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**CONFIDENTIAL**

The Rt Hon John MacGregor Esq MP  
Chief Secretary  
HM Treasury  
Parliament Street  
LONDON  
SW1

NBM

23 February 1987

*Dear Chief Secretary,*

**ADRES BILL: TRANSITIONAL PERIOD**

Thank you for your letter of 17 February. I have also seen Kenneth Baker's letter of 20 February.

The points you make about student support and community charge rebates raise big issues. I am not at all clear why you suppose that either of these payments will result in additional Exchequer support for local authorities. Under our proposals, the income raised by community charges at the start of the new arrangements will be the same as what would have been raised through the payment of domestic rates, unless in the year of introduction local authorities increase the volume of their spending. There are considerable benefits in terms of accountability etc, in widening the net of local taxpayers to include (inter alia) students; and it is these benefits which have led us to introduce the legislation. But the widening of the net does not increase the income to authorities. The student support and rebate arrangements are simply income support for groups of the population whom we recognise will require that support, if they are to meet the new burdens being placed upon them. If the cost of that support is to be deducted from AEG, that will be seen by local authorities - and quite properly so - as a straightforward reduction in Government's support for local services. Since we are also taking control of the fixing of non-domestic rates, the slack will have to be taken up through community charges. In other words, the cost of student support and rebates, under your proposal, would fall on other community charge payers. That would scarcely get the new arrangements off to a good start and would be rightly rejected as intolerable.

I therefore certainly cannot agree to what you propose. I suggest that officials get together to discuss the matter further.

However, as you say, this is not strictly a point about transition and is not particularly relevant to my proposal to dispense with the transitional period, and I note that you have no other objections to that

proposal. I hope therefore that I have your agreement to that proposal and that you can agree to our officials now pursuing the points you have raised about student support and community charge rebates.

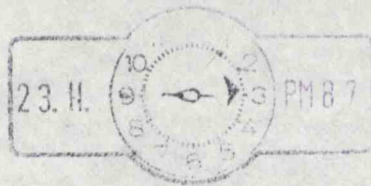
I am copying this letter to the Prime Minister, Willie Whitelaw, Nicholas Ridley, other members of E(LF) and to Sir Robert Armstrong.

*Yours sincerely*

*Malcolm Rifkind*

**MALCOLM RIFKIND**

Approved by the Secretary of  
State and signed in his  
absence



LOCAL GROUT: Rating pt 6.