

## ADVISORY PANEL ON CONSUMER PRICES - TECHNICAL

### Inclusion of Council Tax in CPIH

#### Purpose

1. This paper seeks the advice of advisory panel members on the manner of inclusion of Council Tax into the Consumer Price Index including Housing (CPIH) and CPIH excluding indirect taxes (CPIHY).

#### Recommendations

2. Members of the Panel are invited to:
  - a) provide advice on the recommendation that Council Tax should be included as a direct tax, and should be excluded from CPIHY (as it is for the RPI equivalent: RPIY)
  - b) provide advice on the recommendation that Council Tax should be classified as part of the *Housing* division in COICOP, by creating a new classification at lower levels of aggregation
  - c) consider whether the series should be revised back to 2005

#### Background

3. In 2011 the Consumer Prices Advisory Committee (CPAC) discussed a proposal to extend CPIH item coverage to include Council Tax, an item often considered to be a direct tax and outside the scope of household final consumption expenditure. As council tax is an important cost associated with using a dwelling, it is appropriate in a measure which includes owner occupiers housing costs, such as the CPIH. It is not currently included in the Harmonised Index of Consumer Prices (HICP), produced for Eurostat, or the Consumer Price Index (CPI) as it is classed as a direct tax. In 2012 CPAC recommended that council tax should be included in the CPIH.
4. Recommendation 22 of the Johnson review in 2015 stated that the UK Statistics Authority should consult on including Council Tax in the CPIH. Following the 2015 consultation on consumer prices, John Pullinger stated in his letter of 9th March 2016 that ONS will be 'preparing for other changes, such as including Council Tax in the CPIH calculation'.
5. This paper sets out some important considerations that need to be addressed for implementing this item into the CPIH.

#### Inclusion in CPIH-Y

6. CPIH-Y is CPIH excluding indirect taxes, with the aim of measuring underlying price movement for UK households.
7. Direct tax is that which is paid directly to Government by consumers. Indirect tax is that levied on goods and services, and is collected by the Government from a member of the supply chain rather than the consumer. Johnson argued that Council Tax could be treated

more as a VAT on housing, which would make it an indirect tax, citing the Mirrlees review which argued strongly for this method.

8. It could also be argued that Council Tax provides households with services, such as the emptying of bins and maintenance of public services. Therefore it could be treated as payment for a service, rather than a tax, in the CPIH.
9. The treatment of Council Tax, as a service, indirect tax or direct tax, would make little practical difference to CPIH. However, its treatment would affect CPIHY, which specifically removes indirect tax.
10. There is precedent for including similar taxes in the CPIH. Vehicle Excise Duty for instance is included. The Eurostat view was that, although it was a borderline case, *“Eurostat has taken the position with several Member States that road tax should be seen as a payment for the use of road facilities as supplied by government, rather than as a license to use the vehicle”*. Based on this argument, it could similarly be argued that Council Tax is a payment for the use of Council facilities. Vehicle Excise Duty is not included in CPIHY.
11. TV licenses are regarded as an indirect tax by National Accounts and are included in CPIH, as they are treated as the purchase of services rendered by the government. This differs from license on the use of vehicles, boards or aircraft, which are treated in most cases as indirect taxes.
12. Council Tax is included in the Retail Price Index (RPI). A similar variant of the RPI exists, which excludes indirect taxes (RPIY). Council tax is excluded from this measure, which suggests a precedent for CPIHY.
13. On this basis, and because the aim of the index is to measure the underlying price movement, we recommend that Council Tax should not be included in CPIH-Y.

### **COICOP Classification**

14. CPIH follows the international Classification Of Individual Consumption according to Purpose (COICOP). To incorporate Council Tax into the index we need to consider how it will fit into this classification structure.
15. Considering how other countries have incorporated property taxes into their classification structures, we see that the classification structuring for New Zealand and Canada’s equivalents of council tax vary slightly. In New Zealand, property rates are classified under the *Housing* division. The services provided form classes in the *Property Tax and Related Services* group. In Canada, property taxes are considered a class within the sub group *Owned accommodation*, which is a sub-group of *Shelter*, which is analogous to *Housing* in COICOP. Australia’s Council Rates are also included under *Housing*. For more information on what is included in their respective property taxes see Annex A.

16. The only unused COICOP class in the UK's CPI is *Refuse collection*, which is part of the *Water supply and miscellaneous services relating to the dwelling* group in *Housing*. Rather than use this, it is therefore proposed to create a dummy classification for Council Tax at COICOP levels 5 to 3, which will then feed into the Housing division at COICOP level 2.

## Revisions

17. Planned improvements to the data sources and methodology used to calculate imputed rentals were included in Blue Book 2016. Imputed rentals expenditure is used when creating weights for the owner occupiers' housing (OOH) component of CPIH. In 2015, ONS revised the weights for the OOH component within CPIH back to 2005. Revising ensured that the OOH component weight aligned with historical estimates and mitigated a future step change in the weight for 2017 when the planned improvements would be taken on from Blue Book 2016.
18. Since these estimates were used to create the 2015 weight for imputed rentals, the planned improvements for Blue Book 2016 have been finalised and the expenditure on imputed rentals were revised downward from the initial estimates. Due to these revisions, there has been a shift downwards in the weight for imputed rentals between 2015 and 2016.
19. ONS is therefore considering whether to revise the weights for OOH based on the finalised Blue Book 2016 data. Revising the weights would also present an opportunity to incorporate Council Tax revisions into CPIH back to 2005.

**John Lewis, Tom Lewis, Chris Payne**  
**Prices, Office for National Statistics**  
**September, 2016**

## List of Annexes

<b>Annex A</b>	International treatment of taxes
<b>Annex B</b>	Methodology used in calculation of council tax

## Annex A- International treatment of Similar Taxes

20. ONS has conducted research into the treatment of Council Tax (and equivalent costs) in the national CPIs of Canada, Australia and New Zealand, in order to aid ONS in determining how to proceed.
21. Australia, New Zealand and Canada all currently include Council Rates/Property Tax in their National CPIs and each surveys their rates annually. The services provided from council tax equivalents in these countries can be seen in figure 1 below.

**Figure 1: Services provided by Council Tax (or equivalent)**

<u>List of Services Provided from Council Tax in UK</u>	<u>Canada</u>	<u>Australia</u>	<u>NZ</u>
Police	Yes	Yes	Yes
Fire services	Yes	Yes	Yes
Recycling	Yes	Yes	Yes
Refuse collection	Yes	Yes	Yes
Council run leisure centres	Yes	Yes	Yes
Park and ride schemes	Yes	Yes	Yes
Maintenance of parks and open spaces	Yes	Yes	Yes
Street cleaning	Yes	Yes	Yes
Public transport subsidies	Yes	Yes	Yes
Tourism	Unknown	Unknown	Unknown
Museums	Yes	Yes	Yes
Planning services	Unknown	Unknown	Yes
Support for voluntary groups	Unknown	*	Unknown
Facilities for the young	Yes	Yes	Yes
Social care	Unknown	Yes	Yes
Play centres for children	Yes	Yes	Yes
CCTV installation	Unknown	Unknown	Unknown
Sports Facilities	Yes	Yes	Yes
Flood defences	Unknown	**	Yes
Funding Local Schools	Yes	Yes	Yes

\* Provide Community Centres

\*\* Bushfire Prevention

## Annex B – Methodology used in calculation of council tax

### Purpose

1. This annex outlines the methodology used to calculate council tax (rates in Northern Ireland), which will be included in CPIH. The methodology is the same as that used in RPI.

### England, Scotland and Wales

2. The council tax index is based on the average Band 'D' council tax bills across all households in Great Britain.

3. Council tax bills for other bands are set as fixed proportions of the Band D bill, and so the price change experienced by households occupying these homes will be the same as Band D.

4. The average Band D council tax bill across all local authorities is received annually from the Department of communities and local government (DCLG) and Welsh Government. Council tax bills in Scotland have been frozen since 2007, and this freeze will continue until April 2017.

5. Using these figures a Dutot index is calculated, where the average band D price for all regions is compared to last year's average band D price. The change in price is obtained from the DCLG's annual publication, which is released in March.

6. The council tax index uses the amount liable by the household, rather than the payments made, in its calculations.

### Northern Ireland

7. The index for Northern Ireland rates is based on the average net domestic rates bill per year.

8. The Department of Finance and Personnel in Northern Ireland supplies the average net domestic rates bill annually and an index is derived by comparing the current year's bill with the previous year's bill. The calculation is shown in figure 1.

Figure 1

$$\text{Rateable capital value of property} \times \left( \text{Domestic regional rate} + \text{Domestic district rate} \right) = \text{Rates payable}$$

### Effect on Indices

9. In the CPIH the combined weight for council tax and rates will be approximately 3 per cent.

10. Council tax and rates have a combined weight of approximately 4 per cent in the RPI. The section weight is derived from weekly average council tax liability collected in the Living Costs and Food Survey (LCF).