15	0	0	0	0	0	0	0	0	0	0
Loss of £ 10 to £ 15	0	0	0	0	0	0	0	0	0	0
Loss of £ 9 to £ 10	0	0	0	0	1	0	0	0	0	1
Loss of £ 8 to £ 9	0	0	0	0	1	0	0	0	0	1
Loss of £ 7 to £ 8	0	0	0	0	0	0	0	0	0	0
Loss of £ 6 to £ 7	0	0	0	0	2	2	2	2	0	7
Loss of £ 5 to £ 6	0	0	0	0	5	5	4	4	0	19
Loss of £ 4.5 to £ 5	0	0	0	0	10	12	16	6	0	44
Loss of £ 4 to £ 4.5	0	1	0	1	30	28	29	12	3	105
Loss of £ 3.5 to £ 4	0	6	0	2	72	64	67	21	4	236
Loss of £ 3 to £ 3.5	0	12	0	4	123	116	114	32	5	406
Loss of £ 2.5 to £ 3	1	22	0	7	199	185	164	44	11	634
Loss of £ 2 to £ 2.5	1	35	0	12	295	261	203	49	15	873
Loss of £ 1.5 to £ 2	3	55	0	19	404	328	235	56	17	1118
Loss of £ 1 to £ 1.5	5	80	1	28	536	391	259	61	0	1362
Loss of £ 0.5 to £ 1	9	111	1	40	674	449	280	64	19	1647
Loss of £ 0 to £ 0.5	18	149	3	58	821	495	297	67	0	1907

SECTION D

	Allowed loss	Caseload Households	Caseload Adults	Cost £m
TOTAL		3188	7866	873
Single pensioner	2.00	45	45	1
2 adult pensioner	2.00	195	390	35
Single parent	2.00	7	7	0
Other single adult	2.00	230	230	12
2 adults	2.00	1504	3007	295
3 adults	2.00	749	2246	261
4 adults	2.00	375	1502	203
5 adults	2.00	65	326	49
6 or more adults	2.00	19	113	15

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Table 3

ANNEX C
cont.

SUMMARY OF ILLUSTRATIVE COSTINGS - £3 THRESHOLD

Basis of comparison of bills/community charges	Cash comparison: actual rate bill vs charge with spending 7% above budget			Real terms comparison: rate bill plus 7% vs charge if spending 7% above budget		
		Caseload ('000)			Caseload ('000)	
	Cost £m	Households or charge units	Adults	Cost £m	Households or charge units	Adults
Universal options:						
(i) Limiting losses to+ £3 per adult in household before benefit.	560	2240	4450	460	1850	3620
(ii) Limiting losses to £3 per adult in household after benefit.	410	1230	2390	330	1000	1930
(iii) Limiting losses to £3 per charge unit.	860	6910	9590	800	6400	8590
Selective options:						
(iv) Limiting losses to £3 where charge unit includes a former ratepayer. No relief for non-ratepayers.	270	2730	5340	220	2220	4240
(v) As (iv) but relief also for pensioners who were not ratepayers.	290	2910	5530	240	2400	4530
(vi) As (v) but limiting losses to £3 for single people and £6 for couples.	60	890	1490	50	770	1260
(vii) As (iii) but relief limited to those entitled to community charge benefit.				40	440	570
(viii) As (vii) but relief limited to vulnerable groups (pensioners, families with children, disabled etc).				10	150	150

+ Net of estimated flowback from community charge benefit cost

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Table 3

ANNEX C
cont.

SUMMARY OF ILLUSTRATIVE COSTINGS - £4 THRESHOLD

Basis of comparison of bills/community charges	Cash comparison: actual rate bill vs charge with spending 7% above budget			Real terms comparison: rate bill plus 7% vs charge if spending 7% above budget		
		Caseload ('000)			Caseload ('000)	
	Cost £m	Households or charge units*	Adults	Cost £m	Households or charge units	Adults
Universal options:						
(i) Limiting losses to+ £4 per adult in household before benefit.	170	560	1130	130	440	860
(ii) Limiting losses to £4 per adult in household after benefit.	110	260	510	80	190	360
(iii) Limiting losses to £4 per charge unit.	530	5780	7560	500	5420	6850
Selective options:						
(iv) Limiting losses to £4 where charge unit includes a former ratepayer. No relief for non-ratepayers.	150	1750	3480	120	1390	2760
(v) As (iv) but relief also for pensioners who were not ratepayers.	170	1900	3640	140	1550	2920
(vi) As (v) but limiting losses to £4 for single people and £8 for couples.	20	300	410	20	260	350
(vii) As (iii) but relief limited to those entitled to community charge benefit.				20	270	360
(viii) As (vii) but relief limited to vulnerable groups (pensioners, families with children, disabled etc).				5	90	160

+ Net of estimated flowback from community charge benefit cost

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Table 3

ANNEX C

Cont.

SUMMARY OF ILLUSTRATIVE COSTINGS - £5 THRESHOLD

Basis of comparison of bills/community charges	Cash comparison: actual rate bill vs charge with spending 7% above budget			Real terms comparison: rate bill plus 7% vs charge if spending 7% above budget		
		Caseload ('000)			Caseload ('000)	
	Cost £m	Households or charge units	Adults	Cost £m	Households or charge units	Adults
Universal options:						
(i) Limiting losses to+ £5 per adult in household before benefit.	40	100	210	25	70	160
(ii) Limiting losses to £5 per adult in household after benefit.	20	40	80	15	30	60
(iii) Limiting losses to £5 per charge unit.	270	4170	5280	250	3970	4890
Selective options:						
(iv) Limiting losses to £5 where charge unit includes a former ratepayer. No relief for non-ratepayers.	80	1060	2120	65	870	1730
(v) As (iv) but relief also for pensioners who were not ratepayers.	90	1160	2220	70	970	1840
(vi) As (v) but limiting losses to £5 for single people and £10 for couples.	6	110	120	6	110	120
(vii) As (iii) but relief limited to those entitled to community charge benefit.				10	120	170
(viii) As (vii) but relief limited to vulnerable groups (pensioners, families with children, disabled etc).				5	40	80

+ Net of estimated flowback from community charge benefit cost

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ANNEX D

IMPACT OF THE COMMUNITY CHARGE WITH SAFETY NET FUNDED BY CENTRAL GOVERNMENT

IN CASH TERMS

Breakdown of Gainers and Losers

Charge units (thousands)

	Single pensioner	Single parent	Other single	Pensioner couple	Couple with no children	Couple with children	Total
Loss of over £ 8	0	1	51	4	67	70	192
Loss of £ 5 to £ 8	74	13	2252	77	363	334	3113
Loss of £ 4 to £ 5	64	7	1338	77	242	267	1995
Loss of £ 3 to £ 4	38	4	355	102	323	314	1136
Loss of £ 2 to £ 3	66	12	307	134	425	451	1393
Loss of £ 1 to £ 2	237	48	905	241	463	567	2460
Loss of £ 0 to £ 1	519	70	751	494	607	802	3243
Losers : Number	998	155	5958	1130	2489	2804	13533
: Percentage	25%	19%	67%	52%	59%	56%	54%
Gain of £ 0 to £ 1	1331	308	659	410	424	532	3663
Gain of £ 1 to £ 2	535	110	445	194	322	397	2003
Gain of £ 2 to £ 5	728	149	1079	267	608	729	3561
Gain of over £ 5	426	112	722	155	389	542	2347
Gainers : Number	3020	679	2905	1026	1743	2201	11574
: Percentage	75%	81%	33%	48%	41%	44%	46%

IN REAL TERMS

Breakdown of Gainers and Losers

Charge units (thousands)

	Single pensioner	Single parent	Other single	Pensioner couple	Couple with no children	Couple with children	Total
Loss of over £ 8	0	1	51	4	57	57	170
Loss of £ 5 to £ 8	74	13	2252	64	304	278	2985
Loss of £ 4 to £ 5	64	7	1337	44	203	192	1847
Loss of £ 3 to £ 4	38	3	346	98	253	293	1032
Loss of £ 2 to £ 3	46	11	279	117	356	334	1144
Loss of £ 1 to £ 2	230	46	881	201	432	530	2320
Loss of £ 0 to £ 1	436	64	711	478	559	772	3018
Losers : Number	888	144	5856	1005	2165	2456	12515
: Percentage	22%	17%	66%	47%	51%	49%	50%
Gain of £ 0 to £ 1	1287	276	599	430	487	574	3653
Gain of £ 1 to £ 2	613	137	435	225	372	434	2216
Gain of £ 2 to £ 5	738	148	1066	299	699	863	3813
Gain of over £ 5	493	129	907	196	509	677	2911
Gainers : Number	3130	690	3007	1151	2067	2549	12593
: Percentage	78%	83%	34%	53%	49%	51%	50%

TRANSITIONAL RELIEF SCHEMES

ADMINISTRATIVE FEASIBILITY AND COSTS

1. This note discusses the arrangements that would be needed to operate a scheme of transitional financial relief to cushion financial losses by community charge payers.

2. Feasibility and costs would depend on the scale of the scheme and its relative simplicity or complexity (which would determine the amount of administration required in each case). In general, however, smaller schemes would be more manageable, probably more complicated (because entitlement may need more checking), and of poor cost-effectiveness. Larger schemes might well be less complicated (depending on the simplicity of the decision rules) and more cost effective, but it would be very much more difficult to achieve them with tolerable efficiency in the extremely short time available before next April unless administration were devolved to the local authorities, many of which would still have very serious difficulties.

I. ADMINISTRATION BY LOCAL AUTHORITIES

3. Had a scheme of individual transitional relief been incorporated from the outset in the Local Government Finance Act 1988, it would have been natural to look to the local authorities (the 366 boroughs and districts - the charging authorities) to administer it. They could have been given appropriate powers and duties and would have been able to plan their computer systems, staffing and other administrative arrangements from scratch, so as to be able to issue community charge bills which took into account of eligibility for individual relief, the details of which would have been set out in good time in regulations. The task would have been analogous - indeed in many cases closely related -to that of issuing bills taking into account entitlement to community charge rebates. Administration on this basis would

Any scheme at this late stage carries a very high risk – not only for its own operation but in disrupting community charge operations generally, including the community charge benefit arrangements. Some versions are likely to carry high administrative costs per case in relation to relief paid out, especially the smaller schemes.

have required some additional resources, and therefore grant from central government, but would have been relatively economical.

4. Even at this very late stage, there would be advantages in administration of a scheme of relief by the local authorities:

- they hold important information which will be essential to the administration of any scheme of relief - in particular, details of 1989/90 rate bills - and will need to be closely involved, whatever the body that administers the scheme.

- if the details of the scheme are sufficiently simple and do not require authorities to consult earlier records or inquire into the personal circumstances of individuals before calculations are made, it may be a comparatively simple matter in principle to incorporate new routines into existing computing equipment in order to be able to present charge payers with abated bills (or if necessary revised bills and instalment patterns).

- if the details of the agreed scheme could be communicated quickly to the authorities, some at least would have the competence to alter their administrative and computing arrangements in time to be able to issue chargepayers with initial or revised bills either in April or comparatively early in the new financial year.

- the staffing, accommodation and computing load that any relief scheme will impose could be spread across a wide variety of locations.

- the difficulties of setting up a central agency would be avoided and the government's role could be restricted to paying specific grant to authorities to enable them to provide the relief and meet the reasonable administrative costs of doing so.

5. But there are significant difficulties:

- authorities would be horrified at the suggestion that they should take on this new work at this late stage and will certainly make a considerable public fuss. Some are not well disposed towards the community charge and would not be particularly anxious to put themselves out for action which they would see as rescuing the community charge.

- Even well-disposed authorities would look for 100% of administrative costs to be met by the Government. The total cost might well not be markedly smaller than the total cost of doing it by way of a central agency and might even exceed it.

- all authorities are now completing their computing and administrative arrangements for the community charge and collection of the national non-domestic rate. This new task would be very disruptive: some authorities would be able to absorb it without too much difficulty where they had the will and their rating records were on the same computer as the community charge, or on a compatible one. In other cases, new equipment would be needed at short notice at extra cost and the software and hardware manufacturers might not be able to cope with a wide range of extra demands in the time available. A few large authorities, particularly those in inner London, which are faced with many different financial changes in April 1990 including absorbing the ILEA, could easily break down under the strain: quite apart from anything else, their Finance Departments have limited senior capacity to plan new operations of this kind and are having difficulty coping with the demands already being made of them.

- the local authorities and their associations would expect to be consulted in detail about the structure of the scheme if they were to operate it. This would be difficult to compress into a short period and would put off the point at which relief would in the normal case begin to flow to recipients.

6. The feasibility of this option would turn on making the details and character of the scheme as simple as possible, and there is a risk that a few authorities might get into really serious difficulties.

II ADMINISTRATION BY A CENTRAL AGENCY

7. The alternative to administration by the local authorities is administration by a central agency, either one operated by Government, or by a private contractor.

8. It should be noted that a central agency would not overcome in itself the problems resulting from the reluctance of the local authorities. To a large extent the agency would remain dependant on the goodwill and commitment of the authorities to achieve its goal. It would require considerable assistance from the local authorities because, at the least, it would be necessary for each charging authority to provide details of 1989/90 rate bills by hereditament and it would probably be necessary to verify with authorities information needed to compute relief in individual cases. The necessary degree of commitment would not be

forthcoming in all cases and they would certainly require generous additional help with the administrative costs of the extra work.

(a) Private contractor

9. Contracting out the administration of the scheme to a body with relevant information and a billing capacity, or a computing firm, is a possibility which could be considered, but feasibility would depend on willingness to undertake the work and capacity to cope with it on the scale involved. They might not find the constraints of a statutory scheme and cooperation with local authorities easy to come to terms with and, in the very limited time available, it would not be easy to draw up contracts satisfying the usual constraints of public accountability. Close supervision would be needed to ensure that the body did the job properly. Apart from these considerations, the problems faced by a private sector body would be similar to those of a government unit - see below.

(b) Central government unit.

10. A major effort would needed to set up a departmental agency to administer centrally even the most limited scheme of relief. Based on the experience of DSS in setting up the emergency scheme for transitional relief from the impact of the housing benefit changes in [1987], a caseload of 2 - 3 million claims would require a mainframe computer and a staff of about 2,000, though more extensive use of computers might reduce the staff requirement somewhat. A scheme giving relief to two or three times that number would require a larger machine and commensurately more staff. Accommodation would have to be found of adequate size and where large numbers of staff could be recruited at reasonable cost. Depending on the size of the scheme, more than one location might be needed with consequential changes in computing and staff requirements. The recruitment and training problems of

such a large staff over such a short period would be very great.

11. Such an operation would be impossible without sufficient trouble-free computing hardware and software. A critical bottleneck may be early provision of computer links between the workstations and the mainframe computer; these can take up to six months to provide at present. The alternative is to provide each office with its own separate computer, which would be much more costly.

12. To have any hope of securing satisfactory computer arrangements, it would almost certainly be necessary to take risky short-cuts with the usual arrangements for letting contracts: a negotiated, very large scale single tender might well be necessary, given the timescale. GATT and EEC requirements for Government procurement of computing equipment would have to be set aside. To protect the Accounting Officers concerned, it would be necessary for Ministers to give explicit sanction for the procedures to be followed.

13. On any assessment the establishment of an executive activity on this scale in such a short time must be regarded as a high-risk operation, even if undertaken by bodies such as DSS or the Driver and Vehicle Licensing Centre who have long experience of the practical problems likely to be encountered.

14. Allowing time for the decision to proceed with a central agency, planning, contract-making and assuming that no serious difficulties are encountered, it is estimated that it would be the beginning of July 1990 before relief could begin to flow, even under the smallest of the schemes considered in these papers.

15. The cost of the smallest scheme is estimated to be of the order of £60 - 85m in the period up to 31 March 1991. (See attached sheet for details). These figures are no more than broad approximations.

LEGISLATIVE IMPLICATIONS

16. As an exceptional measure, it was possible to make payments under the housing benefit transitional scheme on the authority of the Appropriation Act. Since then however the Government has given assurances to Parliament about the use of the Appropriation Act which have had the effect of limiting the extent to which it can be used in these circumstances. Moreover, the scale of the scheme and the number of beneficiaries, even on the most limited basis discussed in these papers, are such that it would not be desirable to proceed on a purely discretionary basis: it would be preferable to confer clear rights to relief by way of primary legislation and appropriate regulations. Further, even if the scheme were handled by a central agency it might be necessary to amend local government law so as to ensure that local authorities could and would give the assistance that would be necessary.

17. If local authorities were to be the agency of relief, more extensive legislation would be needed, to give authorities powers and duties to require them to operate the scheme in the manner intended by the Government, as well as to give clear rights and entitlement to the beneficiaries.

18. Any scheme of relief would therefore require very early primary legislation in the new session.. It would have to be prepared in parallel with the planning of the scheme and followed by regulations establishing the details, levels of relief, etc.

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CENTRAL AGENCY - POSSIBLE COSTS UP TO 31 MARCH 1991.
(For a scheme giving relief in 2 million cases)

	£M
Systems: mainframe(s) peripherals and software	20 - 30
2000 staff, including supervisors and management*	20 - 30
Accommodation, services and maintenance	10 - 15
Grant to local authorities for administrative assistance and information	10
TOTAL	£60 - 8~~0~~5m

* Incremental cost: £10 - 15 m per thousand

1991-1992 and 1992-93 costs might be 30% and 50% less.

NNEX F

THE COMMUNITY CHARGE AND THE RPI

This note describes how the introduction of the community charge (CC) will affect the RPI. It also points to a number of issues which will be raised by any measure to reduce the impact of CC in the RPI.

2. The treatment of the CC in the RPI was considered during late 1988-early 1989 by the Retail Price Advisory Committee (RPIAC), an independent committee with representatives from government departments; industry, retailers, unions, consumer groups and other interest groups. For the past forty years all important issues covering the construction of the RPI have been referred to the RPIAC. Ministers have accepted its recommendations.

3. RPIAC reported in March 1989 and its Report was accepted by the Secretary of State for Employment, after considerable consultation with and between other Ministers including the Prime Minister, Chancellor of the Exchequer and the Secretary of State for Environment. The Committee recommended that it was proper to replace domestic rates in the RPI by the CC when it was introduced in Scotland (April 1989) and England and Wales (April 1990).

RPI impact of community charge

4. The main RPI impact of community charge (as with domestic rates) will be the actual increase in local authority revenues per head derived from this source. In April 1989 average local authority domestic rate poundages (the price indicator for rates in the RPI) rose by about 9 per cent. This contributed 0.4 per cent to the rise in the total RPI. If the community charge rose by the same amount in April 1990 it would have a similar effect on the RPI (excluding the index household effect - see below). If local authorities raised their budgets excessively, eg by 11%, community charges would rise further; such an increase in community charges would add (0.9%) to the annual rate of inflation as measured by the RPI. In April 1991, RPI inflation would fall back, however, if local authorities set budgets for 1991-92 which rose only in line with general inflation.

The index household effect

5. But there will also be a separate once and for all effect on the

level of the RPI in the year CC is introduced. The households whose typical basket of goods and services are covered by the RPI (the "index households") exclude one- and two-pensioners households and the households of one/two adults who are in the top 4 per cent of the income distribution. These broad groups are excluded mainly because their consumption patterns differ widely from the rest of the population. It is the exclusion of the top 4 per cent of income earners which gives rise to the "index household effect". Typically this group will have paid higher domestic rates than the rest of the population. With the introduction of CC, however, they will pay the same as everyone else. For a given level of local authority revenue from rates/community charge, therefore, index households will pay a higher proportion of the bill than under the domestic rates system to compensate for the lower contribution from the top 4 per cent. In its 1989 Report the RPIAC estimated that the bill (or the "price" of community charge) for index households would be 3.5 per cent higher just on this account. This is worth 0.1-0.2 per cent on the total RPI between April 1990 and March 1991. There would be a fall in RPI inflation in April 1991 as the index household effect dropped out of the calculation.

Government grants and the RPI

6. The level of central government grants to local authorities affects the RPI since it can reduce the impact of CC to all consumers of LA services. Whether it does so in practice depends crucially on local authorities using grant to reduce community charge bills. There would be no favourable impact on the RPI if local authorities used any additional grant to increase their expenditure.

7. If local authorities budget for an increase as high as 11% above this year's budgets, that would add 0.9% to RPI inflation. To attempt to reduce this impact on RPI inflation by 0.5%, ie to only 0.4%, would require a massive injection of grant. With the introduction of the community charge, many local authorities will set charges at very high levels - irrespective of the amount of grant that is available. Additions to grant may therefore end up being spent either next year or added to reserves for future spending. Even on the optimistic assumption that half of any extra grant goes to reduce community charges rather than adds to spending next year or thereafter, in order to reduce the RPI inflation rate by 0.5%, it would be necessary to

inject a further £3 billion in grant. That would represent raising Revenue Support Grant by approximately 30%.

The treatment of rebates in the RPI

8. The treatment of rebates (eg rent and rate rebates) in the RPI was considered by RPIAC in its 1986 report and again in its 1989 report (copies of relevant extracts attached). In general the Committee's guidance - again accepted by the Government - was that any system of rebates or other subsidies which were available to everybody should be scored as a reduction in the price of the relevant good or service. Where such rebates or subsidies were available only to a restricted group they should be regarded as income subventions and **not** be scored as a reduction in price.

9. In accordance with this view, RPIAC noted that the proposed 20 per cent CC liability for low income groups and students should not be treated as a lower average price of CC but as an income support measure. Nor, by implication, would any other system of rebate or subsidy, which was not available to everybody, be treated as a reduction in the price of CC. This follows the established principles by which the RPI is calculated.

Housing benefit and other subsidies and discounts

Introduction

82. We turn now to matters which, though they may have implications for the compilation of the RPI as a whole, relate primarily to particular parts of the index, beginning with the "Housing" group. Index households fall into two categories—tenants and owner-occupiers—and in this and the following section we consider how the costs associated with these different forms of accommodation or "shelter" should be measured. In both cases we wish to recommend some changes in the methods currently used.

83. In this section we are concerned with the extent to which the price change measured by the index should take account of any subsidies or discounts which reduce the cost to consumers of the goods and services in question. For reasons given in the following paragraphs we have concluded that the guiding principle determining the compilation of the index should be that it reflects the prices commonly charged for goods and services. In conformity with this principle, where subsidies or discounts are available to all potential consumers the price taken into the index should be net of these. However, where the subsidies or discounts are available only to a restricted group of households we believe the price should be measured "gross", except where the concession is financed by the supplier as a form of multiple pricing, typically for commercial reasons. In the main this formulation follows the previously established practice but it represents a departure from the past in the case of what are commonly known as means-tested subsidies. In general the index currently measures prices net of such subsidies but for the future we do not think they should be regarded as price reductions.

Background

84. The essential point at issue here is not a new one, having been considered by our predecessors on the Advisory Committee on a number of occasions, and their approach to it has been quite consistent over the years. The long-standing practice is that the prices used for the compilation of the index are those *actually paid* by households. Thus, when use was made of rent rebates by an increasing number of local authorities in the 1950s and 1960s it was decided to take rent net of rebate for purposes of the index. This procedure was endorsed by the Advisory Committee in 1971 and again in 1974. By the latter date the mandatory national rent rebate scheme set up under the Housing Finance Act 1972 (and corresponding Scottish legislation) had led to a large increase in the number of tenants receiving rebates and the average amount of rebate.

85. In 1974 the Committee favoured applying the "net" approach not only to housing costs but also more generally, arguing that:

"... if households have to pay more because (for example) selective subsidies on school meals or health subscriptions have been reduced, then both governments and the public will expect these changes to be reflected in the index, even if every household is not affected in the same way or to the same extent." (Cmnd 5905, paragraph 33)

As a concept this may appear clear and simple but in practice it has proved difficult to put into operation in a completely consistent way.

86. In particular, it is not currently the practice to apply the "net" procedure to the rents and rates of households in receipt of supplementary benefit. Until 1983 any assistance granted to such households was incorporated in their overall benefit payment and was not separately identified. It was therefore not taken into account in the construction of the index, with the result that housing costs for supplementary benefit recipients were treated on a "gross" basis, their assistance being implicitly regarded as a subvention to income. However, other low-income households, who received rebates through local authorities, had their rents and rates treated on a "net" basis, this form of assistance being regarded as a price reduction. The inconsistency of treatment means that two households in broadly similar circumstances, one in receipt of supplementary benefit and the other not, can have their housing costs taken for RPI purposes as being at quite different levels, though the amounts they need to find from their own resources may be the same.

Implications of the introduction of housing benefit

87. In 1982-83 the administrative arrangements for disbursing housing assistance were changed with the introduction of the housing benefit scheme, and it became possible for the first time to identify a housing component within supplementary benefit payments. The treatment adopted for the RPI was not modified immediately, as it was considered that a purely administrative change, altering the channel through which subsidies were paid but not their essential character, should not in itself be allowed to affect the index. However, the change did open up the possibility of ending the inconsistency mentioned in the preceding paragraph.

88. An obvious way to do this would be to treat all rent and rate rebates on a "net" basis, in line with previous Advisory Committee recommendations. Under the present procedure, treating supplementary benefit recipients "gross" and others "net", housing costs account for about 15 per cent of total expenditure for both categories of household, making it possible for the same index to apply to both. Starting to count supplementary benefit households' expenditure on a "net" basis would mean that the housing element for them would fall from 15 per cent to a very small proportion, and the overall "weight" for housing in the index would fall by about 1 percentage point. Another problem with the "net" approach is that, at least as operated in the past, it does not differentiate between, on the one hand, changes in the degree of subsidisation arising from adjustments to the subsidy scheme itself (seen as "step" changes in the numbers qualifying or their amounts of entitlement) and, on the other hand, gradual changes attributable to progressive alterations in household circumstances. The inclusion of the latter means that, even without any change in the subsidy scheme, the price index can fall when more people qualify for rebate, which is questionable in itself and might be thought to conflict with the fundamental principle of a fixed "basket" of goods and services on which the index is based.

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89. It may be possible to allow for effects such as those just described but, before examining in detail what would be involved by universal application of the "net" principle, we considered the alternative approach which would base the index on gross rents, so that any change in the degree of subsidisation would not be reflected. The case for this alternative arises from the fact that certain subsidies, including rent and rate rebates, affect only consumers who fulfil specific criteria (often related to income) and who claim the benefit. The scale of entitlement depends upon the recipient's circumstances and varies continuously as between different households and over time. Such a measure is best interpreted as a subsidy to selected consumers, paid through the medium of a particular commodity or service, rather than as a subsidy on consumption of that item as such. There is therefore a good case for regarding it as a supplement to income, not a reduction in price, especially as the supplier receives the full price. A second type of concession is available to consumers according to their usage of the commodity or service in question, regardless of income. One example is the food subsidies which have been introduced from time to time. Another is price discounts offered for purely commercial reasons, such as "cheap day" and "saver" rail fares. It can be argued that concessions in these categories are entirely equivalent to selling price reductions, and should be directly reflected in the price index, whereas discriminatory subsidies such as housing benefit should not be.

90. Though most of us found the "gross" approach appealing on general grounds we recognised that the implications of a change to it should be fully investigated before we put forward a positive recommendation, and in this we have been assisted by our Technical Working Party. The Working Party suggested, and we agree, that it is important not only to reach a firm conclusion on the definition of price but also to base this on a clear specification of the objectives and underlying rationale of the RPI itself. It pointed out that the "net" principle gives rise to what might properly be described as a "cost of consumption index" whereas the "gross" approach defines the price index according to *prices charged* as opposed to *prices paid*. The choice between these should reflect the uses made of the RPI, accepting that no single index could serve all purposes with equal efficacy and that to produce two separate indices would create confusion and misunderstanding.

91. Seven major uses of the RPI were identified by the Technical Working Party:

(*a*) For assessing changes in the standard of living of consumers;

(*b*) for monitoring the effectiveness of counter-inflation policies;

(*c*) for calculating the purchasing power of after-tax incomes, interest payments, etc;

(*d*) for deflating statistics of the value of retail sales in order to derive estimates of the volume of sales;

(*e*) for uprating social security benefits, state pensions, the capital value of some National Savings and gilt-edged securities, and the level of tax thresholds;

(*f*) for providing proxy measures to stand for more specific price indicators, for example to index-link compensation payments or amounts covered by insurance;

(*g*) for pay bargaining

Use (*a*) would lead one towards the "net" approach whereas (*b*) points towards "gross" but in other cases the issue is less clear-cut. As regards (*c*) the choice depends upon whether income is defined to include amounts paid on the consumer's behalf by another party (in which case a "gross" treatment is indicated) or to exclude such payments (which might suggest "net"). Similarly the implication of (*d*) depends upon how "free goods" are treated in the statistics of sales: if their value is included then a "gross" treatment is appropriate—otherwise not. Use (*e*) also presents difficulties, as it raises questions about what indexation is supposed to protect consumers against—whether "prices charged" or "prices paid"—and uses (*f*) and (*g*) do not lead to a clear preference for either alternative.

92. Balancing these considerations is a matter of judgement but the general view of the Technical Working Party confirmed our initial conclusion that the "gross" approach was to be preferred, not just as a means of avoiding problems inherent in the alternatives but as being preferable on conceptual and presentational grounds for the construction of a price index. The Working Party was not wholly unanimous in reaching this conclusion, and we gave careful attention to the case for the "net" approach. This rests on the point that the RPI covers only those goods and services which are bought for money and therefore financed out of (after-tax) income. It can therefore be seen as measuring the change in net income which is needed to preserve its purchasing power, and this implies protection against changes in the prices paid by consumers: not those received by retailers. A small minority on the Committee thought that income in this context should not be taken to include selective subsidies and that only cash benefits, and possibly housing benefit, should be treated as income support. On this view the "net" price would continue, in general, to be the appropriate basis for the RPI. However, while we understand this argument, our overwhelmingly predominant view is that income support should be regarded as going beyond cash payments, and that to measure in a fully comprehensive way the income change necessary to maintain "real" purchasing power is beyond what is usually expected of a retail price index. It would also involve taking account of various sorts of change in household circumstances and entitlements, which most of us think would be difficult to justify as a practicable and generally-acceptable method of compiling a monthly index such as the RPI.

93. We therefore conclude that discriminatory subsidies should not in future be regarded as price reductions. Housing benefit is essentially an income-maintenance payment, akin to social security benefits and other forms of income support, and we think it should be treated in the same way, as a form of income. This approach maintains the convention that the RPI does not attempt to reflect the experience of particular groups which are regarded as atypical. It follows what most of us see as a more clear-cut concept in monitoring the prices associated with particular transactions irrespective of who finances them, and therefore shows the position without reference to any steps taken to give consumers discriminatory relief from paying the full price.

Extension of the argument to non-housing costs

94. Our initial discussions focussed on the question of housing costs where the problem of definition arises in particularly acute form, but we went on to consider whether similar arguments and conclusions could be applied to other parts of the index and in this we were again assisted by our Technical Working Party. Its advice was that there would be no major obstacles to extending throughout the RPI the principle that price should be taken gross of discriminatory subsidies or discounts. It told us that this could be effected in a consistent way by taking the prices charged for goods and services bought, so that the index could reasonably be described as reflecting selling prices faced by the great majority of households.

95. According to this convention subsidies or discounts available to any purchaser on all purchases of the good or service in question would be treated as price reductions. In contrast are those designed to benefit only selected consumers by means of transfers from a third party to the supplier, who thereby receives the full asking price. Such payments (most notably means-tested subsidies) would be regarded as subventions to those consumers' incomes. This simple formulation copes with the following special categories of pricing situation, namely:

(*a*) *Multiple pricing*. Any discounts offered by sellers in the form of different prices for differentiated markets (typically for commercial reasons) should be included in the index, whether or not they are available to all consumers. Discounts such as "off-peak" fares and reductions for pensioners usually reflect differences in market situation as perceived by the seller and should be treated as price reductions.

(*b*) *Discriminatory discounts*. Where these are directed towards selected consumers and are funded by a third party (including the state) they should be regarded as subventions to income, especially as the seller receives the full price. Examples are free school meals and assistance by employers towards private motoring costs.

(*c*) *Non-discriminatory subsidies or discounts*. Universally-available concessions which are funded by a third party (normally the state) should be regarded as price reductions as the price commonly charged is clearly the reduced one, no consumer having to face the full price.

96. Summing up, we think the RPI should be based on *prices charged* and that, in establishing what these are, subsidies and discounts should be deducted where they are funded by the seller or where they are available to all purchasers but not in the case of selective benefits funded by a third party. We put this forward as a working definition, and think it will give adequate guidance to cover all existing subsidies or discounts and any future measures which we can envisage. It makes what we regard as two crucial distinctions: first, between subsidies and discounts available to all (which are always to be treated as price reductions) and those on a selective basis; secondly, between *selective* subsidies and discounts funded by the sellers of goods and services (price reductions) and those where the seller ultimately receives the full price (income subventions).

97. The changes which would follow from the adoption of this proposal relate not only to the price indicators used in compiling the RPI but also to the weights with which they are combined, as the expenditure relevant to the calculation of the weights would in principle be that met from income including all benefits (as opposed to the "net" alternative which would exclude benefits paid directly to the seller). However, the extent to which this can be achieved in practice will depend upon the availability of information on the value of income in kind. In some cases it will only be possible to reflect "net" expenditure in the weights.

98. Besides rent and rates subsidies the items affected by the change would include free school meals, food tokens granted to selected groups, supplementary benefit payments to cover specific purchases (such as clothing and footwear) and assistance from employers with housing and private motoring costs. All these are discriminatory, and would accordingly be treated as subventions to income. However, general subsidisation of school meals, food price subsidies and support for uneconomic transport services would still be treated as price reductions as they are non-discriminatory, being paid directly to the seller by a third party (in these cases central or local government). Also treated in the index as price reductions would be a wide range of discounts funded by sellers themselves, including sale prices, off-peak charges, student and family "railcards", reduced prices for children and pensioners, subsidised works canteens and reductions in standing charges for low-usage telephone subscribers.

99. There would not be a large numerical effect on the "all items" RPI from the sort of changes mentioned in the previous paragraph, as the aggregate amounts of subsidy or discount are very small in relation to total consumers' expenditure and the proportionate extent to which the prices in question are affected does not vary greatly over time. The effect of moving to a "gross" treatment for rent and rates could be somewhat greater, as the amounts involved are larger and more variable, but they are intrinsically unpredictable in that they would depend upon the way economic conditions and public policy developed after the changeover. However, to indicate the potential order of magnitude, it has been estimated that over the 10 years to 1985, during which the scale of rent and rates rebates increased considerably, the effect of applying the proposed "gross" treatment rather than the "mainly net" one would have been to raise the "all items" increase in the RPI by between 0.1 and 0.2 percentage points per annum on average.

100. Though its impact may seem small we regard the proposed change as a matter of principle. In effectively insulating the RPI from the consequences of future adjustments to means-tested subsidies it may be contentious. However, our view is that the change is defensible and desirable and we commend it for consideration.

Summary of recommendations

(*a*) For purposes of the RPI the ruling price should be that charged for goods and services bought in the normal market situation, taking account of commercial discounts and reductions available to all purchasers (paragraphs 94 and 96).

(*b*) There should be no allowance for subsidies and discounts provided on a selective basis for other than commercial reasons, such as means-tested subsidies from the state (paragraph 93).

SECTION G

Owner-occupiers' housing costs

Overview of recommendations

101. In reaching our recommendations for the treatment of owner-occupiers' costs we have satisfied ourselves that there is no practicable approach amongst the range of available alternatives which is demonstrably superior to the present methodology. We have therefore taken the view that changes in mortgage interest payments should continue to be reflected in the RPI as a proxy for owner-occupiers' shelter costs, notwithstanding the *additional* advantages by way of investment which may accrue to owner-occupiers over and above the value of the shelter they obtain. However, we believe that some changes could be made to the details of the present procedure which would be of advantage. For example we think that steps should be taken to ensure that changes in financial arrangements do not affect the index.

102. We have, in effect, taken the shelter provided by the stock of index households' owner-occupied housing to be part of the RPI "basket" of goods and services, and we recommend that the expenditure associated with this shelter should be represented by the mortgage interest payments that would need to be made were all index households buying a house to take a "standard" repayment mortgage, this standard being the most common arrangement presently made. The index weight attached to housing would then reflect any increases in the extent of owner-occupation amongst index households.

103. While some might argue for a different approach, we believe that our recommendations represent a practicable method of reflecting owner-occupiers' housing costs which should command general public acceptance, as most people perceive mortgage interest payments as forming an important part of these costs. In numerical terms the proposals would lead to little change from the present practice recommended by our predecessors, but we have sought to clarify the concepts underlying that methodology and to insulate the index from certain influences which could otherwise affect it in future but which we believe have nothing to do with the cost of housing.

Background

104. The housing costs faced by owner-occupiers include rates, repairs and maintenance, insurance, etc, but another—often the major—component is the cost of the house itself, analogous to the cost of renting incurred by the tenant. It is this component, generally described as "shelter" costs, which represents one of the most difficult aspects of the construction of a consumer price index, from both a conceptual and practical point of view. Our predecessors on the Committee have considered this issue on many occasions, and in 1974 recommended a major change of methodology. Before then, owner-occupiers' housing expenditure (other than rates and maintenance costs which are separately covered) had been represented in the RPI by estimates of "equivalent rent", i.e. the rent which the owner-occupier's property would

in the level of the RPI. We would also be concerned if there were a progressive diminution in the scale or standard of the services being provided by local authorities. We therefore think that the question of volume adjustment should be kept under review by the Department of Employment and the Department of the Environment, including the problem of allowing for quality changes, and that the Advisory Committee should be invited to look at the matter again in a few years' time. If necessary, we can then consider whether the situation has changed sufficiently for us to reconsider our present conclusion about allowing for volume changes. Keeping the situation under surveillance in this way would be consistent both with the status of the Community Charge as an innovative measure whose effect cannot be predicted, and with the Committee's continuing role as a reviewing body.

55. To sum up, the need for volume adjustments is in doubt for two reasons: if the Community Charge is seen as a residence tax then they would be inappropriate, while if the Charge is seen as a payment for services which in practice do not change significantly in quantity or quality then adjustments would be redundant. Even those members who believe that volume adjustments would be appropriate and might become necessary nevertheless accept that for the present it is not feasible to make them. Our conclusion is that the appropriate response to the introduction of the Community Charge is to treat it in a similar way to that in which rates are currently treated, without adjustment for changes in the volume of local authority services.

Treatment of grants, subsidies and discounts

56. We turn now to the treatment of government grants, subsidies and discounts which in one way or another reduce the extent to which the cost of local authority services falls directly on the residents of the area concerned.

57. In the first place we have considered how to treat that part of net local authority expenditure (roughly three-quarters of the total) which will not be financed from the Community Charge. Two sources of revenue are involved—non-domestic rates and government grant—and these are deducted from gross costs for the purpose of setting the Community Charge. They appear to us to be in the nature of general subsidies akin to (for example) grants towards the provision of uneconomic but socially-necessary railway services. In our 1986 report we decided that such transfers, which benefit all users of the service irrespective of their individual circumstances, should be regarded as reducing the price for the service. In conformity with this principle we think that the "price" for local services should not reflect the whole cost of supplying them but just that part of the cost which falls on local residents in the form of the Community Charge. It follows that, other things being equal, the RPI would increase if other sources of revenue were cut back (thereby causing the Community Charge to rise) and decrease if they were made more generous (allowing the Charge to be reduced).

58. Secondly we recognise that many residents with relatively low incomes will receive assistance, through rebates, in paying their Community Charge, just as they currently qualify for help with rates (though everyone will be expected to pay at least 20 per cent of the full amount). Again following current practice, as laid down in our 1986 report, we regard this assistance as a subvention on income rather than a price reduction. The supplier of services (that is the local authority) will receive the full amount of the Charge and we think it is this full amount which should be regarded as the price charged, even though part of it is being paid not by the consumer but by the social security system. This form of assistance differs from that referred to in the previous paragraph in being selective. Where a subsidy or grant is made available by a third party (not the supplier or the consumer) we would wish to see it treated as a price reduction if it benefited all consumers but not if it benefited only a selected group.

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students, who will only be required to pay 20 per cent of the full Community Charge in the area where they study. The residue will not be made up by a specific payment to the local authority on behalf of each individual but the number of students in an area will be taken into account each year in determining the local authority's grant from central government. Again therefore the supplier of the service will ultimately receive the full amount of the Personal Community Charge, and current practice dictates that it is this which should be regarded as the "price" for RPI purposes, even for students.

Conclusion

60. What we propose therefore is an index whose weight is based on actual liability for Community Charge (of all types) and whose price indicator is the full Personal Charge, ignoring the fact that in the cases of benefit recipients and students the full cost is not all paid by the consumers themselves. For the present the price indicator should not be adjusted for changes in the volume of services provided by local authorities.

6 Dealing with the transition from rates to the Community Charge and its implications

Relating the old and new regimes to one another

61. Having defined the index we should like to see established we now deal briefly with a number of issues related to the transition between the present situation in which rates are included in the RPI and a future one in which the Community Charge would be included. Normally such changes are handled by calculating the price indicator both ways for a single month, one figure ending the old series and the other initiating the new one. The two series can then be linked so that the change in coverage does not create any discontinuity. This method cannot be applied in the present case since there will not be a month in which (for any one part of the United Kingdom) *both* rates and the Community Charge are being paid simultaneously. Moreover, the changeover is taking place at the beginning of a financial year, when in the normal course of events there would be an increase in payments by households to local authorities. It would be wrong to construct the RPI in such a way that this increase was not reflected.

62. In practical terms the price indicator will need to be changed at some point from the average rate poundage (a percentage figure) to the average Personal Community Charge (an amount of money in £ per week). It was suggested to us at one point that there would be advantage in doing this at the beginning of 1989, so as to remove the need to modify the methodology part-way through the year and avoid a situation in which the index for Scotland was being calculated in one way and that for England and Wales in another (the Community Charge having been introduced in the former case but not yet in the latter). We are not persuaded by these arguments. There is no way of avoiding the need to bridge the gap between two different regimes (one applying to the present rating system and the other to the new Community Charge system) but we see no reason to introduce a third regime, applying in the interim between January 1989 and the time when rates are abolished. The proper approach would be to maintain the present procedures without any change whatsoever for as long as the rating system remains in being in each part of the United Kingdom, switching to the new procedures in April 1989 for Scotland and in April 1990 for England and Wales. From April 1989 onwards the index should be called "Rates and Community Charges" (this title being retained after March 1990 because the rating system is to continue in Northern Ireland).

63. The problem in April 1989 and 1990 will be that of finding an appropriate "base price" (for January) with which to compare the Community Charge which has just started to be levied. What we recommend is that this base price should be the amount of domestic rates payable in January averaged over all the adults subsequently becoming liable to pay the Community Charge. From a computational point of view, therefore, the Charge will be treated as a continuation of rates under a different name, and calculated in a slightly different way (as a payment per liable adult rather than a payment per £ of rateable value). The technical details of this methodology are set out in Annex D.

The "index household effect"

64. A feature of the Community Charge which has not yet been mentioned is that it will redistribute liability for payments to local authorities as between different types of household. In particular, those households which consist of only one or two adults and have relatively high rateable values will in future pay a

smaller share of the cost of local authority services, while those with low rateable values and more than two adults will pay a larger share. The distinction between "gainers" and "losers" will be correlated to some extent with that between the households which are covered by the general RPI and those which are not. The latter comprise two categories: households whose total gross income is in the top 4 per cent of the distribution and one- or two-person pensioner households mainly dependent on state benefits. For different reasons these "non-index households" will, relative to other households, pay less in Community Charge than they have been paying in rates; correspondingly the households covered by the index will pay relatively more. (This is separate from the effect that, whether in the index category or not, households with a relatively large number of adults will in future pay a bigger share.) The once-for-all "index household effect" is expected to raise by about 3½ per cent the average payment per adult in index households, and we have considered whether this should feed through into the general RPI as a price increase. If it did so it would add between 0.1 and 0.2 per cent to the "all items" index.

65. Throughout most of the RPI's coverage it is unnecessary to distinguish between the price changes faced by index households and those faced by non-index households, since they can reasonably be assumed to be the same. However, in some cases there has been reason to expect differences (particularly in the area of housing costs) and efforts have been made in the past to obtain price indicators which are specifically relevant to *index* households, as opposed to all households. Most of us see no reason to depart from this convention in the case of the switch from rates to the Community Charge: if index households do indeed find themselves paying more as a result (over and above the normal annual increase in payments) then this should be reflected in the general RPI. There is a contrary view, that "index households" are defined only to prevent the *weighting* of the index from being unduly affected by those with untypical expenditure patterns, and that the *price indicators* should not be restricted to any particular sub-group of the population, but this was supported by only a minority of Committee members.

Index structure

66. The rates component of the RPI has always been included in the "Housing" group, together with rent, mortgage interest payments, water and sewerage charges and the costs of repairs and maintenance. The justification for this is that rates are charged on the value of the housing occupied (as measured by the rateable value) and can be seen as part of the price of occupation. The Community Charge is not so closely linked to housing, but its level does depend upon the administrative area in which one's dwelling is situated: those who are homeless pay no Charge and those with two homes pay twice. The Charge is therefore related to housing to some extent. A further point is that the Community Charge will have much in common with water and sewerage charges which (though the basis on which they are levied will change over the next few years) will continue to be a legitimate part of the "Housing" group.

67. We therefore recommend, in the interests of presentational continuity, that the index for "Rates and Community Charges" should form part of "Housing", though this will extend the meaning somewhat to embrace residence charges as well as the cost of shelter and maintenance. Since a separate index and weight will be published for this section it will be possible to calculate by subtraction indices which exclude rates and the Community Charge either from housing costs or from the "all items" index, should such indices be required.

Pensioner price indices

68. Finally we should mention the special quarterly price indices which are compiled for one- and two-person pensioner households mainly dependent on