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THE COMMUNITY CHARGE AND THE RPI

Following the Prime Minister's seminar last month, Sir Terence Burns has been discussing with the CSO the treatment of Community Charge transitional relief and student discounts in the compilation of the RPI. I attach a note from the CSO on the issues. Sir Jack Hibbert feels that it would be best not to reopen these points.

The arguments here are not entirely clear cut. There are strong statistical arguments for excluding the Community Charge from the RPI altogether but, for reasons of which you are aware, Ministers accepted the RPI Advisory Committee's recommendation that it should be included. The treatment of transitional relief and student discounts is fairly marginal - amounting at most to 0.15 per cent on the index this year. If transitional relief were treated this year as reducing the RPI, there would be a corresponding increase as it was unwound in future years.

On balance, the Chancellor is not inclined to press the CSO further on this because the effect is not large and because he does not wish to encourage the existing RPI Advisory Committee to look again at the Community Charge.

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JG.

JOHN GIEVE
Principal Private Secretary

CSO VIEW ON THE RPI TREATMENT OF RELIEFS TO THE COMMUNITY
CHARGE

Background

1. The conventions followed in constructing the RPI derive from concepts of "price" as generally understood or as interpreted through specific recommendations of the RPI Advisory Committee. For the most part these conventions are clear and consistent and can be applied in an unambiguous way but occasionally a new situation arises and it is necessary to seek the Committee's guidance on how they consider it should be treated. In 1986, for example, the introduction of housing benefit had led to an anomaly in the RPI treatment of subsidies and discounts and the Committee made recommendations (Cmnd 9848) clarifying the matter of what constitutes a price for purposes of the index. Essentially the concept of price was expressed as "price charged" (gross) rather than "price paid" (net).

Mark people would say the revenue - the price is what you pay for an article

2. With the advent of the community charge the Committee, in its 1989 report (Cm 644), accepted that the charge should be included in the index as a tax on residence in a particular local authority area or as a payment for services, and made detailed recommendations as to how the transition from rates should be treated.

3. The CSO has considered the treatment of two measures which have been introduced to cushion the impact of the community charge - transitional relief and student relief - and its view is that the application of existing conventions leads to neither being regarded as reducing the "price" taken into the RPI.

Index concept

4. The concept underlying the whole of the RPI may be summarised in the following question:

"What would be the cost in the current month, compared with January, of the basket of goods and services that the households covered by the index chose to buy in the base period (normally the year to the previous June)?"

The current price is taken to be "the liability that would be incurred if a good or service were purchased". The index coverage is defined in terms of households, not people, so those not living in households (for example students in halls of residence) are excluded. *i.e. the more paid*

Treatment of subsidies and discounts

5. The practical convention enunciated by the RPI Advisory Committee, after a great deal of discussion between 1984 and 1986, is that subsidies/discounts should not be regarded as reducing the price level for purposes of the RPI if they are funded by a third party (not the supplier of the goods/services) and are available only to a selected group of that supplier's customers. This approach was recommended on the following grounds:

- a) The RPI should reflect "the position without reference to any steps taken to give customers discriminatory relief from paying the full price" (Cmnd 9848, para 93);
- b) Discriminatory relief "is best interpreted as a subsidy to selected consumers, paid through the medium of a particular commodity or service, rather than a subsidy on consumption of that item as such" (ibid para 89);
- c) Subsidies/discounts should not be taken into account if "they are designed to benefit only selected consumers by means of transfers from a third party to the supplier, who thereby receives the full asking price" (ibid para 95).

It appears to CSO that this convention applies both to transitional relief and (for the most part) to student relief. The two cases are discussed separately below.

Transitional relief

6. This is designed to "stage" the impact of the community charge on households whose liability under the new regime is much greater than it was under the rating system. Somewhat different schemes will operate in England, Scotland and Wales (see annex) but they all share two essential features:

- a) Different households within any one local authority area will benefit to a different extent, depending on their circumstances - not on their level of consumption.
- b) For the most part the relief will be funded not by other community charge payers within the same area but by central government.

7. Taken together these points define transitional relief unambiguously as discriminatory subsidisation by a third party, and therefore not to be subtracted from community charge liability in arriving at the "price" included in the RPI. In this sense it is akin to means-tested community charge rebates. Both are seen as shielding certain consumers from the full effect of the price increase: not as lessening the price increase per se.

8. It could be argued that the Welsh scheme, which gives the same relief to every household within any one parish (see annex) provides what is in effect a price reduction. This would be an appropriate view if the parish were regarded as the primary supplier of local authority services but CSO concludes that it is essentially the local authority district which is the supplier, and every household within that district can be seen as "buying" the same product. As different households are to be subsidised to different extents it is not appropriate to regard the relief as a price reduction.

9. Taking England and Wales together the difference made to the "price" by not deducting transitional relief is relatively small. The annual cost of the schemes represents about £9 per

charge payer, and reducing the amount included in the RPI by this amount would lower the all items index in April 1990 by 0.1 per cent. As the transitional relief was unwound this effect would, of course, be reversed.

Student concession

10. Adult students will only be required to pay 20 per cent of the full personal community charge in the area where they study. The concession is granted to all students, without means-testing or other eligibility criteria, but is still clearly discriminatory in that it is not available to all consumers liable for the community charge in that area. It therefore fulfils one of the two criteria for being treated as a non-price effect. As regards the second criterion, the number of students in an area is taken into account in determining the central government grant, in such a way that no authority should have to set a higher community charge just because it has a large student population. Thus the student concession is not financed by other consumers of the same authorities' services, but rather by taxpayers in general.

11. However, this relief is only available up to the level of community charge corresponding to central government guidelines. Any authority which chooses to levy a higher charge will need to finance the additional student relief itself, so that the personal charge will increase more than proportionately with expenditure. In this situation the correct application of established conventions is to regard as an income subvention the student relief up to the level of community charge corresponding to the government guideline, but not beyond. To the extent that students are subsidised by other charge-payers for 80 per cent of their "excess" community charge this should be treated as a price reduction for them.

12. The estimated effect is even smaller than that for transitional relief. According to the 1988 Family Expenditure Survey students account for about 1.4 per cent of all adults in

index of households, and treating their reduced charge as a price effect would reduce the all items index by 0.05 per cent. If they were treated as one-fifth units only in respect of the charge "above guideline" the effect on the all items index would be 0.04 per cent.

13. In its report of the treatment of the community charge in the RPI (Cm644) the Advisory Committee noted (para 59) that because the supplier (ie each local authority) will ultimately receive the full amount of the personal community charge, current practice dictates that it is this which should be regarded as the "price" for RPI purposes, even for students.

Central Statistical Office
23 February 1990

CONFIDENTIAL

ANNEX

COMMUNITY CHARGE TRANSITIONAL RELIEF SCHEMES

England

Entitlement is based on the difference between an individual household's rates liability in 1989-90 and the community charge liability it would have in 1990-91 if the local authority's spending were in line with government guidelines. If this difference exceeds £3 per week per adult (up to a maximum of two adults) then any excess over that amount is met by transitional relief.

In 1991-92 each household's relief will be cut back by 25p per week irrespective of the level of the community charge at that time, and in 1992-93 it will be cut by a further 25p. No relief will be given in or after 1993-94.

Wales

Entitlement is based on the difference between the average rates bill for the "community" in 1989-90 and the average community charge liability of those households. (A "community" is a subdivision of a local authority district, equivalent to a ward or parish in England.) If the community as a whole qualifies for relief then all charge payers within it benefit, irrespective of their individual circumstances, but different communities within the same local authority area (and therefore facing the same community charge) will get different levels of relief. Again the scheme will continue at a reduced level in 1991-92 and 1992-93.

Scotland

The scheme is similar to that operating in England except that the relief granted in 1990-91 is based on the excess of community charge over rates liability as between 1988-89 and 1989-90. It recognises that, though a transitional relief scheme had not been developed by the time the community charge was introduced in Scotland (in April 1989), residents there should enjoy comparable relief to those elsewhere, albeit in arrears.

1 1 5 1 community charge - the RPI

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.

59. A similar case is that of 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.

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.

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;

use just described but, universal application of each which would base of subsidisation would on the fact that certain consumers who fulfil the benefit. The scale varies and varies continuously. Such a measure is best through the medium of a levy on consumption of goods. If it is a supplement the supplier receives the full price according to their needs of income. One method from time to time. For practical reasons, such as that concessions in these transactions, and should be to at least some of the subsidies such as

is appealing on general grounds to it should be fully justified, and in this way. The Working Party has not yet reached a firm conclusion on the clear specification of the index. It pointed out that the index described as a "cost of living" defines the price index. The choice between these two is that no single index could be used to measure two separate indices

the Technical Working

of consumers;
of price reduction policies;
of tax incomes, interest
sales in order to derive
of the capital value of
of the level of tax
of specific price indicators,
of the amounts covered

(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).

LOCAL GOVT: Community Charge

