



NBPN at this stage

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QUEEN ANNE'S GATE LONDON SW1H 9AT

23 January 1986

Dear John,

METROPOLITAN POLICE CASH LIMIT

When we corresponded in October about the Metropolitan Police cash limit for 1985/86, I said I thought it would be necessary to seek a second increase in the cash limit to cater for the extra expenditure which the force had incurred or was likely to incur by 31 March 1986. I am pleased to be able to tell you that it now looks as though this will not be necessary. The Commissioner estimates the extra expenditure this year at £5.8 million (made up of £4.3 million on overtime, £1 million on riot damage compensation, and £0.5 million on extra public order equipment). But as a result of a new system of overtime control which he introduced last year, he thinks the £4.3 million additional overtime can be absorbed from within the existing overtime provision (provided there is no major outbreak of disorder in the next four weeks). This leaves only £1.5 million and the Commissioner accepts that this would be a very small sum to be the subject of a second increase in the cash limit. He considers that he could probably avoid the need for a further increase by deferring this amount of expenditure until 1986/87. I hope you will agree that this would be a very satisfactory outcome in what has been a difficult year for the Metropolitan Police.

Turning now to 1986/87, I have to approve later this month the Metropolitan Police's final estimates and fix the cash limit and the Receiver's precept for next year. The net revenue expenditure figure which I approved in October (with your agreement) as the basis for setting the Metropolitan Police's GRE was £835 million. This is what we agreed was needed to maintain the level of service provided by the Metropolitan Police. Normally it is this figure that would become the new cash limit; and assuming that the Metropolitan Police were likely to receive the same amount of block grant in 1986/87 as in the current year, it then looked as though the Receiver's precept on the London local authorities would be about 14.3p in the pound, an increase of 13.4% on the 1985/86 precept. (About 9.4% of this increase is attributable to the pay and price increases in 1985 and a small increase in manpower, whilst the remaining 4% is required to make up for a reduced end of year balance)

The Rt Hon John MacGregor, M.P.

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But a number of things have happened since those figures were prepared (which in any case took no account of the financial consequences of the riots) which will result in significant additional expenditure falling on the Metropolitan Police next year. First, as a result of the RSG settlement announced last month (and taking account of some technical adjustments), it is estimated that the Metropolitan Police's block grant income will drop by some £2.1 million next year compared with this year. Secondly, there will be further expenditure in 1986/87 on riot damage compensation and on additional public order equipment; and taken together with the £1.5 million which would be held over from 1985/86 for payment next year, as stated above, this will add a further £5 million to the net revenue expenditure (£2 million for riot damage and £3 million for equipment, though approval has not yet been given for the latter).

Thirdly, our officials have been exploring the possibility of introducing greater realism into the Metropolitan Police's pay estimates at this stage in the year so as to avoid the need for an in-year increase in the cash limit to cater for a police pay award in September 1986 which is likely to be well in excess of the Treasury cash factor. (You will recall that this was one reason why we had to increase the Metropolitan Police's cash limit by £8 million last October). The October net revenue expenditure figure of £835 million assumed only 3% for police pay net year. On current trends, the PNB pay agreement based on the Edmund-Davies recommendations seems likely to produce a settlement in the region of 7 3/4%. The additional cost of this to the Metropolitan Police is estimated at £11.8 million, and if it is not built into the estimates and precept at this stage I shall inevitably need to seek your agreement later next year to an increase in the cash limit to cover police pay. The Receiver (and I agree with him) strongly favours estimated for realism because it enables him to raise the necessary cash through setting the precept at the right level initially (as you know, he cannot precept a second time during the year); and it also avoids the uncertainty which arises under existing arrangements from not knowing whether, or by how much, the cash limit will be raised when the pay award is announced. I therefore hope you can agree to the Metropolitan Police estimates including a realistic estimate for police pay.

The effect of these three factors would be to increase net revenue expenditure to £851.8 million, which would result in a precept of 14.99p in the pound (an increase of 18.8% over this year's precept). But this assumes that police GREs (including the Metropolitan Police) would be increased to accommodate the police pay award, as has happened in the past. I am, of course, aware that there are proposals that this practice should cease. But the consequences of not adjusting the GRE would be very serious for the Metropolitan Police and the other single function authorities. The Metropolitan Police would suffer a block grant loss on this account of £6.4 million and to avoid a serious cash flow problem arising later in the year, they would need to load this onto the precept, which would increase to 15.34p in the pound (an increase of 21.5% on this year's precept).

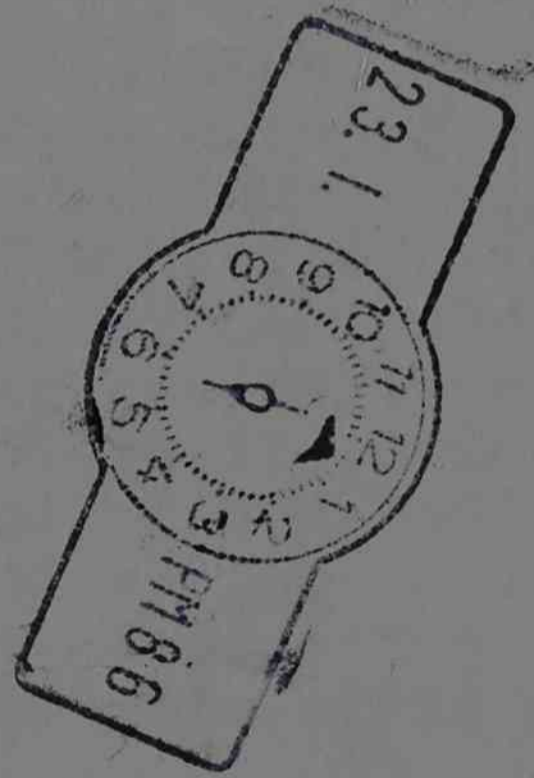
A similar problem arises on the extra riot-related expenditure of £5 million. The Commissioner has asked whether a special grant can be made available to cover these costs, which arise from the Brixton and Tottenham riots. Alternatively, he argues that this expenditure should be totally excluded from any calculation of the liability to the tapering of block grant which results from spending over GRE. Because of the political difficulties which may arise about the size of the precept I have considered very carefully whether more money ought to be made available from central funds. A special grant such as we have agreed for Handsworth is one possibility, but since the product of a 1p rate in the MPD is around £18 million, it is difficult to find a special grant formula which would benefit the Metropolitan Police. I would not, therefore, press for this. Another possibility would be to increase the level of the Imperial and National Services Grant (currently 2% of the Metropolitan Police's net revenue expenditure); but it would be difficult to do this for 1986/87 and in any case the London local authorities would gain only a limited benefit from such an increase. This year's problems with the Metropolitan Police highlight wider questions to which we need to give attention, though this is not the occasion to address them. But I believe there is a very strong case for riot-related expenditure to be excluded from the definition of total expenditure contained in Schedule 2 to the Local Government Finance Act 1982. Without such an exclusion, the precept would have to be increased by a further 0.21p to make up for the tapering of block grant, and this would further increase the Receiver's precept to 15.55p, an increase of 23.2% on this year's.

An increase of this order would be embarrassing. I do not think it would be reasonable to ask the Commissioner to absorb some or all of the extra £16.8 million (above the £835 million approved last October): that could only be done by cutting the level of service the police provide - which is not, of course, the Government's policy. The cash limit has provided an effective discipline for Metropolitan Police expenditure: you will recall that the Commissioner had to absorb £20 million in increased costs in 1985/86. Whatever solutions may emerge from the discussions which are going on at official level about these matters, I think it important that we should, for 1986/87, adhere to the previous practice of adjusting police GREs for police pay, and that the Metropolitan Police should be given an exclusion as described above in respect of the extra riot-related expenditure they face.

I am sending a copy of this letter to the Prime Minister and the Secretary of State for the Environment, and to Sir Robert Armstrong.

Yours,
Douglas.

POLICE : Policy : Jan 1983





NBRM.

Treasury Chambers, Parliament Street, SW1P 3AG

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

30 January 1986

Dear Douglas,

METROPOLITAN POLICE CASH LIMIT

Thank you for your letter of 23 January. ^{attached}

I am pleased indeed to learn that, unless a further major outbreak of public disorder in the Metropolis arises within the next few weeks, the Commissioner will be able to absorb the additional costs arising from the disturbances last autumn without a further increase in his cash limit. The new controls on overtime are evidently working effectively, and I look forward to seeing increasing benefits from greater efficiency in the use of resources by the Met. I regret however that you have not felt able to press the Commissioner to absorb the final additional £1.5 million instead of resorting to rolling other expenditure forward to the next financial year.

I am grateful for your explanation of the reasons behind the increase in the Met's net revenue expenditure over the figure calculated in October which informed the RSG settlement. I am prepared to accept a cash limit of £851.8 million.

In doing so I should stress that I would expect the Commissioner and the Receiver to abide by the undertakings they have given to keep within the higher realistic cash limit. I know that you are still engaged in an urgent review of manpower needs in the light of the events last autumn; but the increase I have agreed should give sufficient scope to deal with the outcome of the review given the substantial measure of recruitment already provided for in the Metropolitan Police budget.

Quite separate issues arise about how this level of spending should be financed. The Government will as usual meet half the cost through police specific grant (plus the small additional amount covered by the Imperial and National Service Grant). For the rest, you propose two

measures designed to increase the amount of block grant given to the Metropolitan Police. Since the block grant total for England as a whole is fixed, these measures would inevitably be at the expense of other authorities. I cannot agree to either proposal.

Your suggestion that we should exclude certain elements of the Metropolitan Police's spending from the definition of "total expenditure" would create a most undesirable precedent at a time when we are resisting pressure for such exemptions from many other sources.

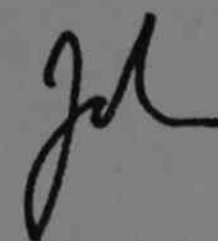
Nor can I agree that we should increase police GRES to reflect the police pay increase. Again, as we have seen in earlier years, that would simply divert grant towards police authorities at the expense of other services. Moreover, it would be completely inconsistent with the approach we have adopted throughout towards the joint boards. Their expenditure levels and their precept limits have been set on the assumption that GRES will not be increased in-year. To go back on that assumption now, as you propose, would not only disadvantage other authorities but would provide for the joint boards the windfall gain of funding the anticipated cost of the police pay award twice over.

I acknowledge that this will require a further modest increase in the already large percentage increase in the Metropolitan Police precept. This is inescapable if we move to making realistic provision for police pay from the outset; the apparently large percentage increase covers not only the effect of the police pay increase in the current year, but also the anticipated increase for 1986-87. In any event, in terms of London rate bills, the amount of the increase is much smaller and, even without the two concessions which you propose, will remain between 1 and 2 per cent. Since London has done well out of the RSG settlement, I do not see how we could defend switching yet more grant away from other authorities and the Shire areas (including the expenditure they devote to the police and for whose pay increase they have been given no extra provision) to achieve a reduction in the Met's precept which is at best marginal.

A further relevant consideration is that the Met is likely to benefit significantly from "close ending". The precepts that the Receiver has calculated take full account of the loss of grant through the operation of the poundage schedule. But if, as seems all too likely, significant numbers of other authorities also exceed settlement spending assumptions, the Met will benefit from the recycling of the grant foregone. The figures that Kenneth Baker placed in the House of Commons Library on Monday show that if the pool to be recycled were £400 million (by no means unlikely), the Met would get an additional £8 million.

I am copying this letter to the Prime Minister, to
Kenneth Baker and to Sir Robert Armstrong.

Yours ev,



JOHN MacGREGOR

POLICE 1/19
Police Policy



jk

CCBG



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My ref: B/PSO/10659/86

Your ref:

NBM

5 FEB 1986

Mr Ingham

METROPOLITAN POLICE CASH LIMIT

Thank you for copying me your letter of 23 ^{at 11.45} January to John MacGregor about the Metropolitan Police cash limit.

While a decision to increase the Metropolitan Police cash limit for 1986/87 is a matter between you and the Chief Secretary, I am concerned about the wider implications of your proposals for financing such an increase. In particular, you suggest that, having made a realistic estimate of next year's police pay award in the Metropolitan Police cash limit, you should reflect such an increase in police GREs generally. You also ask that certain riot-related expenditure should be excluded from the definition of "total expenditure". While I agree that we must aim for more realism in our future provision for the police service and, indeed, for local government expenditure generally, I would be most unhappy to accept either proposal as they stand for 1986/87.

First, on pay, I am not in favour of our indicating now that the likely award for 1986/87 will necessarily be reflected in the police GRE through a mid-year adjustment. Our officials have been discussing a draft paper for the local authority associations to consult on the possibility of ending mid-year adjustments to the police GRE. The need to make this adjustment has always brought an unwelcome extra element of instability to the grant system. Now that the AEG percentage is below the 50% rate at which police grant is paid, it has a quite unacceptable effect on the distribution of grant. If AEG is kept at a constant percentage, the whole of any uplift to take account of increased police expenditure is taken up by the increase in police specific grant. To adjust GRE on top means that block grant is drawn away from non-police authorities to police authorities. I suggest that we should consult the local authority associations before we decide on this issue, in view of its distributional significance.

There is a further grant problem for the current year in what you propose. You have already set the provisional precept limits for the police joint boards in the metropolitan areas to take account of a realistic pay estimate for 1986/87. Any uplift in police GRE at this stage would bring those authorities an uncovented grant benefit.

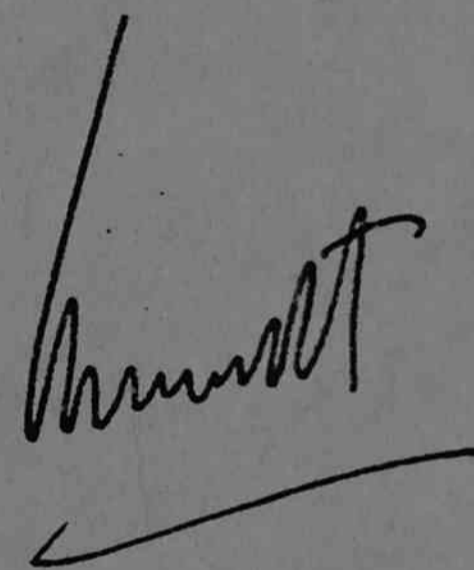
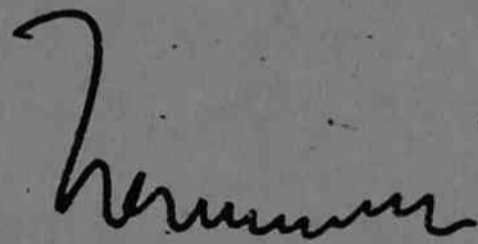
Second, you argue that some £5 million of riot-related expenditure should be excluded from the definition of "total expenditure" for the coming financial year, saving London ratepayers some 0.21p in the pound. I am under strong pressure from local

authorities to introduce a system of quasi-disregards through "total expenditure" exclusions to safeguard local authorities from grant loss from increased spending on particular activities, replicating the disregard system under the target and penalty regime now abolished. This is pressure which I am bound to resist. To grant an exclusion in the case of the Metropolitan Police would, I believe, make it difficult to resist the pressure from other worthy causes. The credibility of our claim to have abolished targets would be seriously undermined. Your specific proposal would have the effect of further shifting grant towards London from shire authorities which would certainly not go down well with our backbench supporters!

It is not, of course, for me to judge the extent to which the increased spending envisaged could be accommodated by savings within the Metropolitan Police overall cash limit already set. I certainly appreciate the difficulties inherent in a precept increase of the kind you mention. It may, however, help to put the precept increase in its London-wide context. An increase from 12.9p, this year's average police precept, to 15.55p is an increase of less than 2% on the average rate poundage charged in London this year.

I am sending a copy of this letter to the Prime Minister and the Chief Secretary, and to Sir Robert Armstrong.

KENNETH BAKER



POLICE 3/83

Police

