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CHIEF SECRETARY

FROM: B H POTTER

Date: 18 May 1988

cc: PS/Chancellor Mr Phillips  
Mr Anson  
Mr Turnbull  
Mr Fellgett

## RSG SETTLEMENT 1989-90

We have just received a draft of the DOE paper for the first E(LA) discussion. It has been seen and approved by Mr Ridley as a basis for discussion with Treasury officials.

2. We have not yet had an opportunity to consider the figures carefully. But both the content and presentation of the paper are very much as anticipated in Mr Fellgett's minutes of 7 April and 5 May and my minute of 11 May. Mr Ridley's favoured option - option (ii) in the paper - would start from local authorities' budgets in 1988-89 and uplift these broadly in line with inflation plus a small amount for Community Charge preparation costs to set provision for 1989-90. By applying the same grant percentage as last year (adjusted for the transfer of the polytechnics) he would then propose an increase in AEG of about £1 billion. Mr Ridley also proposes that there should be a considerable reduction in the number of rate capped authorities from 17 this year to only 7 in 1989-90.

3. Mr Fellgett and I are meeting DOE officials on Friday to go over the draft paper. We will wish to examine closely the basis of the figures as well as challenging some of the more dubious assertions about local authorities behavioural response to grant levels eg the third sentence of paragraph 4. And we can of course feed in further thoughts if you wish us to do so.



4. While it should be helpful to have this indication of Mr Ridley's thinking in advance of the discussion with the Chancellor, this paper should not be regarded as pre-empting the scope of your bilateral discussions with Mr Ridley next Tuesday. Because E(LA) is not likely to meet until mid June, the paper need not be circulated for some time yet; and it could therefore take a rather different form, if following the bilateral discussion with Mr Ridley, an alternative approach seemed desirable.

Barry H. Potter

BARRY H POTTER





Department of the Environment  
Room  
2 Marsham Street London SW1P 3EB  
Telex 22221 Direct line 01-212  
Switchboard 01-212 3434  
GTN 212

**CONFIDENTIAL**

B Potter, Esq  
HM Treasury  
Room 23A  
1st Floor  
Parliament Street  
LONDON SW1P 3AG

17 May 1988

*Dear Barry,*

**RSG SETTLEMENT 1989/90**

I attach an early draft we have prepared of a paper that our Secretary of State might put to E(LA) in due course.<sup>x</sup> On the main settlement proposals it does reflect discussions we have had with Ministers, but the thoughts on rate limitation have not yet been discussed with Ministers and should at this stage be treated as those of officials only.

I am asking my secretary to arrange a meeting with you later in the week when we can take any points you may have. I think it is then intended that the Secretary of State and the Chief Secretary should have a discussion, probably next week.

*Yours ever*  
*Chris*

**C J S BREARLEY**

*x There are also some supporting notes, to explain various technical points.*



## 1989/90 RATE SUPPORT GRANT SETTLEMENT

1. This paper sets out my proposals for the 1989/90 RSG settlement in the light of local authorities' budgets for this year. These proposals concentrate on those elements of the settlement which I announce in July ie provision for current expenditure, aggregate Exchequer grant (AEG), whether there is to be an unallocated margin, and major changes to grant mechanisms, if any. 1989/90 is the last year of the present RSG system and in considering these proposals it will be important to bear in mind the implications for the transition to the community charge. I also make proposals for rate limitation which will form part of the July announcement.

## OUTCOME OF THE 1988/89 SETTLEMENT

2. This year's settlement made provision for non-rate limited authorities to increase their 1987/88 budgeted current expenditure broadly in line with forecast inflation and for rate limited authorities to spend at their ELs. At the time of the Autumn Statement the GDP deflator was revised upwards to 4.5%. Settlement provision therefore represented a real terms cut of 0.5% for most authorities. The grant percentage at settlement was held constant and the grant total was increased by £750m to £13.775bn.

3. Preliminary indications are that in their budgets local authorities have chosen to increase current expenditure in real terms by about 3% to £28.6bn. This represents an overspend of about £1035m (3 %) on this year's settlement and as a consequence there is likely to be a block grant underclaim around £520m. The outcome of the 1988/89 RSG settlement and the pattern of local authority expenditure in recent years are set out in Appendix A.

4. This increase in expenditure is disappointing but not surprising: it is significantly less than in 1986/87 and 1987/88 - a result of our successful ratecapping policy. Both Conservative and non-ratecapped Labour authorities have budgeted to increase their total expenditure by about 8%. It is clear that local authorities, whatever the political control, have a preference for maintaining or increasing real spending rather than seeking to hold down the



rates. In making their budgets local authorities take account of the likely increase in their own costs, which are increasing more quickly than inflation, largely because of pay. Their 1988/89 budgets show they plan to increase services by about 1%, after allowing for pay and price increases - less than in the previous two years when the increase was over 2% pa.

5. The RSG settlement is an important influence on local authority spending but it does not provide a means through which it can be controlled. From 1990/91 the community charge will put additional pressure on spending through increased local accountability; this is of course a major reason for introducing the new system. But in the interim we need to recognise that there is no real scope for putting further pressure on local authority spending within the confines of the present RSG system.

#### OBJECTIVES FOR 1989/90

6. 1989/90 will be the last year of the present RSG system and in making decisions about the settlement we will need to bear in mind the implications for the community charge in 1990/91. In particular the pattern of community charges implied by the outcome of the 1989/90 settlement will be substantially carried forward into 1990/91 through the operation of the transitional safety net. I believe our objectives should be to maintain pressure on spending and to provide local authorities with as much stability as possible, recognising the limitations placed upon us in respect of both these objectives by the present system. This points towards a settlement broadly on the same lines as for this year, with a level of provision based on increasing local authorities' budgets by about the rate of inflation, a constant grant percentage (after taking account of the polytechnics) and no major changes to grant mechanisms.

7. Such a settlement would imply a shadow community charge for spending at need which would be broadly constant in real terms and thereby provide an orderly transition to the new system. In presenting the new system we have attached considerable importance to our argument that the Government will provide, through revenue support grant, specific grants and community charge rebates, about 50% of authorities' spending needs. The 1989/90 settlement will need also to keep us on track to fulfil this objective in 1990/91.

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8. I suggest that, as last year, we should consider distributional aspects of the settlement in the Autumn ie service control totals, grant-related expenditure methodology, and grant gains and losses. Again our objective here should be to provide as much stability as possible in grant distribution.

#### PROVISION FOR CURRENT EXPENDITURE

9. The Public Expenditure White Paper provides for local authority current expenditure in 1989/90 of £28.5bn. This figure was based on local authorities' 1987/88 budgets rolled forward by inflation in 1988/89 and 1989/90. The GDP deflator in each of these years has now been revised upwards by  $\frac{1}{2}\%$ . The White Paper therefore represented a real terms cut in provision of 1%. This year authorities are planning to spend £28.6bn and the White Paper provision no longer provides a credible starting point for 1989/90 because it implies a cash reduction in expenditure which authorities will not achieve.

10. Local authorities continue to spend more than they need. The Government's views on this can best be signalled by setting their need to spend at a lower level than provision ie through an unallocated margin. For legal reasons, in setting the level of provision we need to have regard to what authorities are in practice likely to spend even if we consider it too high. We also need to bear in mind that the Government will have a significant influence on a number of items of local authority expenditure in 1989/90. Teachers' pay will, as this year, be referred to the Interim Advisory Committee and expenditure provision for the IAC remit will need to be found from within the aggregate provision we agree for the settlement. Police pay is linked to average earnings and will therefore increase by more than inflation. The settlement will also need to make provision for the cost of preparing for the community charge: the provision options outlined below make an allowance of £100m for this expenditure. In my view it would simply not be credible if we were to set provision below a level which would enable authorities to increase their current expenditure by about the rate of inflation.

#### AGGREGATE EXCHEQUER GRANT

11. In each of the last two settlements we have maintained the grant percentage. This has been important both in presentational terms and in providing authorities with stability in their grant entitlement. Experience shows that cutting the grant percentage does not lead authorities to reduce

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expenditure - but gives them an excuse to spend up and successfully blame the consequential rate rises on Government. It also has an adverse effect on grant distribution. High resource areas, especially in the South East, bear the brunt of any reduction in the grant percentage because of the effect this has on resource equalisation. In addition reducing the grant percentage would run counter to our objective of providing government support for 50% of local spending needs in the new system. I therefore propose that we maintain the percentage of expenditure met by AEG, after adjusting for the polytechnics.

12. We have agreed that in 1989/90 both AEG and provision should be reduced by the same amount to take account of the removal of polytechnics from local authority control. As a result, the grant percentage is reduced from 46.2%, as at the 1988/89 settlement, to 44.7%. There is likely to be strong criticism of this treatment which enables the Exchequer to recover grant equivalent to the full cost of the polytechnics, rather than that proportion of expenditure which was supported by central Government grant. This would make it particularly difficult to reduce the grant percentage further.

#### UNALLOCATED MARGIN

13. In this year's settlement we increased the total of grant-related expenditure assessments (GRES) broadly in line with the (then) rate of inflation, with a number of exceptions notably for the police service where the GRE was increased in line with provision. There was therefore a margin between need to spend and provision on services of about £1.1bn; this indicated to authorities that in our view their need to spend was less than their likely expenditure. For next year we will wish to provide a similar signal.

14. However, if we were to increase GRES by the GDP deflator we would be signalling to authorities that they needed to spend about £2bn less than provision which itself could be less than than they are likely to spend. It would mean that very few authorities would be spending at or below GRE, casting doubt on our view that authorities need to spend at the level of their GRE. Authorities would argue, with some justification, that it was impossible for them to reduce expenditure by over 7% in one year.



15. We would also face considerable difficulties in substantiating a need to spend which was £2bn less than provision. The Audit Commission have identified potential value improvements of about £400m and some further savings should begin to flow from the introduction of competition into local authority services: most of these savings would however accrue in later years. Together these sources of savings might just support a margin of about £1bn but certainly not £2bn. I propose therefore an unallocated margin of about £1.2 billion ie the same percentage of current expenditure as this year.

#### OPTIONS

##### Provision

16. Against this background I have considered the following three options which are shown in Appendix B: these follow the same broad approach as for 1988/89. Option 1 assumes that non-rate limited authorities increase their current expenditure by 1% above the GDP deflator; under Option 2 by the GDP deflator (4%); and Option 3 by 1% less. In all options ratecapped authorities are assumed to spend at their EL - further details are given in paras 26 to 28 and Appendix D - and an additional allowance has been made for community charge preparation costs.

##### Spending assumptions

17. Appendix B shows the likely rate increases on two separate spending assumptions. The first assumes that authorities spend in line with settlement provision and the second assumes, as we did last year, that they spend at 3% above inflation, ie in line with recent experience. I think we would be misleading ourselves if we were to assume that authorities would spend at a lower level. In addition the Appendix shows the shadow community charge figures for spending at need (CCSN) and under each of the two spending assumptions.

##### Specific and supplementary grants

18. Each of the options assumes an increase in the total of specific grants of about £240m; this is the normal increase in recent years except where additional bids have already been agreed. No allowance has been made for new or substantially increased bids.



## Special funds

19. Each option also assumes that authorities will draw down special funds to the same extent as they have budgeted to do this year - by £567m; this in line with practice in recent settlements. There is some possibility that authorities will make greater withdrawals thus reducing the block grant underclaim. Special funds are not evenly distributed between authorities - some have none. Assuming a greater draw down would reduce our assumption about individual authorities "total expenditure" for any given level of expenditure provision. We would be criticised generally for setting an unrealistic spending assumption and authorities without special funds would face great difficulty in achieving expenditure in line with the settlement. I propose therefore that we assume the same drawings from special funds as in authorities' budgets for 1988/89.

## Grant

20. Appendix B exemplifies the three options for provision, described in para 16 above, and shows the effect on rate increases and implied community charges of maintaining the grant percentage, after adjusting for the polytechnics, at 44.7%.

## Discussion

21. Under Option 1 provision rate increases for non-ratecapped authorities would be on average 4.8% on the higher spending assumption. It would mean an increase in provision of about £1.6bn and grant of £1.2bn. I believe this would provide too generous a settlement for local authorities: it would give authorities the wrong signal about our views on their expenditure and I do not therefore recommend it.

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using 22. Option 3 provision would mean average rate increases for non-ratecapped authorities of 7½% at the higher spending assumption, well above inflation.

23. My preference is for Option 2 which would set provision such that non-rate limited authorities could increase their current expenditure in line with their 1988/89 budgets increased by the GDP deflator. I believe that a lower level of provision would not take proper account of expenditure which is subject to Government influence. With a constant grant percentage, average rate increases for the non-ratecapped authorities would be 6% - ie still above



the rate of inflation on the higher spending assumption. As usual there would of course be significant variations around these averages. 2 shire counties and 190 shire districts would have rate increases above 10%. A number of authorities would go out of grant, in addition to Hertfordshire and Surrey which are already out of grant: a number of other high resource authorities particularly in the South East would lose grant.

24. Option 2 would meet our objectives on the community charge. It would provide a smooth transition to 1990/91 with a community charge for spending at need of £212 which represents about a real terms standstill on this year's equivalent figure of £202. In terms of the distribution of community charges it would mean that a reasonable proportion of authorities would have charges below the figure for spending at assessed need. It would also keep us on course for presenting the new system as one in which central Government would maintain its contribution to local needs at 50%.

25. Option 2 would not be cheap: it would mean an increase in provision of about £1.3bn above that provided for in the White Paper, adjusted for polytechnics, but such provision must either be made explicitly in our spending plans or in the Reserve. On grant it would mean an increase in AEG of about £1bn, to £14bn, about £240m of this would be taken up by the increase in specific grants: in practice the increase would be abated because of grant underclaim - about £380m on the higher spending assumption.

#### RATECAPPING

26. I have considered the expenditure position and legal and practical constraints on the selection of authorities for rate limitation. A fuller analysis is at Appendix D. I propose to adopt for the last year of the present system the same selection criteria for general purpose authorities as I used last year. This would mean that seven authorities, all previously selected, would be selected for rate limitation in 1989/90 as compared with seventeen authorities last year. I have been advised by Counsel that to adopt any stricter criteria would entail considerable risk of successful legal challenge. And the reduced number of authorities in the field for selection this year is itself a measure of the success of our ratecapping policy.



27. I am also proposing to set - using general principles as required - expenditure levels for selected authorities equal to a cash stand still on their 1989/90 expenditure levels. This continues the policy I have followed in the past. I believe that such levels will be tough, but reasonable given the excessive level of these authorities' spending. And under the ratecapping procedures it is open to authorities to apply to me for an increase in their levels if they consider this would be appropriate given their particular circumstances.

28. This year the new authorities (ILEA and the joint police, fire and civil defence, and passenger transport authorities established on abolition of the GLC and metropolitan county councils) will no longer be automatically selected for ratecapping. Colleagues responsible for the services provided by these authorities are bringing forward their own proposals for ratecapping in relation to these authorities. It is, however, important that both in terms of presentation and of minimising the risk of successful legal challenge that we avoid inconsistencies between the capping proposals adopted for the various joint authorities and the general purpose authorities.

#### CONCLUSION

29. I recommend to colleagues that for 1989/90:

- i. we should make no major changes to grant mechanisms;
- ii. we should provide for local authority current expenditure of £29,090 million which will allow non-ratecapped authorities to increase their current expenditure budgets in line with inflation;
- iii. we should maintain the grant percentage at 44.7%, after adjusting for polytechnics, and provide AEG of £14,026 million;
- iv. we should retain an unallocated margin of about £1.2bn;
- v. we should select 7 general purpose authorities for rate limitation on the same criteria as this year, ie budgeted expenditure of more than 12½% over GRE for previously selected authorities and for newly selected authorities 12½% over GRE and growth of 6% over 1988/89, and set ELs at the same level as this year.



This package will I believe achieve our objectives on maintaining pressure on spending, within the constraints imposed by the present system, it will provide stability in the distribution of grant and put us on the right track for achieving our objectives for community charges at the start of the new system in 1990/91.

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## LOCAL AUTHORITY EXPENDITURE AND GRANT (£ million)

|   | 1981/82 | 1982/83 | 1983/84 | 1984/85 | 1985/86 | 1986/87 | 1987/88 | 1988/89 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|
| Expenditure Provision                               | 16180   | 18000   | 19692   | 20389   | 21314   | 22364   | 25711   | 27538   |
| Outturn   | 17472   | 19051   | 20285   | 21600   | 22300   | 24171   | 26522   | 28573   |
| Overspend   | 1292    | 1051    | 593     | 1211    | 986     | 1807    | 811     | 1035    |
| % cash increase provision                           |         | 11.2    | 9.4     | 3.5     | 4.5     | 4.9     | 15      | 7.1     |
| % cash increase outturn                             |         | 9       | 6.5     | 6.5     | 3.2     | 8.4     | 9.7     | 7.7     |
| % real increase provision                           |         | 3.9     | 4.5     | -0.8    | -1.5    | 1.6     | 9.5     | 2.5     |
| % real increase outturn                             |         | 1.8     | 1.7     | 2.0     | -2.6    | 5.0     | 4.5     | 3.1     |
| GDP deflator (%)                                    |         | 7.12    | 4.70    | 4.42    | 5.97    | 3.26    | 5.00    | 4.50    |
| AEG (at Settlement)                                 | 10895   | 11484   | 11782   | 11872   | 11764   | 11815   | 13025   | 13775   |
| % cash increase holdback/underclaim                 |         | 5.4     | 2.6     | 0.8     | -0.9    | 0.4     | 10.2    | 5.8     |
|   | 123     | 232     | 281     | 261     | 50      | 0       | 266     | 521     |
| Average increase in general rates (%)               | 19.8    | 12.9    | 6.4     | 5.5     | 7.3     | 11.3    | 5.8     | 7.6     |
| Average increase for non-ratecapped authorities (%) |         |         |         |         | n/a     | n/a     | 8.2     | 9.7     |



## OPTIONS FOR 1989/90 RATE SUPPORT GRANT SETTLEMENT

|   | Spending at<br>Settlement<br>Expenditure Assumption | Spending at 3% above<br>Option 2 Settlement<br>Expenditure Assumption |
|---|---|---|
| <b>OPTION 1</b>   |   |   |
| -----   |   |   |
| Current Provision £29,340m<br>(1% above GDP deflator)     |   |   |
| AEG at Settlement:  | 44.7%<br>£14,137m                                   | 44.7%<br>£14,137m   |
| AEG + rebates at Settlement:                              | 49.4%   | 49.4%   |
| Average rate increase:                                    |   |   |
| Non-rate Limited  | .3%   | 4.8%  |
| All authorities   | -.6%  | 3.5%  |
| Grant underclaim  | -   | £256m   |
| Outturn AEG percentage                                    | 44.7%   | 43.2%   |
| CC at need (CCSN)   | £216  | £216  |
| CC at spending level                                      | £233  | £247  |
| -----   |   |   |
| <b>OPTION 2</b>   |   |   |
| -----   |   |   |
| Current Provision £29,090m<br>(in line with GDP deflator) |   |   |
| AEG at Settlement:  | 44.7%<br>£14,026m                                   | 44.7%<br>£14,026m   |
| AEG + rebates at Settlement:                              | 49.5%   | 49.5%   |
| Average rate increase:                                    |   |   |
| Non-rate Limited  | -.7%  | 6.1%  |
| All authorities   | -1.3%   | 4.8%  |
| Grant underclaim  | -   | £381m   |
| Outturn AEG percentage                                    | 44.7%   | 42.5%   |
| CC at need (CCSN)   | £212  | £212  |
| CC at spending level                                      | £229  | £250  |
| -----   |   |   |
| <b>OPTION 3</b>   |   |   |
| -----   |   |   |
| Current Provision £28,830m<br>(1% below GDP deflator)     |   |   |
| AEG at Settlement:  | 44.7%<br>£13,909m                                   | 44.7%<br>£13,909m   |
| AEG + rebates at Settlement:                              | 49.5%   | 49.5%   |
| Average rate increase:                                    |   |   |
| Non-rate Limited  | -1.6%   | 7.5%  |
| All authorities   | -2.1%   | 6.1%  |
| Grant underclaim  | -   | £514m   |
| Outturn AEG percentage                                    | 44.7%   | 41.7%   |
| CC at need (CCSN)   | £209  | £209  |
| CC at spending level                                      | £225  | £253  |



OPTIONS FOR 1989/90 RATE SUPPORT GRANT SETTLEMENT

NOTES TO APPENDIX B

A. PROVISION: Option 1 is based on a 5% increase on 1988/89 budgeted current expenditure for non rate limited authorities plus current expenditure consistent with ELs for rate limited authorities and 1989/90 budget for Metropolitan Police. In options 2 and 3 the increase for non rate limited authorities is 4% and 3% respectively. In all cases £100m has been added for the set up cost of community charge collection.

B. EXPENDITURE ASSUMPTION: Column 1 of the table assumes that authorities spend at the relevant settlement expenditure assumption described below. Column 2 assumes for all options that non-rate limited authorities spend at 3% above the Option 2 Settlement expenditure assumption and rate limited authorities spend at EL. In all cases allowance has been made for the additional set up costs of community charge collection.

SETTLEMENT EXPENDITURE ASSUMPTION

|                              | <u>OPTION 1</u>                 | <u>OPTION 2</u>                 | <u>OPTION 3</u>                 |
|------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Rate-Limited authorities     | EL                              | EL                              | EL                              |
| Metropolitan Police          | assumed 1989/90 budget          | assumed 1989/90 budget          | assumed 1989/90 budget          |
| Non-Rate limited authorities | 1988/89 budgets +5%             | 1988/89 budgets +4%             | 1988/89 budgets +3%             |
|                              | + community charge set up costs | + community charge set up costs | + community charge set up costs |



C. RATES: At both spending levels, rate and precept limited authorities are assumed to levy a rate equal to their rate/precept limit.

Rate changes shown are for general rates: increases in domestic rates would be about 1% higher.

D. BLOCK GRANT MECHANISMS AND GRES: These are as in 1988/89 except that there is no cap on grant gains.

E. Implied Community Charge for spending at need is lower than community charge at settlement spending assumption because total GRE is lower than total provision.



## 1989/90 RATE SUPPORT GRANT SETTLEMENT: OPTION 1

Current provision £29,340m - 5% increase (1% above GDP deflator)

## ESTIMATED AVERAGE % CHANGES IN LOCAL RATES

|                                   | Spending at<br>Settlement<br>Expenditure Assumption | Spending at 3% above<br>Option 2 Settlement<br>Expenditure Assumption |
|-----------------------------------|---|---|
|                                   | (1)   | (2)   |
| AEG at Settlement:                | £14,137m  | £14,137m  |
|                                   | (%)   | (%)   |
| TOTAL England                     | -0.6  | 3.5   |
| TOTAL Shire districts             | 6   | 11  |
| TOTAL Shire counties              | 0   | 5   |
| TOTAL Metropolitan districts      | 1   | 6   |
| TOTAL Joint Police Authorities    | 6   | 11  |
| TOTAL Joint Fire Authorities      | -2  | 3   |
| TOTAL Joint Transport Authorities | 3   | 5   |
| TOTAL central boroughs            | 0   | 1   |
| TOTAL other inner London boroughs | -22   | -16   |
| TOTAL inner London boroughs       | -10   | -7  |
| ILEA (RL)                         | -2  | -2  |
| TOTAL outer London boroughs       | -6  | -0  |
| Metropolitan Police               | 14  | 14  |
| London Fire & CD Authority        | -21   | -16   |
| TOTAL Shire areas                 | 1   | 5   |
| TOTAL Metropolitan areas          | 1   | 6   |
| TOTAL London                      | -6  | -3  |

## Notes

1. Columns 1 to 2 correspond to columns 1 to 2 of Appendix B
2. Rate changes shown are the average for all authorities in the class
3. Negative numbers indicate rate decreases



## 1989/90 RATE SUPPORT GRANT SETTLEMENT: OPTION 1

Current provision £29,340m - 5% increase (1% above GDP deflator)

## ESTIMATED AVERAGE % CHANGES IN LOCAL RATES

|                    | Spending at<br>Settlement<br>Expenditure Assumption | Spending at 3% above<br>Option 2 Settlement<br>Expenditure Assumption |
|--------------------|---|---|
|                    | (1)   | (2)   |
| AEG at Settlement: | £14,137m  | £14,137m  |

## SUMMARY OF CHANGES BY NUMBERS FALLING INTO DIFFERENT BANDS

## SHIRE COUNTIES

|                        |    |    |
|------------------------|----|----|
| Reduction              | 14 | 3  |
| Increase less than 5%  | 23 | 14 |
| Increase 5% to 10%     | 2  | 21 |
| Increase 10% to 15%    | -  | 1  |
| Increase more than 15% | -  | -  |

## SHIRE DISTRICTS

|                        |    |     |
|------------------------|----|-----|
| Reduction              | 58 | 31  |
| Increase less than 5%  | 48 | 30  |
| Increase 5% to 10%     | 75 | 59  |
| Increase 10% to 15%    | 38 | 70  |
| Increase more than 15% | 78 | 107 |

## MET DISTRICTS

|                        |    |    |
|------------------------|----|----|
| Reduction              | 14 | 5  |
| Increase less than 5%  | 16 | 13 |
| Increase 5% to 10%     | 2  | 12 |
| Increase 10% to 15%    | 2  | 2  |
| Increase more than 15% | 2  | 4  |

## JOINT AUTHORITIES (MET AREAS)

|                        |   |   |
|------------------------|---|---|
| Reduction              | 7 | 3 |
| Increase less than 5%  | 6 | 6 |
| Increase 5% to 10%     | 2 | 4 |
| Increase 10% to 15%    | 1 | 2 |
| Increase more than 15% | 2 | 3 |

## INNER LONDON BOROUGHES

|                        |    |   |
|------------------------|----|---|
| Reduction              | 10 | 8 |
| Increase less than 5%  | 2  | 3 |
| Increase 5% to 10%     | -  | - |
| Increase 10% to 15%    | -  | 1 |
| Increase more than 15% | 1  | 1 |

## OUTER LONDON BOROUGHES

|                        |    |   |
|------------------------|----|---|
| Reduction              | 17 | 8 |
| Increase less than 5%  | 1  | 8 |
| Increase 5% to 10%     | 2  | 2 |
| Increase 10% to 15%    | -  | 2 |
| Increase more than 15% | -  | - |

Notes: Columns 1 to 2 correspond to columns 1 to 2 of Appendix B



## 1989/90 RATE SUPPORT GRANT SETTLEMENT: OPTION 2

Current provision £29,090m - 4% increase (in line with GDP deflator)

## ESTIMATED AVERAGE % CHANGES IN LOCAL RATES

|                                   | Spending at<br>Settlement<br>Expenditure Assumption | Spending at 3% above<br>Option 2 Settlement<br>Expenditure Assumption |
|-----------------------------------|---|---|
|                                   | (1)   | (2)   |
| AEG at Settlement:                | £14,026m  | £14,026m  |
|                                   | (%)   | (%)   |
| TOTAL England                     | -1.3  | 4.8   |
| TOTAL Shire districts             | 5   | 12  |
| TOTAL Shire counties              | -0  | 6   |
| TOTAL Metropolitan districts      | -0  | 7   |
| TOTAL Joint Police Authorities    | 5   | 13  |
| TOTAL Joint Fire Authorities      | -3  | 5   |
| TOTAL Joint Transport Authorities | 3   | 7   |
| TOTAL central boroughs            | -0  | 1   |
| TOTAL other inner London boroughs | -21   | -12   |
| TOTAL inner London boroughs       | -10   | -5  |
| ILEA (RL)                         | -2  | -2  |
| TOTAL outer London boroughs       | -7  | 2   |
| Metropolitan Police               | 16  | 16  |
| London Fire & CD Authority        | -22   | -15   |
| TOTAL Shire areas                 | 0   | 6   |
| TOTAL Metropolitan areas          | 0   | 8   |
| TOTAL London                      | -6  | -1  |

## Notes

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- Columns 1 to 2 correspond to columns 1 to 2 of Appendix B
- Rate changes shown are the average for all authorities in the class
- Negative numbers indicate rate decreases



## 1989/90 RATE SUPPORT GRANT SETTLEMENT: OPTION 2

Current provision £29,090m - 4% increase (in line with GDP deflator)

## ESTIMATED AVERAGE % CHANGES IN LOCAL RATES

|                    | Spending at<br>Settlement<br>Expenditure Assumption | Spending at 3% above<br>Option 2 Settlement<br>Expenditure Assumption |
|--------------------|---|---|
|                    | (1)   | (2)   |
| AEG at Settlement: | £14,026m  | £14,026m  |

## SUMMARY OF CHANGES BY NUMBERS FALLING INTO DIFFERENT BANDS

|                               |    |     |
|-------------------------------|----|-----|
| SHIRE COUNTIES                |    |     |
| Reduction                     | 17 | 3   |
| Increase less than 5%         | 22 | 10  |
| Increase 5% to 10%            | -  | 24  |
| Increase 10% to 15%           | -  | 2   |
| Increase more than 15%        | -  | -   |
| SHIRE DISTRICTS               |    |     |
| Reduction                     | 61 | 25  |
| Increase less than 5%         | 60 | 25  |
| Increase 5% to 10%            | 67 | 57  |
| Increase 10% to 15%           | 35 | 64  |
| Increase more than 15%        | 74 | 126 |
| MET DISTRICTS                 |    |     |
| Reduction                     | 22 | 4   |
| Increase less than 5%         | 9  | 9   |
| Increase 5% to 10%            | 2  | 13  |
| Increase 10% to 15%           | 2  | 6   |
| Increase more than 15%        | 1  | 4   |
| JOINT AUTHORITIES (MET AREAS) |    |     |
| Reduction                     | 7  | 3   |
| Increase less than 5%         | 7  | 4   |
| Increase 5% to 10%            | 2  | 4   |
| Increase 10% to 15%           | 1  | 4   |
| Increase more than 15%        | 1  | 3   |
| INNER LONDON BOROUGHES        |    |     |
| Reduction                     | 10 | 7   |
| Increase less than 5%         | 2  | 2   |
| Increase 5% to 10%            | -  | 1   |
| Increase 10% to 15%           | -  | -   |
| Increase more than 15%        | 1  | 3   |
| OUTER LONDON BOROUGHES        |    |     |
| Reduction                     | 18 | 6   |
| Increase less than 5%         | -  | 8   |
| Increase 5% to 10%            | 2  | 4   |
| Increase 10% to 15%           | -  | 1   |
| Increase more than 15%        | -  | 1   |

Notes: Columns 1 to 2 correspond to columns 1 to 2 of Appendix B



## 1989/90 RATE SUPPORT GRANT SETTLEMENT: OPTION 3

Current provision £28,830m - 3% increase (1% below GDP deflator)

## ESTIMATED AVERAGE % CHANGES IN LOCAL RATES

|                                   | Spending at<br>Settlement<br>Expenditure Assumption | Spending at 3% above<br>Option 2 Settlement<br>Expenditure Assumption |
|-----------------------------------|---|---|
|                                   | (1)   | (2)   |
| AEG at Settlement:                | £13,909m  | £13,909m  |
|                                   | (%)   | (%)   |
| TOTAL England                     | -2.1  | 6.1   |
| TOTAL Shire districts             | 4   | 13  |
| TOTAL Shire counties              | -1  | 7   |
| TOTAL Metropolitan districts      | -1  | 9   |
| TOTAL Joint Police Authorities    | 4   | 14  |
| TOTAL Joint Fire Authorities      | -4  | 6   |
| TOTAL Joint Transport Authorities | 3   | 8   |
| TOTAL central boroughs            | -1  | 1   |
| TOTAL other inner London boroughs | -20   | -8  |
| TOTAL inner London boroughs       | -10   | -4  |
| ILEA (RL)                         | -2  | -2  |
| TOTAL outer London boroughs       | -8  | 4   |
| Metropolitan Police               | 19  | 19  |
| London Fire & CD Authority        | -23   | -13   |
| TOTAL Shire areas                 | -1  | 8   |
| TOTAL Metropolitan areas          | -1  | 9   |
| TOTAL London                      | -6  | -0  |

## Notes

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1. Columns 1 to 2 correspond to columns 1 to 2 of Appendix B
2. Rate changes shown are the average for all authorities in the class
3. Negative numbers indicate rate decreases



## 1989/90 RATE SUPPORT GRANT SETTLEMENT: OPTION 3

Current provision £28,830m - 3% increase (1% below GDP deflator)

## ESTIMATED AVERAGE % CHANGES IN LOCAL RATES

|                    | Spending at<br>Settlement<br>Expenditure Assumption | Spending at 3% above<br>Option 2 Settlement<br>Expenditure Assumption |
|--------------------|---|---|
|                    | (1)   | (2)   |
| AEG at Settlement: | £13,909m  | £13,909m  |

## SUMMARY OF CHANGES BY NUMBERS FALLING INTO DIFFERENT BANDS

## SHIRE COUNTIES

|                        |    |    |
|------------------------|----|----|
| Reduction              | 22 | 2  |
| Increase less than 5%  | 17 | 3  |
| Increase 5% to 10%     | -  | 26 |
| Increase 10% to 15%    | -  | 8  |
| Increase more than 15% | -  | -  |

## SHIRE DISTRICTS

|                        |    |     |
|------------------------|----|-----|
| Reduction              | 72 | 23  |
| Increase less than 5%  | 68 | 20  |
| Increase 5% to 10%     | 57 | 50  |
| Increase 10% to 15%    | 30 | 60  |
| Increase more than 15% | 70 | 144 |

## MET DISTRICTS

|                        |    |    |
|------------------------|----|----|
| Reduction              | 23 | 2  |
| Increase less than 5%  | 8  | 5  |
| Increase 5% to 10%     | 2  | 16 |
| Increase 10% to 15%    | 2  | 8  |
| Increase more than 15% | 1  | 5  |

## JOINT AUTHORITIES (MET AREAS)

|                        |   |   |
|------------------------|---|---|
| Reduction              | 8 | 2 |
| Increase less than 5%  | 7 | 4 |
| Increase 5% to 10%     | 1 | 3 |
| Increase 10% to 15%    | 1 | 5 |
| Increase more than 15% | 1 | 4 |

## INNER LONDON BOROUGHS

|                        |    |   |
|------------------------|----|---|
| Reduction              | 11 | 7 |
| Increase less than 5%  | 1  | 2 |
| Increase 5% to 10%     | -  | - |
| Increase 10% to 15%    | -  | 1 |
| Increase more than 15% | 1  | 3 |

## OUTER LONDON BOROUGHS

|                        |    |   |
|------------------------|----|---|
| Reduction              | 18 | 6 |
| Increase less than 5%  | -  | 2 |
| Increase 5% to 10%     | 2  | 9 |
| Increase 10% to 15%    | -  | 1 |
| Increase more than 15% | -  | 2 |

Notes: Columns 1 to 2 correspond to columns 1 to 2 of Appendix B



## SELECTIVE RATE LIMITATION 1989/90

1. My proposals for ratecapping, which must by law be determined by means of general principles, would involve the selection of 7 general purpose authorities. This is fewer than in previous years but to attempt to select even three or four more would be unacceptably risky. To do so we would have to tighten the selection criteria considerably and Counsel's opinion is that, given the difficulty we would then face in constructing a reasoned defence against challenge, this would seriously increase the danger of a defeat in the courts.
2. The fact that we aim to select only 7 general purpose local authorities for ratecapping this year is a vindication of the system - even allowing for the effects of creative accounting, the budgets of the authorities traditionally in the ratecapping field are now under much more restraint.
3. For previously selected authorities I therefore propose to maintain the selection criteria for the authorities selected in the current year (budgets of more than 12½% spending over GRE). I also propose to maintain the same criteria I used last year for authorities not previously selected - GRE +12½% linked with the growth criterion of an increase in spending over the previous year of 6%, - though in fact this means that no new authorities will be selected.
4. The effect of this selection is that 6 inner London boroughs and Thamesdown District would be re-selected (see Table A).
5. This year, the joint authorities (those for fire, police and transport and the Inner London Education Authority) have come out of automatic precept limitation. The arrangements for handling these authorities have been discussed with the colleagues concerned and we have agreed that each of us will deal throughout with those authorities for which he has the main service responsibility. Colleagues are therefore bringing forward separate proposals for their own authorities. It is important, both in terms of presentation and of minimising the risk of successful legal challenge that any differences between our proposals can be supported by sound, reasoned argument sustainable at law.
6. My proposals for expenditure levels (or ELs, the starting point for the eventual rate limits) are broadly similar to the approach used last July. All seven selected authorities would have their EL for 1989/90 frozen at the current year's cash level, which for 6 of the 7 means the same as the 1986/87 level. The resulting figures for individual authorities are shown in Table B. The current policy has been a success: the very highest spenders have been compelled to make cumulative cuts in total expenditure at the level of inflation or a little more. The result is that the excess in authorities' total expenditure over GRE has gradually fallen over the years of ratecapping. Continuing this cash freeze policy would thus maintain the pressure on the overspenders.
7. A complicating factor is that many of these authorities are still making use of creative accounting, enabling a true expenditure level to be maintained above their EL. There is, however, reduced scope for creative accounting than in the past and it is less of a feature of 1988/89 budgets; this trend may very well continue. Table B shows the implied cash reductions that authorities would be required to make with my proposed ELs; on true budgets, these are considerably tougher, averaging around 10%, than the implied reductions on the total expenditure figures. The reductions we are requiring will have varying effects on local authorities, depending on their individual circumstances. The proper time to have regard to these is at the redetermination stage when we can take a hard look at any representations authorities may wish to make.



TABLE A

## SELECTION OF AUTHORITIES FOR RATE LIMITATION 1989-90

|   | OVERSPEND<br>ON GRE<br>% | SPENDING<br>GROWTH<br>1987-88 TO<br>1988-89 |
|---|--------------------------|---|
| A. re-selected authorities  |                          |   |
| THAMESDOWN  | 69.0                     | 3.2   |
| GREENWICH   | 39.6                     | 1.6   |
| DAMDEN  | 29.7                     | -8.0  |
| LEWISHAM  | 29.2                     | -1.3  |
| TOWER HAMLETS   | 23.1                     | 2.5   |
| HACKNEY   | 19.7                     | -10.2                                       |
| SOUTH-WARK  | 13.1                     | -10.2                                       |
| B. authorities not reselected                                     |                          |   |
| DASILDON  | 62.8                     | -25.9                                       |
| MIDDLESBROUGH   | 10.7                     | -1.7  |
| KINGSTON-UPON-HULL  | 9.4                      | -16.0                                       |
| NEWCASTLE-UPON-TYNE   | 9.2                      | 1.7   |
| LAMBETH   | 8.9                      | -0.1  |
| MANCHESTER  | 8.5                      | 0   |
| LIVERPOOL   | 8.3                      | -1.7  |
| WALTHAM FOREST  | 8.0                      | -7.0  |
| HARINGEY  | 8.2                      | -0.1  |
| EALING  | 7.8                      | 1.1   |
| C. authorities not selected but spending more than 12.5% over GRE |                          |   |
| CITY OF LONDON  | 97.3                     | 2.7   |
| BLACKBURN   | 25.2                     | -3.4  |
| BRISTOL   | 23.3                     | 2.7   |
| LEICESTER   | 17.9                     | -18.2                                       |



TABLE B

## RECOMMENDED EXPENDITURE LEVELS 1989-90

|               | 1988-89<br>TOTAL<br>EXPENDITURE<br>£m | 1980-90<br>EXPENDITURE<br>LEVEL<br>£m | CHANGE FROM<br>1988-89<br>BUDGET<br>% | FROM 1988-89<br>UNDERLYING<br>EXPENDITURE |
|---------------|---------------------------------------|---------------------------------------|---------------------------------------|---|
| CAMDEN        | 139.463                               | 136.924                               | -1.8                                  | -14.5                                     |
| GREENWICH     | 95.230                                | 95.230                                | 0.0                                   | -13.7                                     |
| HACKNEY       | 131.048                               | 128.572                               | -1.9                                  | -12.3                                     |
| LEWISHAM      | 122.045                               | 115.594                               | -5.3                                  | -13.9                                     |
| SOUTHWARK     | 132.723                               | 134.193                               | 1.1                                   | -13.0                                     |
| TOWER HAMLETS | 126.033                               | 124.033                               | -1.6                                  | -6.7                                      |
| THAMESDOWN    | <u>15.422</u>                         | <u>14.201</u>                         | <u>-7.9</u>                           | <u>-7.9</u>                               |
|               | 761.964                               | 748.747                               | -1.7                                  |   |



## BACKGROUND ASSUMPTIONS FOR 1989/90 RSG SETTLEMENT

1. 1988/89 base position: In 1989/90 polytechnics will no longer be funded by local authorities but will instead be funded direct by central government through the PCFC. Ministers have agreed that to achieve neutrality between local and central taxpayers both relevant expenditure and AEG should be reduced by the amount to be transferred to the PCFC. The attached note explains the adjustments we have made to 1988/89 aggregate figures to remove polytechnics: this implies a reduction in relevant expenditure of £832m. To obtain an adjusted base position for 1988/89 we have reduced expenditure of individual authorities using the available information from DES is accordingly. Individual authority grant entitlements however are reduced by only £736m since ILEA, Hertfordshire and Surrey will receive no grant in 1988/89 and Oxfordshire will receive less grant in 1988/89 than the assumed reduction in education spending.

2. For comparative purposes 1988/89 grant entitlements have also been adjusted to correct for the Bromley and TVEI errors which will be corrected in the first Supplementary Report.

3. The implications for rates of the various options are based on 1988/89 actual rate poundages. We assume no use of balances in 1989/90.

4. Current expenditure: for the base case (provision Option 2) current expenditure provision has been set at 1988/89 adjusted budgets increased in line with the GDP deflator. To this we have added £100m for community charge collection set up costs. We assume the same service distribution of current provision as implied by 1988/89 budgets, apart from a 3% relative growth for the police service.



5. Relevant expenditure and total expenditure: these have been derived using best estimates for non-current expenditure, specific and supplementary grants and non-relevant expenditure. Contributions to special funds and RFRACs to HRA, 1988/89 budget figures have been used.
6. GREs: Total GRE has been set so that the unallocated margin on non-police current expenditure is the same % as in 1988/89.
7. AEG: the base case assumes the same percentage of relevant expenditure as at 1988/89 settlement adjusted for removal of polytechnics ie. 44.7%. To derive a figure for total central government support we have included an estimate for the central government contribution to rate rebates.
8. Grant distribution mechanisms: throughout we have used the same slopes, threshold and London resource discount as in 1988/89. Safety nets have also been calculated on the same basis as the 1988/89 settlement. And the London rate equalisation scheme has been uprated as in 1988/89.
9. Expenditure assumption: for the settlement spending assumption we assume the Metropolitan Police spend at budget - £536m compared with £498m in 1988/89; rate capped authorities spend at assumed expenditure levels; all other authorities have a uniform percentage uplift on 1988/89 adjusted for removal of polytechnics; and non rate capped rating authorities spend £100m extra on community charge set up costs, distributed in line with the extra allowed for as part of the rate collection GRE. The higher expenditure assumption assumes a 3% overspend on settlement assumption.
10. LRT levy: the assumed LRT levy for 1989/90 is 5p compared with 6.07p in 1988/89.



1989/90 RSG SETTLEMENT: ADJUSTMENTS TO 1988/89 FIGURES FOR POLYTECHNICS ETC

The attached table includes unadjusted and adjusted figures for 1988/89 settlement and budgets. The adjustments relate to the removal of polytechnics from the LA sector and the inclusion within AEG of Imperial and National Service (INS) grant and Careers Service Strengthening Scheme grant. Adjustments are needed

- \* to settlement figures to calculate an adjusted AEG percentage for 1988/89
- \* to budget figures to provide an adjusted 1989/90 expenditure base for rolling forward

Polytechnics  
-----

The adjustments for polytechnics differ between settlement and budget. They are:

|                                 | Adjustment<br>to settlement<br>(£m) | Adjustment<br>to budgets<br>(£m) |
|---------------------------------|-------------------------------------|----------------------------------|
|                                 | -----                               | -----                            |
| Current expenditure             | -735                                | -740                             |
| Loan charges                    | -97                                 | -98                              |
|                                 | -----                               | -----                            |
| Relevant and total expenditure  | -832                                | -838                             |
| Grant-related expenditure (GRE) | -832                                | -832                             |
| AEG, RSG and block grant        | -832                                | -832                             |

These adjustments are based on the information in Miss Treen's letter of 12 April to Mr Bolt. The budget adjustment include a slight upward revision to the pools figure allowed for in the settlement.

INS grant  
-----

We have assumed that INS grant is abolished and the rate of police specific grant for the Metropolitan Police correspondingly increased from 51% to 52%. Current and relevant expenditure have both been assumed to rise by £20m, as has the total of specific and supplementary grants. This leaves Metropolitan Police GRE and total expenditure unaltered. (Mr Hickson's letter of 30 March to Mr Brook gives the details.)

Careers Service Strengthening Scheme grant  
-----

We have assumed that this grant amounts to £13m (as indicated in the Secretary of State for Employment's letter of 17 July 1987 to the Chief Secretary) and that its inclusion in AEG increases current and relevant expenditure and the total of specific and supplementary grants by that sum: total expenditure and GRE are unaffected.



Effect on AEG percentage  
-----

The net effect of adjusting the 1988/89 settlement for these three changes is to reduce the AEG percentage from 46.2% to 44.7%:

|                      | Settlement | Adjusted<br>settlement | Adjustment |
|----------------------|------------|------------------------|------------|
|                      | -----      | -----                  | -----      |
| Relevant expenditure | £29,846m   | £29,047m               | -£799m     |
| AEG                  | £13,775m   | £12,976m               | -£799m     |
| AEG %                | 46.2%      | 44.7%                  | -1.5%      |

The composition of the net adjustment to relevant expenditure and AEG is:

|              |        |
|--------------|--------|
| Polytechnics | -£832m |
| INS          | +£20m  |
| Careers SSS  | +£13m  |
|              | -----  |
| Total        | -£799m |

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EXPENDITURE AND GRANT TOTALS 1988/89 AND 1989/90 OPTION 2 SETTLEMENT

| Expenditure                        | 1988/89<br>settlement<br>(£m) | 1988/89<br>adjusted<br>settlement<br>(£m) | 1988/89<br>budgets<br>(£m) | 1988/89<br>adjusted<br>budgets<br>(£m) | 1989/90<br>Option 2<br>settlement<br>(£m) |
|------------------------------------|-------------------------------|---|----------------------------|--|---|
| Education                          | 13,420                        | 12,685                                    | 13,762                     | 13,022                                 | 13,497                                    |
| Police                             | 3,350                         | 3,370                                     | 3,426                      | 3,446                                  | 3,679                                     |
| Other                              | 10,768                        | 10,781                                    | 11,385                     | 11,398                                 | 11,914                                    |
| Total current expenditure          | 27,538                        | 26,836                                    | 28,573                     | 27,866                                 | 29,090                                    |
| Contributions to special funds etc | -483                          | -483                                      | -567                       | -567                                   | -567                                      |
| Other RCCO                         | 387                           | 387                                       | 372                        | 372                                    | 434                                       |
| Loan charges (including Leasing)   | 2,757                         | 2,660                                     | 2,791                      | 2,693                                  | 2,742                                     |
| RFRACs to HRA                      | 279                           | 279                                       | 343                        | 343                                    | 343                                       |
| Interest receipts                  | -632                          | -632                                      | -650                       | -650                                   | -665                                      |
| Total relevant expenditure         | 29,846                        | 29,047                                    | 30,862                     | 30,057                                 | 31,377                                    |
| Non-relevant expenditure           | 289                           | 289                                       | 271                        | 271                                    | 312                                       |
| Specific and supplementary grants  | -3,566                        | -3,599                                    | -3,500                     | -3,533                                 | -3,843                                    |
| Non-total storms expenditure       | -                             | -   | -2                         | -2                                     | -   |
| Total total expenditure            | 26,569                        | 25,737                                    | 27,631                     | 26,793                                 | 27,846                                    |
| Total grant-related expenditure    | 26,006                        | 25,174                                    | 26,006                     | 25,174                                 | 27,206                                    |
| Unallocated margin                 | 563                           | 563                                       |                            |  | 640                                       |
| Unallocated margin on services     | 1,117                         | 1,117                                     |                            |  | 1,200                                     |
| Grant                              |                               |   |                            |  |   |
| AEG percentage                     | 46.2%                         | 44.7%                                     | 42.7%                      | 41.2%                                  | 44.7%                                     |
| Aggregate Exchequer grant          | 13,775                        | 12,976                                    | 13,188                     | 12,389                                 | 14,026                                    |
| Specific & supplementary grants    | -3,566                        | -3,599                                    | -3,500                     | -3,533                                 | -3,843                                    |
| Rate Support Grant                 | 10,209                        | 9,377                                     | 9,688                      | 8,856                                  | 10,183                                    |
| Domestic rate relief grant         | -727                          | -727                                      | -727                       | -727                                   | -737                                      |
| Block grant                        | 9,471                         | 8,639                                     | 8,950                      | 8,118                                  | 9,435                                     |
| Rate rebates                       | 1,340                         | 1,340                                     | 1,340                      | 1,340                                  | 1,500                                     |
| AEG plus rate rebates percentage   | 50.6%                         | 49.3%                                     | 45.7%                      | 45.7%                                  | 49.5%                                     |

Note

Adjustments to 1988/89 settlement and budget figures are for removal of polytechnics from LA sector and inclusion of INS and Careers Service Strengthening Scheme grants in AEG