

ENVIRONMENT

NEWS RELEASE

1. cc Mr White
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MOST HOUSEHOLDS TO PAY LESS WITH THE COMMUNITY CHARGE

New figures published today show that nearly 60 per cent of households would pay less with the community charge than they do now with domestic rates, Local Government Minister John Gummer told the House of Commons.

In a written Answer to a Parliamentary Question from Mr James Couchman MP (Gillingham), Mr Gummer said:

"I have today placed in the Library a note updating figures on the impact on household finances of the community charge. The new figures show that:

- when fully implemented 58 per cent of households (11.1m) will gain from the introduction of the community charge;

- 83 per cent of single pensioner households and 75 per cent of other single adult households will gain from these proposals;

- percentage gains in net income are largest for the lowest income households;

- community charges on average would be less than domestic rates in all income bands up to £200 per week.

"The community charge will reduce the burden on the poorest. The lowest income group will pay less for Local Government. On average, their rates after rebates account for 3.9 per cent of net income, whereas the community charge accounts for 3.0 per cent. Of course there will be gainers and losers in any change but these figures show that the community charge with its rebate system cuts the direct cost of local government to the poorest (those households with less than £50 a week) by nearly 25 per cent.

"Many poorer people pay more in rates than those who are better off, even in the same local authority, because there is no necessary connection between rateable value and ability to pay. Generally, people buy their homes while they are working, when their incomes are at their highest, but remain in the home and have to continue paying the same rates when they retire with

reduced incomes. So it is no surprise that 41 per cent of households living in homes with above average rateable values have below average incomes.

"These figures demonstrate that the majority of households will in fact gain from the community charge; that the poorest households stand to gain; and that domestic rates do not reflect ability to pay.

"The revised figures take account of amendments made during the passage of the Local Government Finance Act 1988, local authorities budgetted spending levels in 1988-89, the 15 per cent community charge rebate taper announced on 14 April and incorporate the uprating of social security benefits announced for 1989-90."

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DEPARTMENT OF THE ENVIRONMENT

THE RELATIONSHIP BETWEEN LOCAL TAXES AND INCOME AND THE DISTRIBUTIONAL IMPACT OF THE COMMUNITY CHARGE

Local Taxes and Income

1. Figures 1-5 update the principal tables in Annex F of the Green Paper "Paying for Local Government" (Cmnd 9714) and supercede figures published on 13 January 1988. They have been prepared on an equivalent basis to the tables in the Green Paper except that they show the position for England rather than Great Britain; they have been prepared at 1988/89 price levels and incorporate the illustrative 1988/89 community charge figures published on 23 June. They incorporate current national tax rates and take account of the uprating of social security benefit announced for 1989/90.

2. The estimates have been made using sample information aggregated from the Family Expenditure Surveys of 1983, 1984 and 1985. There are 17,498 households in the sample. All the relevant information for those households has been brought forward to 1988/89 levels. While every effort has been made to ensure that these estimates give a fair description of the present situation and the likely future outcome, by the nature of the exercise, there are limits to the confidence which can be placed on their precision.

Domestic Rates

3. Figure 1 shows average domestic rate bills over ranges of net income, before and after rebates; in cash and as a percentage of net income. Before and after rebates, rate bills increase in cash as net household incomes rise. But even after rebates, households in the lowest income band have net rate bills of, on average, 3.9% of their net income. This compares to 2.3% for households with net weekly incomes of £500 or more. The effect of rebates, is to make net rates mildly progressive for the 4 lowest income bands. But households with incomes above £200 pw, on average, have rate bills which are smaller as a percentage of net income, than those with incomes below that.

4. The regressive nature of domestic rates can be partly explained by the relationship between rateable values and incomes. Figure 2 shows the ratio of average annual rateable values to average weekly net income. This ratio falls as net income rises. Households with a net weekly income of less than £50 have rateable values 6 times greater as a proportion of net income than those households in the highest income range.

5. Figure 3 shows the variations in rateable values within each income range. For those households with net incomes of less than £50 a week, 1 in 5 have rateable values of more than £200 (just above the average rateable value for the whole sample). Nearly 1 in 3 of those households in the highest income range have rateable values of less than the average. Overall, 41% of all households in England living in homes with rateable values above the average, have below average incomes.

The Community Charge System

6. The community charges paid by households will rise as household incomes rise (see Figure 4). Since the community charge will be collected from each adult, the rise in charges reflects the higher net income of households containing more adults. As with rates, the system of rebates reduces the community charge as a percentage of net income; from 10.9% to 3.0% in the lowest income band. Similarly, rebates cause the community charge to be progressive for incomes up to £150 per week.

7. It can be seen that over all households, community charges represent a slightly smaller proportion of net income than domestic rates, reflecting an increase in housing benefit entitlements. Net community charges represent a lower percentage of net income for households in all but one middle income band. Even in that band the net community charge as a percentage of net income is the same as under the domestic rate system. This reflects the average position for each income band. There are of course variations within these bands which are dealt with in the next section.

Figure 1: Relationship of gross and net rates to net household income. (England 1988/89 prices)

	Ranges of net household income (£pw)											All Households
	Under 50	50-75	75-100	100-150	150-200	200-250	250-300	300-350	350-400	400-500	500+	
Rate bills												
Gross £pw	6.43	6.80	7.50	7.83	8.51	9.10	9.97	10.66	11.51	12.45	15.41	8.76
Net £pw	1.72	2.67	4.37	6.46	8.13	8.94	9.88	10.62	11.49	12.42	15.40	7.36
As a % of net income in each range												
Gross	14.4	10.7	8.6	6.3	4.9	4.1	3.6	3.3	3.1	2.8	2.3	4.6
Net	3.9	4.2	5.0	5.2	4.6	4.0	3.6	3.3	3.1	2.8	2.3	3.8

Figure 2: Relationship between rateable value and income. (England 1988/89 prices)

	Ranges of net household income (£pw)											All Households
	Under 50	50-75	75-100	100-150	150-200	200-250	250-300	300-350	350-400	400-500	500+	
Average rateable value - annual	140	145	160	169	183	197	218	236	256	283	358	191
Average rateable value/average net household income (in weekly terms)	3.1	2.3	1.8	1.4	1.0	0.9	0.8	0.7	0.7	0.6	0.5	1.0

Figure 3: Percentage of households in each income range with rateable values in specified ranges. (England 1988/89 prices)

Ranges of rateable values (£s)	Ranges of net household income (£pw)					All Households
	Under 50	50-100	100-200	200-300	300+	
0-50	10	3	1	0	0	2
50-100	26	18	14	8	4	12
100-150	25	33	23	16	9	22
150-200	20	27	29	28	16	26
200-250	9	11	18	23	19	17
250-300	7	5	9	15	20	11
300-400	2	3	5	8	20	7
400+	1	0	1	2	13	3
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
% of all households in each income band	3.7	24.6	33.4	22.0	16.5	100

Figure 4: Relationship of gross and net community charge to net household income. (England 1988/89 prices)

Community charge	Ranges of net household income (£pw)											All Households
	Under 50	50-75	75-100	100-150	150-200	200-250	250-300	300-350	350-400	400-500	500+	
Gross £pw	4.86	5.34	7.39	8.16	8.98	9.72	10.15	11.00	11.25	12.19	12.81	8.66
Net £pw	1.34	2.05	3.49	5.82	7.95	9.02	9.63	10.45	10.78	11.61	12.24	6.86
As a % of net income in each range												
Gross	10.9	8.4	8.4	6.6	5.1	4.3	3.7	3.4	3.0	2.8	1.9	4.5
Net	3.0	3.2	4.0	4.8	4.5	4.0	3.5	3.2	2.9	2.6	1.9	3.6

Figure 5: Comparison of net domestic rates and community charges as a percentage of net incomes. (England 1988/89 prices)

	Ranges of net household income (£pw)											
	Under 50	50- 75	75- 100	100- 150	150- 200	200- 250	250- 300	300- 350	350- 400	400- 500	500+	All Households
Domestic Rates as a % net income in range	3.9	4.2	5.0	5.2	4.6	4.0	3.6	3.3	3.1	2.8	2.3	3.8
Community Charge as % net income in range	3.0	3.2	4.0	4.8	4.5	4.0	3.5	3.2	2.9	2.6	1.9	3.6

The Distributional Impact of Changes to Local Taxation and Grant

8. The Local Government Finance Act provides for the community charge to replace domestic rates in England in 1990/91. In the first year of the new system a safety net has been proposed which will adjust grant payments so that the amount collected in each area, in the first year of the new system, is broadly the same as would have been needed had domestic rates still been in place. This safety net is to be phased out in equal instalments over the following three years.

9. The distributional effects for households and tax units (the term tax unit refers to an income tax unit, which is either a married couple or a single person who may form part of a larger household) of the introduction of the community charge have been analysed on two bases:

(a) the effect in the first year of the community charge system, with a safety net. (Figures 6-8)

(b) the effects when the community charge system is fully in place and the safety net has been unwound. (Figures 9-11).

10. In both cases community charges and domestic rates are assumed to be at the level needed to finance 1988/89 local authority spending levels. No account is taken of other changes due to come into force in 1990/91 - such as the proposed new financial regime for local authority housing. Actual community charges will depend in large part on the spending decisions of local authorities between now and 1990. The community charge figures used here are the illustrative figures published on 23 June 1988, but without dual running in Inner London.

11. As can be seen in Figure 6, in all regions over half of households pay less as a result of the introduction of the community charge, with a safety net: 57% of households in England would have experienced a change in their local rate/community

charge bill of less than £2 per week. For over 75% of households this change represents less than 2% of their net income.

12. Figure 7 shows there is a marked effect by household type. About 80% of households with three or more adults pay more while over 80% of single adult households pay less.

13. Figure 8 shows the pattern of gainers and losers by tax unit type. The principle difference between this and Figure 7 is that it breaks down the "3+ adult" households. It shows as losers single adults, who are members of multi-unit households and who will be meeting the cost of local services for the first time, (though they may live within a household which is gaining).

14. Figures 9-11 illustrate the position without the safety net. The pattern of gainers and losers by region is less even. This is because, under the present system, areas with below average rateable values generally receive more grant than areas with above average rateable values. This process of resource equalisation is intended to equalise rate poundages and is based on the premise that rateable values are a good indicator of ability to pay. The net result is that rate bills can vary widely between regions for the same standard of local services. With the **community charge** everybody should pay the same amount for equivalent levels of service.

15. Figure 9 shows that in England as a whole, 58% of households would be gainers. Households in the Northern and Yorkshire and Humberside regions are likely to have a preponderance of losers. Conversely households in the South East, East Anglia and the West Midlands are expected to show a preponderance of gainers.

16. Figure 10 shows the expected pattern of gainers and losers by household type. Single adult households gain (83% of single pensioners), two adult households have a small majority of gainers, and households with three or more adults preponderantly lose.

17. Figure 11 illustrates the same point for tax units. Over half would gain. The losers are concentrated in the "other single adult" category; those who will be drawn into paying for local services for the first time.

18. Figures 9-11 describe a position which will only be reached in practice by 1994/95. These illustrations, which are necessarily based on the assumption that local authority spending is unchanged from 1988/89, cannot be taken as a prediction of the eventual outcome.

FIGURE 6

IMPACT OF THE COMMUNITY CHARGE WITH SAFETY NETS (1990/91 POSITION: ENGLAND)

Number of Gainers and Losers: Thousands of Households

	Northern ('000s)	Yorks & Humberside ('000s)	North Western ('000s)	East Midlands ('000s)	West Midlands ('000s)	East Anglia ('000s)	Greater London ('000s)	South East ('000s)	South Western ('000s)	England ('000s)
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POUNDS PER WEEK

LOSERS

10+	5	15	20	20	20	5	35	55	15	185
5-10	80	115	160	95	95	35	140	225	75	1015
2-5	205	300	265	220	250	100	330	555	230	2455
1-2	100	150	190	145	185	75	235	375	140	1595
0-1	240	390	420	285	310	155	370	490	295	2955

Total Losers

625 45% 970 44% 1055 41% 765 46% 860 40% 365 43% 1110 45% 1695 42% 755 44% 2055 43%

GAINERS

0-1	380	560	655	370	495	185	500	690	385	4200
1-2	130	215	300	185	245	105	310	455	185	2130
2-5	170	285	360	230	355	125	400	680	270	2880
5-10	70	130	180	100	155	50	135	395	100	1315
10+	15	40	40	30	45	15	35	130	20	365

Total Gainers

770 55% 1230 56% 1525 59% 915 54% 1290 60% 475 57% 1380 55% 2355 58% 960 56% 10910 57%

PERCENTAGE OF NET INCOME

LOSERS

10+	0	0	0	0	0	0	0	0	0	0
5-10	0	10	10	5	5	0	15	20	0	60
2-5	135	215	210	165	170	60	170	300	130	1555
1-2	165	265	280	180	210	90	300	505	205	2210
0-1	325	485	555	415	475	210	625	870	420	4380

Total Losers

625 970 1055 765 860 365 1110 1695 755 8205

GAINERS

0-1	395	620	700	410	550	220	625	1000	480	4990
1-2	200	300	420	260	355	140	390	640	230	2930
2-5	150	255	345	210	320	100	305	580	210	2480
5-10	25	45	50	35	60	15	55	115	35	435
10+	0	10	10	5	10	5	10	20	5	75

Total Gainers

770 1230 1525 915 1290 475 1380 2355 960 10910

Note: Figures are rounded to nearest 5,000

FIGURE 7

IMPACT OF THE COMMUNITY CHARGE WITH SAFETY NETS (1990/91 POSITION: ENGLAND)

Thousands of Gainers and Losers : Household Types

	Single pensioner	Other single adult	Two Adults	Three + adults	All Households
POUNDS PER WEEK					
LOSERS					
10+	0	0	5	175	185
5-10	0	10	300	705	1015
2-5	15	145	1655	645	2455
1-2	45	175	1120	250	1595
0-1	330	360	2100	165	2955
Total Losers	385	685	5185	1945	8205
GAINERS					
0-1	1405	880	1810	125	4220
1-2	475	425	1110	110	2130
2-5	410	720	1580	170	2880
5-10	250	370	635	65	1315
10+	50	60	230	25	365
Total Gainers	2590	2455	5370	495	10910

PERCENTAGE OF NET INCOME

LOSERS					
10+	0	0	0	0	0
5-10	5	15	35	5	60
2-5	25	120	800	615	1555
1-2	45	195	1265	700	2210
0-1	315	360	3085	620	4380
Total Losers	385	685	5185	1945	8205
GAINERS					
0-1	965	800	2940	285	4990
1-2	680	665	1450	140	2930
2-5	685	815	910	70	2480
5-10	220	150	60	5	435
10+	40	20	10	0	75
Total Gainers	2590	2455	5370	495	10910

Note: Figures are rounded to nearest 5,000

IMPACT OF THE COMMUNITY CHARGE WITH SAFETY NETS (1990/91 POSITION: ENGLAND)

Thousands of Gainers and Losers: Tax Unit Types*

	Single Adults			Couples				ALL TAX UNITS
	Single pensioner	One Parent family	Other single adult	no children	1 child	2 children	3+ children	
POUNDS PER WEEK								
LOSERS								
10+	0	0	0	10	5	5	0	25
5-10	40	10	1215	215	70	55	15	1615
2-5	160	20	2910	1005	335	300	120	4335
1-2	180	20	690	665	215	205	70	2045
0-1	515	80	1100	1205	355	380	180	3815
Total Losers	895	130	5910	3100	985	940	390	12350
GAINERS								
0-1	1425	305	655	1130	295	355	145	4310
1-2	505	115	415	670	195	285	70	2250
2-5	795	175	1095	945	325	400	125	3855
5-10	340	85	565	380	130	195	70	1765
10+	70	15	85	145	35	70	30	450
Total Gainers	3130	695	2820	3270	980	1300	435	12630

PERCENTAGE OF NET INCOME

LOSERS								
10+	0	0	35	5	0	0	0	35
5-10	100	0	2150	55	10	10	5	2325
2-5	255	30	3000	555	175	130	45	4185
1-2	210	60	345	795	225	220	80	1940
0-1	325	40	385	1695	575	585	255	3860
Total Losers	895	130	5910	3100	985	940	390	12350
GAINERS								
0-1	980	285	605	1665	530	730	245	5040
1-2	700	170	650	855	260	355	125	3110
2-5	775	180	1060	640	170	200	65	3095
5-10	575	50	390	90	15	10	5	1130
10+	100	5	115	25	5	0	0	250
Total Gainers	3130	695	2820	3270	980	1300	435	12630

Note: Figures are rounded to nearest 5,000

* The term tax unit refers to an income tax unit, which is either a married couple or single person. Tax units which do not contain a person aged 18 or over are excluded from the figures - they would gain or be unaffected by community charge.

FIGURE 9

IMPACT OF THE FULL COMMUNITY CHARGE WITH NO SAFETY NETS (ENGLAND)

Number of Gainers and Losers: Thousands of Households'

	Northern (<u>'000s</u>)	Yorks & Humberside (<u>'000s</u>)	North Western (<u>'000s</u>)	East Midlands (<u>'000s</u>)	West Midlands (<u>'000s</u>)	East Anglia (<u>'000s</u>)	Greater London (<u>'000s</u>)	South East (<u>'000s</u>)	South Western (<u>'000s</u>)	Englan (<u>'000s</u>)
POUNDS PER WEEK										
LOSERS										
10+	35	50	40	25	5	5	135	10	10	31
5-10	165	250	180	120	45	20	225	100	75	118
2-5	265	365	270	215	170	80	285	335	220	220
1-2	110	220	210	155	125	55	225	220	130	144
0-1	275	435	435	265	265	140	310	415	275	282
Total Losers	850	1325	1130	780	610	295	1185	1080	710	797
GAINERS										
0-1	295	420	590	340	505	180	445	725	395	388
1-2	80	155	285	205	315	115	275	490	185	211
2-5	115	180	355	225	430	155	385	905	290	304
5-10	50	95	180	100	220	70	160	625	115	161
10+	10	30	40	30	75	15	40	230	25	40
Total Gainers	550	875	1450	900	1540	545	1305	2970	1010	1111
PERCENTAGE OF NET INCOME										
LOSERS										
10+	0	0	0	0	0	0	5	0	0	1
5-10	15	40	10	5	0	0	120	5	0	18
2-5	265	400	265	200	85	35	330	120	125	19
1-2	210	350	290	190	140	70	245	275	190	39
0-1	360	530	565	385	385	190	480	675	395	79
Total Losers	850	1325	1130	780	610	295	1185	1080	710	79
GAINERS										
0-1	290	460	645	410	550	225	605	1030	480	46
1-2	125	200	415	245	480	170	335	860	260	30
2-5	115	185	315	210	415	130	295	870	220	27
5-10	15	25	65	30	80	20	60	180	40	5
10+	0	5	10	5	10	5	10	30	5	5
Total Gainers	550	875	1450	900	1540	545	1305	2970	1010	111

Note: Figures are rounded to nearest 5,000

IMPACT OF THE FULL COMMUNITY CHARGE WITH NO SAFETY NETS (ENGLAND)

Thousands of Gainers and Losers : Household Types

	Single <u>pensioner</u>	Other <u>single adult</u>	Two Adults <u> </u>	Three + <u>adults</u>	All <u>Households</u>
POUNDS PER WEEK					
LOSERS					
10+	0	0	80	230	310
5-10	5	50	545	590	1185
2-5	30	165	1430	580	2205
1-2	50	190	965	240	1445
0-1	405	390	1835	190	2820
Total Losers	490	795	4855	1825	7970
GAINERS					
0-1	1330	805	1600	155	3885
1-2	445	420	1130	120	2110
2-5	385	625	1815	215	3040
5-10	255	430	835	90	1610
10+	70	70	315	40	495
Total Gainers	2485	2350	5700	615	11145
PERCENTAGE OF NET INCOME					
LOSERS					
10+	0	5	5	0	15
5-10	5	30	105	50	195
2-5	45	165	1010	610	1830
1-2	80	210	1125	545	1965
0-1	360	385	2605	615	3965
Total Losers	490	795	4855	1825	7970
GAINERS					
0-1	860	755	2745	340	4695
1-2	670	595	1645	185	3095
2-5	655	805	1210	90	2760
5-10	260	160	85	5	510
10+	45	25	10	0	80
Total Gainers	2485	2350	5700	615	11145

Note: Figures are rounded to nearest 5,000

IMPACT OF THE FULL COMMUNITY CHARGE WITH NO SAFETY NETS (ENGLAND)

Thousands of Gainers and Losers: Tax Unit Types*

	Single Adults			Couples				ALL TAX UNITS
	Single pensioner	One Parent family	Other single adult	no children	1 child	2 children	3+ children	
POUNDS PER WEEK								
LOSERS								
10+	0	0	65	65	15	10	0	165
5-10	35	15	1165	340	125	100	40	1815
2-5	195	20	2995	865	300	280	95	4750
1-2	180	30	800	560	190	190	55	2005
0-1	600	105	975	1085	270	325	170	3535
Total Losers	1010	170	6005	2910	905	910	360	12270
GAINERS								
0-1	1340	280	620	990	255	270	130	3285
1-2	470	115	405	665	215	240	80	2195
2-5	765	155	995	1100	365	480	140	3990
5-10	345	90	600	525	170	240	80	2050
10+	90	20	100	185	55	95	40	590
Total Gainers	3015	655	2725	3465	1060	1330	465	12710
PERCENTAGE OF NET INCOME								
LOSERS								
10+	5	0	80	10	0	0	0	90
5-10	100	0	2115	105	25	10	5	2365
2-5	255	35	3055	670	205	190	60	4465
1-2	275	60	385	665	245	200	75	1900
0-1	380	75	370	1460	430	515	220	3450
Total Losers	1010	170	6005	2910	905	910	360	12270
GAINERS								
0-1	870	265	595	1575	515	575	230	4625
1-2	685	155	565	930	300	465	130	3230
2-5	750	170	1045	820	225	275	100	3390
5-10	595	55	400	110	15	15	5	1200
10+	110	10	120	25	5	0	0	270
Total Gainers	3015	655	2725	3465	1060	1330	465	12710

Note: Figures are rounded to nearest 5,000

* The term tax unit refers to an income tax unit, which is either a married couple or single person. Tax units which do not contain a person aged 18 or over are excluded from the figures - they would gain or be unaffected by community charge.