

LOCAL AUTHORITY CAPITAL EXPENDITURE

The record on local authority capital spending is dismal. There is little relation between the Government's 'cash limit' and the amount actually spent. We face an overspend of between £750 million and £900 million for 1984/5; and 1985/6 may be almost as bad.

Everybody agrees that the system is mad: there is a massive amount of double-counting, and local authority treasurers do not know whether they are coming or going.

The Chief Secretary's 'Cascade' Proposal

Flay A

The Chief Secretary's proposal would put an end to double-counting, and would almost certainly solve the overspending problem.

But it is politically insensitive to an extreme degree.

Last year, when we tried to explain the Government's position on local capital spending to sympathetic backbenchers, it was uphill work: MPs found it hard to accept that councils should be prevented from spending 'their own money'.

This year, the position will be even worse, because capital spending is now a highly popular item. If you legislate retrospectively to prevent councils spending about £4.5 billion which they now expect to be available, you will have a backbench riot on your hands - not to mention the Lords.

Patrick Jenkin's Position

Flay B

Patrick Jenkin sees these political dangers. He wants to leave the system intact for 1986/7, and to change it

radically once the general reform of local finance has been settled.

This approach has two disadvantages:

1. Because of continued double-counting, the 'accumulated receipts' which pose such a threat to the PSBR could go on growing during 1986/7; (they have been increasing by over £500 million a year).
2. If the local finance reforms did not produce a radical and acceptable new system, the government would face exactly the same problem next year, when it would be even more difficult to carry unpopular legislative changes.

Eliminating the Problem in 1986/7

We believe that the best solution is to legislate now, but only prospectively. This would prevent double counting in future years, and would ensure that the accumulated receipts did not go on growing at breakneck pace. But it would leave local authorities in possession of the £4.5 billion's worth of spending permissions which the Chief Secretary wants to remove from them retrospectively.

If the 1986/7 capital spending arrangements were fairly 'generous' in other respects, councils and backbenchers might, grudgingly, accept such prospective legislation. There would undoubtedly be significant protests. But there would not be anything like the outrage that the Chief Secretary's proposals would cause.

Mortgage Refinancing

The Treasury's proposals to change the rules on mortgage re-financing are also politically insensitive.

* Treasury are in difficulties on this issue as transfers of individual mortgages without transfer of risk were made possible in a 1980 Act, provide householders consented. By requiring all mortgages in a block to have separate consents, Patrick Jenkin is doing no more than ensure that all mortgages are treated as individual ones.

Changing the rules suddenly in July of this year will cause a storm of protest, because many local authority treasurers - possibly including Liverpool - will have been reckoning on such re-financing deals as a method of balancing the books.

The alternative proposed by Patrick Jenkin is much more attractive. Legislation requiring the individual householder's consent to a transfer of his mortgage is difficult to oppose; like the Trade Union Acts, this move would emphasise personal rights rather than the government's big stick. And it would probably have much the same immediate effect on practice as the Chief Secretary's proposal, since local authorities are unlikely to conclude snap deals with banks or building societies if they have to seek permission from hundreds of individuals. *

Conclusion

We recommend that you should:

- reject retrospective legislation on the double-counting of receipts;
- ask Patrick Jenkin and the Chief Secretary to work up a Bill which prevents future double-counting; and
- accept Patrick's proposal to allow the transfer of mortgages only where the individual consents.

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