



CCP4

QUEEN ANNE'S GATE LONDON SW1H 9AT

15 February 1989

NBRM

PRCB
17/2

Dear Nicholas,

**LOCAL AUTHORITY CAPITAL EXPENDITURE:
LAW AND ORDER SERVICES**

I am writing to let you know how I propose to integrate the law and order services into the new capital control system which we are introducing for local authorities generally in 1990.

At present, capital spending on police, magistrates' courts and the probation service is subject to separate arrangements. Bringing them within the scope of the new system would mean a greater change for them than for other local authority services. But I am sure it is right that, so far as possible, those services should fall within the new system.

The major difficulty we have is over grant, which is paid in support of capital spending at the same percentage as for current expenditure (51% for the police and 80% for the magistrates' courts and probation service). The shift in capital control from that over spending to one over borrowing proposed in the new system could present us with an open ended liability to pay grant on expenditure funded by sources of finance (receipts and revenue contributions) over which we shall have little control. I accept that we should not run that risk. I therefore propose to limit liability to pay grant by continuing the existing system of project approvals and to link grant payments to the quantum of capital expenditure approved in PES. This approach is designed to limit our financial commitments but it would not represent a control over the services' total expenditure: authorities would be free to spend on non-approved projects although such projects would not attract grant support.

As you know, we consulted local authority interests separately about the arrangements for Home Office services. One of their major concerns was over the proposal to allow virement

/of credit

The Rt Hon Nicholas Ridley, MP
Secretary of State
Department of the Environment

of credit approvals. I see a good deal of force in the arguments they put to me and am now of the view that we should not, at least initially, allow virement of credit approvals issued in respect of law and order services. I am therefore proposing that the credit approvals issued for these services should be in the form of supplementary credit approvals which must be used for particular programmes or projects.

Our consultations produced a great deal of concern over the suggestion that we would claw back the grant element contained in receipts from the sale of assets. I do not now propose that we should require the repayment of such grant. But I understand that Treasury officials are pressing instead for the law and order services to set aside 75% of receipts for debt redemption, allowing only 25% for additional spending. This represents a change from the 50/50 split proposed in our consultation document.

One of the objectives of the new system is to encourage authorities to dispose of assets (and the recent National Audit Office draft report on the Metropolitan Police estate has commented on the lack of incentives under the present arrangement). I very much doubt whether 25% additional spending power would be regarded as a sufficient incentive for authorities to realise assets, particularly when local authority services other than housing are being allowed to retain 50% of receipts. There is also an obvious risk that, if the receipts are not forthcoming, we shall need to provide a higher level of credit approvals, which will score within the new planning total. I have asked my officials to discuss further with the Treasury the issues involved here. For the time being I must reserve my position on what should be the appropriate proportion between debt redemption and additional spending for law and order receipts.

Annex A attached summarises the main elements of the scheme I propose. It envisages the continuation of a separate Home Office cash limit to include law and order services together with civil defence; this would mean that all my services which receive grant would be dealt with in the same manner. Fire would, as now, continue to be part of ELAB. I understand that our officials are to discuss this matter.

I would like to make an announcement on my proposals for the law and order services. A draft is attached (Annex B) on which I would particularly welcome your comments and those of John Major.

/As we signalled

As was signalled at Legislation Committee on 31 January it is likely that I shall need additional powers in order to limit our liability to pay grant on capital spending. I have asked my officials to explore with yours what might be needed by way of amendment to the Local Government and Housing Bill.

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

Yours,

Douglas.

ANNEX A

A capital control scheme for Home Office services

(i) Law and order services would fall within the new DOE system, in that credit approvals would be issued for spending on each service and authorities would be allowed the use of receipts and revenue to finance capital spending.

(ii) The credit approvals would be issued in the form of 'supplementary' credit approvals, thus hypothecating them to the individual services and preventing virement to other services.

(iii) The services would be subject to the general rules on usage of receipts and revenue funding - but in view of past specific grant support, further consideration will need to be given to the percentage of receipts which would be available to provide additional spending power.

(iv) The existing system of project controls would be retained and authorities would continue to bid for approvals which would be granted up to the limit agreed in the Public Expenditure Survey.

(v) Approved spending up to the limit agreed in PES would attract grant (to be paid as lump sums on expenditure) at the appropriate percentage. The grant would be payable irrespective of whether the authority chose to fund that level of spending from borrowing, use of receipts or revenue.

(vi) Authorities which did not receive any project approvals would receive nil credit approvals. They would be free to use net receipts or revenue to fund 'non approved' spending but they would not receive grant.

(vii) We should, at least initially, maintain a separate cash limit (to cover England and Wales) for Home Office services which would embrace civil defence as well as police, magistrates' courts and probation.

(viii) Capital spending on the fire service should remain part of the DOE cash limit and be subject to the same regime as other services within ELAB.

Question

To ask the Secretary of State for the Home Department whether he has reached a decision on new arrangements for controlling capital expenditure on the law and order services.

Answer

The Government's proposals for law and order services were set out in the consultation document "Capital Expenditure and Finance for Home Office Services" issued on 28 October 1988. I remain of the view that capital spending on the police, probation and magistrates' courts services should, generally, be subject to the capital control system applicable to all local authorities proposed in the Local Government and Housing Bill now before the House.

To meet concerns about the risk of credit approvals being vired away from law and order services, thus jeopardising their capital programmes, I intend, at least initially, that credit approvals should be issued in the form of supplementary credit approvals thereby hypothecating them to those services. I do not now propose to recover the specific grant element contained in receipts generated by these services. But in setting the prescribed proportion of receipts usage I shall take steps to protect the national taxpayer's investment. I shall also ensure that our support for capital projects is based upon Government priorities and policies through the continuation of a system of project approvals to which payment of grant would be linked. Authorities would be free to spend available resources on projects which do not secure a place in the approved programme but such spending would not attract capital grant.

I am satisfied that the arrangements I propose for law and order services will meet the objectives of the new local authority capital finance system and that authorities will be able to maintain sufficient levels of capital expenditure on those services, while exercising a strict control on Exchequer support in the form of capital grants.



CCP



QUEEN ANNE'S GATE LONDON SW1H 9AT

NRB
RACG
30/3

23 March 1989

Dear John,

LOCAL AUTHORITY CAPITAL EXPENDITURE:
LAW AND ORDER SERVICES

I am grateful to you and Nicholas Ridley for agreeing to my proposals to bring capital spending by the law and order services within the new capital control system.

at trap
Your reply of 6 March raised two particular issues. With regard to the percentage of receipts which should be set aside for debt redemption, I am now prepared to introduce the new arrangements on the basis of a 75/25 split. However, I may wish to re-open this issue if evidence emerges that retention of only 25% of receipts provides an inadequate incentive to authorities to dispose of unwanted assets.

Your letter also raised the question of amendments to the Local Government and Housing Bill. We are considering urgently the changes which may be needed in order to pay capital grants on the basis proposed in my earlier letter. My letter of 16 March explained why I think it would be premature to make any announcement now to cash limit grants to the magistrates' courts and probation services for their current expenditure.

Both you and Nicholas were content with the terms of a written Parliamentary Question announcing my proposals on law and order capital. I have revised the announcement (attached) to reflect the decision on the 75/25 split. I do not propose to seek an amendment to the Bill to give effect to this: we can proceed by way of regulation. I intend to make the announcement before the House rises for the Easter Recess.

I am copying this letter and its enclosure to the Prime Minister, members of E(LF) and Sir Robin Butler.

Yours,
Doyle

The Rt Hon John Major, MP.

Question

To ask the Secretary of State for the Home Department whether he has reached a decision on new arrangements for controlling capital expenditure on the law and order services.

Answer

The Government's proposals for law and order services were set out in the consultation document "Capital Expenditure and Finance for Home Office Services" issued on 28 October 1988. I remain of the view that capital spending on the police, probation and magistrates' courts services should, generally, be subject to the capital control system applicable to all local authorities proposed in the Local Government and Housing Bill now before the House.

To meet concerns about the risk of credit approvals being vired away from law and order services, thus jeopardising their capital programmes, I intend, at least initially, that credit approvals should be issued in the form of supplementary credit approvals thereby hypothecating them to those services. I do not intend to recover the specific grant element contained in receipts generated by these services. But to protect the national taxpayer's investment I propose to provide that the reserved part of such receipts should be 75%. I shall also ensure that our support for capital projects is based upon Government priorities and policies through the continuation of a system of project approvals to which payment of grant would be linked. Authorities would be free to spend available resources on projects which do not secure a place in the approved programme but such spending would not attract capital grant.

I am satisfied that the arrangements I propose for law and order services will meet the objectives of the new local authority capital finance system and that authorities will be able to maintain sufficient levels of capital expenditure on those services, while exercising a strict control on Exchequer support in the form of capital grants.

LOCAL Govt: Relations
A 36





cc pet

2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

NBPM
REC
u/s

My ref:
Your ref:

The Rt Hon Douglas Hurd CBE MP
Home Office
50 Queen Anne's Gate
LONDON
SW1H 9AT

21 March 1989

Sean Douglas

LOCAL AUTHORITY CAPITAL EXPENDITURE; LAW AND ORDER SERVICES

Thank you for your letter of 15 February. I have also seen John Major's response of 6 March. *will request if required*

I am content with your proposals to bring capital spending on the law and order services within the new capital finance system and I agree that, at least initially, we should prevent virement of credit approvals by issuing supplementary credit approvals for those services. I am also content for you and John Major to decide what proportion between 50% and 75% is appropriate for the reserved part of law and order receipts.

I agree that our officials should discuss the appropriate treatment of expenditure on the fire services within ELAB. I also note that you are likely to need additional powers to limit your ability to pay grant on law and order spending. No doubt you have considered whether this would be within the scope of the Bill. I would be grateful if your officials could discuss with mine urgently what amendment might be needed to the Local Government and Housing Bill. Subject to the agreement of the Lord President, I am content for such an amendment to be made if necessary.

I am content for you to announce your proposals in the terms of the draft attached to your letter.

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

John Major
Nicholas Ridley

NICHOLAS RIDLEY



21. III
No 9

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NBM

*REC 6
6/3*

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Douglas Hurd CBE MP
Home Secretary
Home Office
50 Queen Anne's Gate
London
SW1H 9AT

6 March 1989

Dear Home Secretary,

LOCAL AUTHORITY CAPITAL EXPENDITURE: LAW AND ORDER SERVICES

Thank you for copying to me your letter of 15 February to Nicholas Ridley. *not trace*

I support the aim of your proposals to bring capital spending on the police, magistrates' courts and the probation service as far as possible within the new local authority capital control scheme. I am particularly grateful for your constructive proposals to limit your liability to pay specific grants and I endorse the approach which you outlined.

I am sorry that you have difficulty with the proposal to set aside 75 per cent of receipts for debt redemption, put forward by my officials in the light of the concerns raised about clawing back grant. In the case of the police a 75/25 split will generate the same level of spending power for a given level of receipts as would the claw back option proposed in your consultation paper. It would also provide for much greater redemption of police authorities debt, thus reducing their loan charges.

In terms of presentation a 75/25 split is equivalent to a 50/50 split after the specific grant element of a receipt has been set aside for debt redemption. We must also remember that the 25 per cent of receipts available for additional spending would attract an equivalent level of specific grant if it was spent on approved projects. The spending power generated would thus be 50 per cent of the total receipts. A 75/25 split for the police would seem to provide the same incentive to realise assets as for non-housing receipts and represents a significant improvement on current arrangements. I do not see how we could go further from the outset of the new arrangements.

As far as receipts on your other services are concerned, a 75/25 split would provide significant advantages over the claw back option in terms of both spending power generated and set aside for debt redemption. Adopting a similar approach to the police, that is setting aside the specific grant proportion for debt redemption and splitting the remainder 50/50, would suggest a 90/10 split was appropriate. However, as receipts on these services are very small I am prepared to agree a 75/25 split for the sake of consistency on your services. This is on the firm understanding that we might need to reopen the question of the level of set aside for debt redemption on these services if receipts increased significantly.

I am content with the terms of the draft announcement attached to your letter.

It is essential that any additional powers necessary to limit your liability to pay grant on spending are taken in the Local Government and Housing Bill. It would be useful if the powers covered both capital and current expenditure to allow the implementation of any decision to cash limit magistrates' courts and probation service expenditure.

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

Yours sincerely,

P. Waller

pp JOHN MAJOR

[Approved by the Chief Secretary
and signed in his absence.]

