

ADVISORY PANEL ON CONSUMER PRICES – TECHNICAL

Treatment of the upcoming energy rebate (Council Tax)

Status: Final

Expected publication: Alongside the minutes for April 2022

Purpose

1. The UK Government recently announced a [package of support](#) to help households to manage rising energy bills. This paper sets out our proposed treatment of one aspect of the package - the April 2022 Council Tax rebate - in our consumer price inflation statistics. Specifically, these are the Consumer Prices Index including owner occupiers' Housing costs (CPIH) and the Retail Prices Index (RPI). Specifically, we recommend that the rebate should not be reflected in our measures, consistent with the National Accounts classification decision.

Actions

2. Members of the Panel are invited to:
 - a) Note the decision of the Economic Statistics Classification Committee, that the Council Tax rebate should be classified as a payable tax credit.
 - b) Comment on the ONS's suggested approach for CPIH and RPI of not altering the existing methodology, so that the rebate is excluded from the relevant item indices.

Background

3. On 3 February 2022, the UK Government announced a [package of support](#) to help households to manage rising energy bills. The details are described as follows:
 - i. A £200 discount on their energy bill this Autumn for domestic electricity customers in Great Britain. This will be paid back automatically over the next 5 years.
 - ii. A £150 non-repayable Council Tax Rebate payment for all households that are liable for Council Tax in Bands A-D in England.
 - iii. £144 million of discretionary funding for Local Authorities to support households who need support but are not eligible for the Council Tax Rebate.
 - iv. The devolved administrations are receiving around £715 million funding through the Barnett formula as usual where UK Government support doesn't cover Scotland, Wales or Northern Ireland.
4. This paper sets out the approach we intend to take for measure ii (and partially for measure iv), the Council Tax Rebate payment. Consideration is also being given to measure i; however, given that we have limited information about the rebate and it is not due until the Autumn, this will be addressed in a later APCP-T paper. Measure iii is out of scope, as the support is by definition discretionary. It does not represent a payment for a good or service and, as such, has no price associated with it.
5. Further information on how the Council Tax Rebate will be administered is available through the [billing guidance for local authorities](#). Eligible households with a direct debit instruction will receive the rebate as an automatic payment, and those eligible households without a direct debit will be able to raise a claim to receive the rebate. The discretionary funding in

measure iii can be claimed in a similar way; for example, by a low income household living in a higher band property. A small number of cases may receive the rebate as a credit on their Council Tax account; however, this doesn't impact on their Council Tax liability.

6. Decisions on whether to include rebates in our consumer price inflation statistics are taken on a case-by-case basis. We aim to be consistent with the National Accounts, the Public Sector Finances, and other economic statistics. These decisions are based on international statistical guidance and practical considerations. More information is provided in section 9.2 of our [Consumer Price Indices Technical Manual](#).

Current methodology

7. Council Tax is currently included in our preferred measure of inflation, CPIH, as well as RPI, a legacy measure of inflation. It is out of scope of the Consumer Prices Index (CPI), which is an internationally comparable inflation metric (based on the methodology of Eurostat's Harmonised Index of Consumer Prices).
8. The methodology in both indexes is currently the same, and is described in section 11.5.3 of our [Consumer Price Indices Technical Manual](#).
9. Within Great Britain, Council Tax is levied across 8 bands (A to H), based on the assumed capital value of the dwelling. Changes in the Tax rate occur annually in April and are applied to Band D. Rates for other bands are applied as a fixed proportion of the Band D rate. Therefore, changes in the tax rate are proportional across all bands.
10. Average Band D Council Tax rates are acquired from the Department for Levelling up, Housing and Communities (DLUHC) in England, and the Scottish and Welsh Governments. Their associated price movements are weighted together using the number of chargeable properties (multiplied by average base period prices).
11. Northern Ireland rates are calculated as a separate basket item. The same methodology is applied and is based on average rates supplied by the Department of Finance.
12. The weight for Council Tax and rates is distributed amongst the countries as follows: England 84.9%, Scotland 7.8%, Wales 5.3% and Northern Ireland 2%.
13. As regards the current treatment of discounts and rebates in the administrative data sources, the methodological notes accompanying the England data state that the Band D Council Tax figure, "is the council tax payable on a Band D dwelling occupied as a main residence by at least two adults, after any reductions due to discounts, exemptions or local council tax support schemes." However, the current scheme is not the same as applying a discount or exemption on the amount of Council Tax a household would need to pay. The household Council Tax liability remains the same.

Economic Statistics classification decision

14. Details of the formal classification decision on the recording of the England Council Tax rebate scheme in the National Accounts and the Public Sector Finances statistics were published in the [Public Sector Classification Guide](#) on 28 February 2022.
15. ONS assessed the classification of the Council Tax rebate in England, which is part of the government's recently announced Energy Bills Rebate package. ONS has concluded that there is no reduction to Council Tax liability, and in accordance with the international guidance, the Council Tax rebate in England should therefore be classified as a payable tax credit.

16. As part of the assessment, consideration was given to the international guidance related to social assistance benefits in cash. However, the rebate is not included within the remit of an established general social protection policy, and the background of the creation of the scheme is not linked, for example, to low-income considerations. A capital transfer was also considered, but the assessment concluded that this rebate was designed to assist households with the large increase in energy bills, rather than increasing their wealth. ONS has therefore concluded that the Council Tax rebate in England should be classified as a payable tax credit, specifically an Other miscellaneous current transfer (D.759) from the central government subsector (S.1311) to the households sector (S.14), and recorded when it is due in April 2022.
17. The implication of this decision for consumer price inflation is that the rebate is not part of household expenditure and should therefore be treated as out of scope of CPIH and RPI.

Proposed treatment for CPIH and RPI

18. We have received confirmation from DLUHC that the Council Tax Rebate (i) will not be reflected in the source data for England. Because of the way it is administered, it has no impact on the calculation of Council Tax levels, the tax base or household liability and is therefore not included.
19. The application of the [support package in Wales](#) mirrors that in England, with a £150 payment for households living in Council Tax Band A to D properties and a further discretionary fund for struggling households. Welsh Government contacts have confirmed that the payment will not be taken off the Council Tax bill. Whilst the guidance itself is still being finalised, it appears that the rebate will not be included in the Council Tax data we receive for Wales.
20. A similar approach to England and Wales will also be taken in Scotland, however, there are fewer details available. We are currently seeking more information on how the rebate will be administered, and whether the rebate will be captured in the Scotland Council Tax data. In the meantime, the working assumption has to be that the data would be treated in the same way as in England and Wales.
21. At present, there appear to be no plans in Northern Ireland to apply the allowance to the rates bill in April. Therefore, the rates data that we use will reflect the actual amount paid by Northern Ireland households.

Next steps

22. We therefore propose that **the Council Tax rebate should not be reflected in the Council Tax and Northern Ireland rates indices in either CPIH or RPI**. On the current available evidence, it will not be necessary to adapt the methodology as the England data will not include the rebate. This is less clear cut for the devolved regions. We will continue to seek clarity on how the rebate is reflected in the Council Tax statistics that we use, and depending on the response may need to make an adjustment to the source data. In the worst case, it may be necessary to make an assumption about how the rebate is treated in the devolved data. However, the weight of the devolved regions is relatively low in the calculation and we do not consider that this should influence our general approach as set out in this paper.

23. The Economic Statistics Classification assessment for measure i of the Energy Bills Rebate package, which is the proposed £200 discount on autumn 2022 domestic energy bills, will be made when more information becomes available.
24. Once the Economic Statistics Classification decision has been made we will consider how and whether the treatment of measure i can be consistently incorporated into our consumer price inflation statistics which, for the purpose of measure i includes the CPI, as well as CPIH and RPI.

Christopher Payne
Prices Division
March, 2022