

PM does not
need to see this
now DN (PP Duty
Clark)

PRIME MINISTER 2

NBPN pa.

LIVERPOOL

Some developments on Liverpool this evening.

At 1700 the DOE received a letter from the Liverpool Treasurer saying they were considering a deferred purchase scheme worth £65 million.

At 1800 the DOE replied saying they would strongly disapprove of a scheme that large. DOE told me that they would have replied in those terms to any Council.

With this knowledge Union Bank of Switzerland refused to lend £65 million.

At 1900 Phillips and Drew, the brokers for the deal, asked for the Government's observations on a £30 million deferred purchase scheme.

At 2030, by agreement with the Chancellor, the DOE replied, welcoming Liverpool Council's intention to set a legal budget, and noting that deferred purchase schemes do not require the Government's approval. The letter went on:

"Where a scheme of this kind is suitably structured in accordance with my letter of 15 February 1985 to CIPFA, it would in our view accord with the legal framework of the local authority capital controls.

This letter does not imply that the Government accepts any responsibility, either legally or otherwise, for liabilities under the scheme, which would rest with the city council."

The letter of 15 February sets out the DOE's understanding of the rules. DOE assure me that the first paragraph quoted above is entirely standard and used both to banks and to

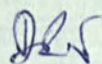
members of local authorities who are concerned about deferred purchase schemes. The second paragraph was added at the insistence of the Chancellor.

The Bank of England, remarkably enough, believe that Phillips and Drew and Union Bank of Switzerland will be happy with this letter and go ahead with the deferred purchase scheme.

DOE understand that the Liverpool Treasurer is putting a budget to the Labour Party this evening which includes a £30 million deferred purchase scheme. If it goes through, the budget will then go tomorrow to the Finance Committee and then to the full Council.

Mr Baker will be minuting you early next week about this and with recommendations on what you and colleagues might say about Liverpool now.

DOE asked me what I thought your feelings would be about them volunteering a statement to the House next week. I said I thought you would be against it. Let the Speaker allow a PMQ or Debate if he chooses, but this is Liverpool's problem not the Government's.



David Norgrove
28 November 18975