



Treasury Chambers, Parliament Street, SW1P 3AG  
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PRIME MINISTER

**PWLB LENDING TO LIVERPOOL**

I attach a note by officials which describes the likely outcome of consideration tomorrow by the Public Works Loan Board of an application from Liverpool City Corporation to borrow from the Board.

The Board is of course an independent body. But if the view they come to is as described in the attached note it will have the effect of bringing further pressure to bear on Liverpool to look again at the other ways open to the Council of solving their financial difficulties for the current year. If Liverpool continue to resist these other options, then there is a significant risk that they will default on a market loan during the course of next week.

I am sending copies to Kenneth Baker, Keith Joseph, David Young, Norman Fowler, the Solicitor General and Sir Robert Armstrong.

*N.L.*

N.L.

10 October 1985

*I have discussed this with Kenneth Baker,  
who agrees this line.  
N.L.*

CONFIDENTIAL

**PWLB LENDING TO LIVERPOOL CITY CORPORATION**

Liverpool made an application to the Public Works Loan Board (PWLB) on 30 September for a loan of £20 million. The City Treasurer has now indicated that there is a strong risk that Liverpool will be forced to default on a market loan that falls due for repayment on Monday, in the absence of a PWLB decision to resume lending to the Council this week.

2. The Board is therefore meeting tomorrow afternoon <sup>(Friday)</sup> to consider Liverpool's request. They will have before them various communications from the City Treasurer, and a copy of a letter from the Liverpool City Solicitor stating that in his opinion Liverpool Council is now in law complying with its obligations in respect of its budget for the current year, on the basis of proposals that the Council has adopted.

3. It is understood that the legal advice to the Board tomorrow, on which Counsel's opinion has been taken, will be that the Board would be unwise to make a decision to lend tomorrow, given uncertainties about the security for such lending. The budget adopted by Liverpool depends on a scheme for temporary redundancy of the bulk of the workforce for the first quarter of 1986. This would, it is said, provide savings on staff costs, supplemented by a rebate from the Department of Employment Redundancy Fund.

4. There are the following doubts about this proposal:-

(i) It is under challenge from the National Union of Teachers, in a court case that will be heard on 16 October. The basis of this challenge is that the redundancies are unreasonable, in part because the Council would no longer be able to perform its statutory duties.

(ii) It is understood that Liverpool are intending to defend this action on the basis of proposals that would involve deferring payment of teachers salaries from the beginning of 1986 until 1st April, with school holidays during the

intervening period. It is difficult to see how the cost of this arrangement could be met within the Council's budget, whichever year the 1 April payment was charged to (Liverpool has been selected for rate-capping in 1986-87). The scheme is in any event quite different from the one on which the City Treasurer has been in correspondence with the PWLB, and on which the City Solicitor's letter is based.

(iii) The Department of Employment is uncertain whether the proposed "redundancies", under the existing Liverpool proposal, are valid for the purposes of claiming a rebate from the Redundancy Fund. If they are not valid, the Council would either be obliged to continue to pay normal salaries, or be liable for financial claims for unfair dismissal. The Council's budget proposals do not allow for either contingency.

(iv) An important further aspect of the redundancy proposal is that it reduces Liverpool's 1985-86 expenditure, and increases their entitlement for DOE block grant. This is a key feature of Liverpool's budget proposals. If the scheme fails then there would be grounds for not paying the increased block grant, and this would increase the Council's budget imbalance.

5. The PWLB is an independent body, and must make its own decision. But it seems likely that it will at least decide to delay a decision until after the NUT case is heard next week, on the basis of the factors described above.

6. In that event, the Board may well, exceptionally, wish to issue a press notice on Friday evening on the lines attached, so as to avoid risk of misunderstanding.

7. Deferral of a decision in this way would of course bring a significant risk of a default by Liverpool next week. Contingency planning against such an event has been going on in MISC 109 over recent months.

Statement by Public Works Loan Board

The Board has today considered a loan application from Liverpool City Council. A decision has been deferred. The Council has not yet satisfied the Board that there is a sufficient basis for lending; and the Board noted that there are financial implications in an action by the National Union of Teachers which is to be heard next week.