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CABINET

MINISTERIAL STEERING COMMITTEE ON ECONOMIC STRATEGY

SUB-COMMITTEE ON LOCAL GOVERNMENT FINANCE

STUDENTS AND THE COMMUNITY CHARGE

Memorandum by the Secretary of State for Scotland

1. The Green Paper 'Paying for Local Government' (Cmnd 9714) proposed in paragraph G38 that students should be liable for the community charge and that, for ease of administration, they should be deemed to be resident throughout the year at their term-time address. Personal liability for local taxation would, for most students, be a new financial burden, while for those who pay rates directly or indirectly at present the community charge may well represent a significant increase. The Green Paper proposals should therefore be considered in the context of our general policies on the support of students.

2. In its consideration of the Student Support Review H Committee was aware of the need to have regard to the introduction of the community charge and its attention was drawn in particular to the proposed timetable for Scotland (phasing in the charge over a three-year transitional period beginning on 1 April 1989, ie full charges levied from 1 April 1992). H Committee concluded that the terms of reference and timing of the review could not be influenced by the Scottish timetable for the introduction of the community charge and recognised that this would require separate consideration. The timetable envisaged for the Student Support Review means that a consultation paper is unlikely to be ready before next summer. We need to be in a position to say something clear cut about the impact of the community charge on students studying in Scotland (who will include some from England and Wales) when the Scottish Bill is presented early next Session.

3. The timetable for the introduction of the community charge in England and Wales is not yet settled but will be at least a year behind. In general the treatment of students in England and Wales and in Scotland should be the same. It will be necessary for the Government response to comments from England and Wales on the Green Paper to give some indication of how students will be treated. However it is not necessary at this stage to settle the detailed treatment of students in England and Wales.

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4. Ministers from the Scottish Office, the Department of Education and Science, the Department of the Environment, the Welsh Office and the Department of Health and Social Security have met to discuss the matter and the proposals in this paper reflect the approach they decided on. It deals with the following aspects:-

4.1 Whether students should be liable for the community charge or should be exempt.

4.2 The definition of their liability (place and amount).

4.3 Whether they need help to meet the charge and if not the means by which this might be provided.

4.4 Financial implications, both for parental contributions and for public expenditure.

Should students be liable for the community charge?

5. It is a fundamental principle of the community charge that it should be payable by all adults. Students have the benefit of local authority services. They can vote in local authority elections and the need for accountability applies to them as to others. There is therefore no reason in principle why they should not pay like everyone else. There are however practical difficulties in making students liable for the charge and the following paragraphs review the arguments for and against exemption.

6. The basic arguments in favour of exemption are as follows. First, students are unique in that the bulk of them divide their time more or less equally between two locations, their home and their university town: they therefore do not fit neatly into the community charge framework, depending as it does on registration at one's sole or main residence. Their inclusion could involve a considerable administrative burden unless an essentially arbitrary approach to their place of registration such as that proposed in the Green Paper is adopted. Secondly, students depend on others for their income and it is Government policy to disentitle them to social security benefits. The process of putting them in funds to meet their community charge liability would involve additional administration and, depending on the route chosen, could result in additional public expenditure or further burdens on parents. To the extent that it falls to parents to meet their student children's community charges the rationale of the charge will be undermined, and the discontent of parents over grant levels is already well known. Also, the significant number of students who are not in receipt of awards will be in the unique position to having no form of public support available to them whatsoever; it can be argued however, that there is no reason for singling out the community charge for special support to this group, who in general are expected to rely on their own resources.

7. On the other hand, the consequences of a decision to exempt students would be far from straightforward. It would be politically very difficult to justify giving relief to students alone and there would be pressure for exemption from other groups such as the chronically sick and disabled, those living in charitable property, ministers of religion and so on, many of whom have some form of relief from rates at present. The administration of an exemption system would be burdensome and it would be difficult to produce a satisfactory definition of those who should be exempt: there could be no simple relationship with existing grant rules, for example.

8. The practical arguments against exemption, together with the arguments in principle mentioned in paragraph 5 above amount on balance to a case that students aged 18 and over should be liable for the community charge like all others aged 18 and over and I recommend accordingly.

The nature of students' liability

9. Students may be considered to be resident at both their home address and their term time address for the purposes of electoral registration. This would not be appropriate for community charge purposes, where registration should be at an individual's main residence. As noted above, the Green Paper therefore proposed that students should be deemed to be resident throughout the year at their term time address. It can be argued in support of this approach that a majority of students will in fact be staying at their term time address for somewhat more than half a year and that those who at present are making any direct contributions to rates (sharing flats etc) will normally be doing so in respect of their term time address. The alternative to the Green Paper proposals would involve the administrative burden of repeated registration and de-registration. This is unacceptable and I therefore recommend that the approach proposed in the Green Paper should be adopted.

10. I have considered whether there is any case for providing that a student's liability should apply only to term time. The practical arguments against exemption apply equally to this proposition: considerable practical difficulties would result from the creation of two classes of community charge payers. I therefore recommend that students should be liable for a full year's charge. Further work will need to be done on the detailed arrangements for liability and payment in different circumstances, for example sandwich attachments and periods spent abroad. But I believe that suitable arrangements can be devised which will ensure that students are treated equitably as compared with other members of the community.

11. I do not envisage that these proposals should apply to those undertaking short courses, which may involve them staying temporarily away from home, or to those involved in part-time studies. The normal provisions for registration and payment should apply in those cases. I therefore propose that for the purposes of the special provision relating

to students studying in Scotland, the Scottish Bill should refer to those undertaking full time education courses. Subordinate legislation under the Bill would define this to mean courses of higher or further education which require attendance at the relevant educational institution for more than 21 hours per week and for at least 26 weeks in the academic year (1 September to 31 August). A different approach may in due course be necessary in England and Wales because of the greater diversity of courses.

The need for support

12. For the majority of students, as for the majority of other young adult non-householders, rates are not at present perceptible. Students in halls of residence are not liable for rates and for them the introduction of the community charge will be a new burden. Students living elsewhere at present contribute to the rates through their rent or arguably through payments to parents, but these contributions are not explicit and are likely to be much less than the new community charge. The sums of money involved, whilst not representing a new burden for all, are quite significant: the charge will, for example, be £4-5 per week in 1986-7 terms (on a 52 week basis) by the time it is fully operational in Scotland in 1992. In my view this means that compensation will have to be provided. Final decisions on the form that this will take must await the outcome of the Student Support Review, and the Scottish Bill itself need do no more than establish the liability of students to pay the charge at their term time address. But we shall need to have some view to offer in debate at the Bill goes through the House next Session.

13. The following options have been considered:

13.1 A single flat rate addition to grant. On this approach students would receive additional grant each year related to the average community charge being levied at that time. On present assumptions and the existing pattern of spending the range of charges at the end of the transitional period seems too wide for a single flat rate addition to grant across Great Britain as a whole to be acceptable. (The current range of charges assumed is summarised in Annex A.)

13.2 Regional variations in the flat rate addition. Some regional variations in the system of flat rate additions to grant would produce a more satisfactory picture than the provision of a single flat-rate addition. There might, for example, be different flat-rates; for Scotland, for England and Wales outside London, and for London. Those in areas with community charges significantly different from the average for that group would feel the financial effects, so accountability would be preserved, but the extremes of the single flat rate solution would be avoided. The fact that the maximum grant is already higher in London offers a precedent for such arrangements.

13.3 Provision of specific protection. Two approaches might be adopted if it were considered desirable to provide specific protection for students against the effects of variations in the level of community charge from area to area. The first would be to provide assistance through the social security system. This would run counter to the general thrust of our policies on removing students' entitlement to benefits. The alternative would be to provide specific protection through the grant system. If it was decided that other adults should be compensated through the reformed housing benefit system there would be a case for setting the addition to grant on the same basis - 80% of the charge payable by the student at his term-time address. Specific protection through the grant system would be cumbersome to administer.

14. The Student Support Review is likely to report by the end of 1987. Final decisions on community charge compensation in Great Britain can be taken in the light of its recommendations. As pointed out above, however, some indication will need to be given in the course of the debate on the Scottish Bill about how compensation will be handled. I would be content for a system of flat rate addition to grant to be used in Scotland, including the 10,000 who receive their grants from LEAs in England and Wales. This should be in operation when the community charge is introduced in April 1989. This means of course that only students receiving grants would be given assistance. The arguments for providing compensation apply equally to England and Wales, but the method will need to be considered in the Student Support Review against the prospect that, on present assumptions, regional differences in the level of community charge will be wider south of the border when the new system is in full operation. And it may be decided in the light of the Student Support Review to handle compensation in Scotland differently in the longer term. In presenting our decisions it will be important to make clear that flat rate additions represent a satisfactory approach in the next few years but that options for the longer term remain open. In treating students as proposed we need to emphasise that this cannot be taken as a precedent for other groups for whom the community charge is a new burden.

Financial implications

15. Detailed calculations of the cost of compensating students studying in Scotland are set out in Annex B. These show the position with and without a means tested parental contribution, the latter being roughly 25% more costly. I would however be opposed to means testing. Seeking a contribution from parents towards the community charge for which their student children were liable in another area would amount to taxing them for services which they did not receive in areas where they had no vote. It would cut against the whole rationale of the charge.

16. The overall public expenditure implications are as follows. In 1992-93 the first year of full operation of the change in Scotland, it would cost some £12M to provide a scheme of flat rate additions to grant

equal to the estimated average community charge (based on 1986-87 patterns of expenditure) with no allowance for parental contribution. The Scottish share of these costs would be £9.8M, and would fall on central government (through the Students Awards Scheme administered by SED) and on local authorities providing bursaries. These costs would be met from the Scottish block. The cost to England and Wales local authorities providing awards to students studying in Scotland would be £2.2M and would represent an addition to their current expenditure. The central government expenditure would be offset to some extent by the abolition of rates on students' halls of residence which are at present paid by the UGC and not passed on in the rents charged to students. The cost of a similar scheme in England and Wales on present assumptions would be in the range £84M-£96M which would all fall on local education authorities who act as agents for DES in respect of students' awards and the bulk of which would be financed from DES Votes. There would be some additional cost for SED in respect of Scottish students studying in England and Wales. Account would need to be taken in future RSG settlements of the extent to which increased awards funded by central government to qualifying students are simply a transfer payment to local authorities.

Conclusions

17. Colleagues are invited to agree that

17.1 Students should be liable to pay the community charge.

17.2 They should be deemed to be resident throughout the year at their term time address and should be liable for a full year's charge there.

17.3 Compensation for students studying in Scotland should be provided initially through a system of flat rate additions to grant.

17.4 Additions to grants should not be subject to parental means testing.

17.5 Officials should proceed to work out a detailed scheme on these principles, to be in operation when the community charge is introduced in Scotland in April 1989.

17.6 Compensation for students studying in England and Wales should also be provided, but the method will be for consideration in the Student Support Review, which will also consider the long term position both in England and Wales and in Scotland.

M.R.

Scottish Office
12 September 1986

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COMMUNITY CHARGES: AVERAGE AND RANGE BY AREA

ANNEX A

L A AREA	AVERAGE COMMUNITY CHARGE		RANGE OF COMMUNITY CHARGES			
	with safety nets	without safety nets	with safety nets		without safety nets	
			MAX	MIN	MAX	MIN
Inner London (exc City)	£329	£529	£406 (Camden)	£172 (Ken & Chelsea)	£727 (Camden)	£317 (Ken & Chelsea)
Outer London	£239	£218	£462 (Haringey)	£175 (Bexley)	£435 (Haringey)	£149 (Croydon)
Greater London	£270	£331				
Metropolitan	£202	£219	£301 (New- castle)	£141 (Wakefield)	£340 (New- castle)	£132 (Dudley)
Shire Areas	£188	£166	£300 (Harlow)	£117 (Teeside)	£275 (Harlow)	£100 (Gillingham)
Scotland	£221	£221	£262 (Glasgow)	£160 (Gordon)	£291 (Glasgow)	£108 (Wigtown)
Wales	£119	£119	£169 (Colwyn)	£76 (Rhondda)	£159 (Port Talbot)	£91 (Cardiff)

Note: These figures assume 1986-87 patterns of spending and full implementation of the community charge.

APPROXIMATE COST OF COMPENSATING STUDENTS STUDYING IN SCOTLAND

(A) STUDENTS FROM SCOTLAND IN RECEIPT OF STUDENTS' ALLOWANCES, POSTGRADUATE STUDENTS' ALLOWANCES, SCOTTISH STUDENTSHIP AWARDS AND EDUCATION AUTHORITY BURSARIES

Academic Year	No of award holders ('000s)	Community charge (1986-7 prices)((£)	Cost of compensation (£m) (100% of average community charge)	
			Without Parental Contribution	With (1) Parental Contribution
1989-90	48	89	4.3	3.2
	47	134	6.3	4.8
	45	178	8.0	6.1
1992-93	44	223	9.8	7.5

(B) STUDENTS FROM ENGLAND AND WALES IN RECEIPT OF MANDATORY AWARDS, FULL VALUE DISCRETIONARY AWARDS, AND POSTGRADUATE AWARDS

Academic Year	No of award holders ('000s)	Community charge (1986-7 prices)((£)	Cost of compensation (£m) (100% of average community charge)	
			Without Parental Contribution	With (1) Parental Contribution
1989-90	10	89	0.9	0.7
1990-91	10	134	1.3	1.0
1991-92	10	178	1.8	1.4
1992-93	10	223	2.2	1.7

Notes: Postgraduate awards are not subject to parental contributions.