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My ref:

Your ref:

The Rt Hon John MacGregor OBE MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

23 February 1987

Dear Chief Secretary,

COMMUNITY CHARGE - REDUCTIONS IN AEG

FILE WITH DCR

Your letter of 17 February to Malcolm Rifkind, about his proposals for introducing the community charge, also raised the rather separate subject of possible offsets from Aggregate Exchequer Grant (AEG) to take account of increases in spending on student grants and rebates.

Although, as you say, these issues are largely hypothetical for me at the moment (as final decisions on the treatment of students, and on rebates, have yet to be taken for England and Wales), I must record my doubt about the proposition you put forward.

So far as I am aware, the Treasury has not previously sought to establish a link between the amount of AEG and the level of student grants, or rebate expenditure. Rebate spending can rise for a number of reasons - including an increase in the level of unemployment. No attempt has ever been made to adjust AEG to reflect rebate spending. Nor am I aware of any proposal that the level of AEG should be increased in 1988/89 to reflect the reductions in benefit spending which will result from the social security reforms - though that would be the logical consequence of what you propose.

The grant total for 1990/91 will be settled in due course in the light of all the relevant factors, including (no doubt) the possible consequences for the level of community charges, I do not think it would be fruitful to speculate now on what the figure should be; nor do I think that amounts paid as student grants or through the rebate system should be a relevant consideration when a decision does come to be taken.

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

Yours sincerely,

pp NICHOLAS RIDLEY

(Approved in draft by the Secretary of State and signed in his absence)

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