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PRIME MINISTER

16 November 1987

TRANSITION TO THE COMMUNITY CHARGE

You are meeting tomorrow to decide between options 1 and 2 in the latest Cabinet Office paper on the transition to the Community Charge.

Preferred Option

In our note before the last meeting of E(LF) we argued that the decision on the transitional arrangements for the Community Charge was primarily a political one. The views of Government Backbenchers pointed clearly to a solution that involved dual running in inner London but not elsewhere. This remains our advice and we therefore recommend that you support option 2 in the Cabinet Office paper.

Numbers of Gainers and Losers

Annex B to the Cabinet Office paper shows that in 1990-91 there are 209,000 more households gaining under option 1 than under option 2, and 1990-91 is the key year because thereafter the gains get progressively closer together. Equivalently 209,000 more lose under option 2 than option 1. This is a relatively insignificant number, some 1.2% of all households. The regional picture is similar except in the South. There, there are 85,000 more gainers under option 2 than option 1 - 1.4% of all households in the region.

However, the key difference between the options is that there are more households with large gains and losses under option 2 than under option 1. For example some 1.8 million more households (10% of all households) lose over £1 a week under option 2 than under option 1 but equally 1.4 million

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more households (8% of all households) gain £1 a week or more under option 2 than option 1. More marked still, nearly 2 million more households (11% of all households) lose over £2 a week under option 2 than option 1 and 1.7 million more households (10% of all households) gain £2 a week or more under option 2 than under option 1. On the other hand, some 3.2 million more households are broadly unaffected by the change under option 1 compared to option 2, in the sense that they gain or lose less than £1 a week.

Effect on households in selected authorities

The tables showing the effects of the options on households in selected authorities show a clear pattern, as can be seen in table 1 attached to this note which shows the position in 1990-91.

Option 1 is always better for:

- new payers
- two adults living in small houses
- three adults living in average or large houses

Option 2 is always better for:

- one adult living in a small house
- two adults living in a large house

Both options have broadly the same effect on two adults living in an average sized house, with a maximum difference of about £20 a year.

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Conclusion

Primarily on political grounds we recommend that you support option 2 rather than option 1. This option will also be substantially cheaper in administrative costs and is probably simpler for the public to understand in most areas. However, it does produce a sharper change from rates than option 1 with more large gains and losses and fewer households broadly unaffected in 1990-91. New payers, two adult households living in small houses and all three adult households will be less well off in 1990-91 under this option than under option 1. On the other hand one adult household in small houses and two adult households in large houses will benefit whilst those in average houses will be broadly unaffected in the sample of authorities for which figures are given.

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Table 1

COMPARISON OF OPTIONS 1 AND 2 : EFFECT ON HOUSEHOLDS IN
SELECTED AUTHORITIES IN 1990-91

| <u>Household</u> | <u>Effect</u> | <u>Largest Gain</u> | <u>Smallest Gain</u> |
|------------------------------|-------------------------------------|---|--|
| New Payers | Always better off under Option 1 | £225 - Basildon Moderate RV High Spending | £37 - Pendle Low RV Moderate Spending |
| 1 Adult Small House | Always better off under Option 2 | £95 - Ealing High RV High Spending | £10 - Pendle Low RV Moderate Spending |
| 2 Adults Small House | Always better off under Option 1 | £145 - Basildon Moderate RV High Spending | £25 - Pendle Low RV Moderate Spending |
| 2 Adults Average House | Small effect either way | £21 under Option 2 Ealing/St Albans High RV Mod/High Spending | £17 under Option 1 Eastbourne High RV Low Spending |
| 2 Adults Large House | Always better off under Option 2 | £148 - Ealing High RV High Spending | £12 - Pendle Low RV Moderate Spending |
| 3 Adults Average House | Always better off under Option 1 | £240 - Basildon Moderate RV High Spending | £42 - York Low RV Low Spending |
| 3 Adults Large House | Always better off under Option 1 | £109 - Basildon Moderate RV High Spending | £18 - York Low RV Low Spending |

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