

CONFIDENTIAL



CCPS

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Malcolm Rifkind QC MP
 Secretary of State for Scotland
 Scottish Office
 Dover House
 Whitehall
 London
 SW1A 2AU

NBM

17th February 1987

Dear Malcolm,

ADRES BILL: TRANSITIONAL PERIOD

FILE WITH IN

Thank you for copying to me your letter of 6 February to Willie Whitelaw. I have also seen Nicholas Ridley's letter of 13 February.

Nicholas has suggested a collective discussion of your proposal. I am sure that is right, but there are two points raised by your ideas which I think we could clarify beforehand. They concern student support and community charge rebates.

We have agreed that students studying in Scotland who receive a mandatory award should get a flat rate enhancement to help them pay the community charge. (Officials are considering the details.) Local authorities will benefit from the resulting Exchequer support, paid first to students as part of their grant and then by the students to authorities as community charges. To preserve the position of the Exchequer, local authorities and other community charge payers it will be necessary to reduce direct Exchequer support to local authorities - Aggregate Exchequer Grant - below what would otherwise be appropriate in Scotland by an amount equal to the addition to spending on student awards.

This is not strictly a point about transition. But under your proposal the necessary adjustment to AEG in Scotland would fall primarily in 1989-90, and not also be phased in over three years.

CONFIDENTIAL

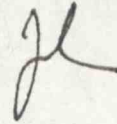
LOAN GOVT
NOTES
P 76

The same point arises in connection with rebates from the community charge in Scotland. To the extent that such rebates exceed rebates from rates, additional Exchequer support to local authorities will be channelled through individuals, and a compensating reduction in AEG would be appropriate.

Could I have your confirmation that you agree full adjustments to AEG in Scotland would be necessary? In due course, similar adjustments may be necessary in England and Wales, depending on our final decisions about students and about rebates.

I am copying this letter to the Prime Minister, Willie Whitelaw, Nicholas Ridley, other members of E(LF) and to Sir Robert Armstrong.

Yours etc,



JOHN MacGREGOR

