



NOTE OF A MEETING HELD IN THE CHIEF SECRETARY'S ROOM

ON THURSDAY, 18 JULY 1985

Present:

Chief Secretary
Mr Pirie
Ms Spencer
Mr Ellis

Secretary of State for the Environment
Mr D Osborne
Mr P Fletcher

LOCAL AUTHORITY CAPITAL:
LEGISLATION IN 1985-86 SESSION

Mortgage Refinancing

The Secretary of State said that it was a relatively straight forward matter to legislate to prevent mortgage refinancing without the consent of the individual mortgagor. There would not therefore be difficulties in making the legislation effective from the date of announcement with the exception of non-housing mortgages on which further consultation would be required. However, it would be very difficult to devise a water-tight definition which ensured that risk passed with the sale of a mortgage. Wide-ranging consultations would be necessary if the legislation was not to be easily evaded. Since the Government were not in a position to define the scope of any legislation on this point, it would not be possible to make it retrospective to the date of announcement. In his view, it was anyway sufficient to rest on legislation requiring the consent of the individual mortgagor.

2 The Chief Secretary said that he agreed with the general view expressed in E(A) that legislation on both individual

consent and transfer of risk was desirable to make it as difficult as possible for undesirable mortgage refinancing transactions to be completed. After further discussion, it was agreed that the Secretary of State would say in his announcement that as well as legislating with effect from the date of announcement to require individual consent, the Government also intended to legislate to ensure the proper transfer of risk but that further consultations would be necessary. No undertaking could be given about the outcome of the consultations.

Capital Receipts

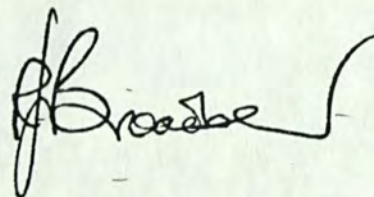
3 The Secretary of State said that, as he had emphasised in the E(A) discussion, the commitments he had had to give to secure a Government majority on the Orders passed earlier in the year to reduce the prescribed proportions meant that he could not contemplate action which affected receipts accumulated during 1985-86. The Orders concerned had effected changes to the prescribed proportions in 1985-86 and the assurances he had given were taken as covering receipts accumulated in that year. He anyway saw no prospect of securing the necessary legislation, particularly since any measures would be seen as a stop gap pending fundamental reform of the capital control system. He concluded that there was no practical means of influencing accumulated spending power in 1986-87. He emphasised that, in political terms, he thought it would be wrong for the Government to take action which would lead to a real cut in local authority capital expenditure. This was a point he would be pursuing in the forthcoming Survey discussions.

4 The Chief Secretary said E(A) had distinguished between past and future capital receipts but he could not accept that 1985-86 was a past year when in fact it had only

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recently started. There was still ample time left in the course of the year for authorities to respond to whatever decisions the government reached without any accusation of bad faith. To take no action would increase local authorities spending power by about £400 million in 1986-87 which, given the difficult overall public expenditure position, would mean that he would have to argue for equivalent reductions in allocations in the Autumn. This could be more difficult to present than the legislation he was proposing.

5 After further discussion, the Chief Secretary and the Secretary of State agreed to resume their discussion at a later date. The Chief Secretary asked officials in the meantime to investigate the possibility of splitting in-year receipts so as to draw a line between receipts realised in 1985-86 so far and receipts later in the year.



R J BROADBENT
Private Secretary

Circulation

Those Present:
Chancellor
Sir P Middleton
Mr Bailey
Mr Anson
Mr Cassell
Mr Jameson
Mr Peretz -
Mr Scholar
Mr Wicks
Mr Culpin
Mr Ellis
Mr Cropper
Mr Lord
Miss Wheldon - Treasury Sols.