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LONDON SW1P 3EB
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My ref:

Your ref:

David Norgrove Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

Prime Minister

16 February 1987

Contact with

this answer?
DWS 16/2

Yes ~~at~~ good reply
ms.

Dear David,

At MISC 109(87)1st meeting it was agreed that an early statement should be made to publicise the fact that the Government does not stand - and has never stood - behind local authority debt.

My Secretary of State feels that there would be advantage in inspriring a PQ on the subject in the course of this week. It could then be drawn on, and repeated, by the Prime Minister and others at suitable opportunities.

I am copying this to Alex Allan and Jill Rutter in the Treasury and I would be grateful if you and they could let me have any comments on this approach and on the attached wording, which has been discussed at official level with Treasury and the Treasury Solicitor.

Yours,

Robin

R U YOUNG
Private Secretary

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DAS
file (47)

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

17 February 1987

LOCAL AUTHORITY DEBT

The Prime Minister has seen your letter to me of 16 February, to which was attached a draft answer to publicise the fact that the Government does not stand - and has never stood - behind local authority debt. The Prime Minister is content with the draft and indeed thought it a good reply.

I am copying this letter to Alex Allan and Jill Rutter (HM Treasury).

D R NORGROVE

R.U. Young, Esq.
Department of the Environment

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Treasury Chambers, Parliament Street, SW1P 3AG

R Young Esq
Private Secretary to the
Secretary of State
for the Environment
Department of the Environment
2 Marsham Street
LONDON SW1P 3EB

NRPN

17 February 1987

Dear Robin,

STATEMENT ON LOCAL AUTHORITY DEBT

The Chancellor and the Chief Secretary have seen the draft statement attached to your letter to David Norgrove of 16 February. WITH DRN

They would like the statement to be re-ordered, with one excision. I attach a possible revised draft answer.

I am copying this letter to David Norgrove at No 10.

Yours,

Jill

JILL RUTTER
Private Secretary

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REVISED DRAFT ANSWER

A local authority's debt and its creditworthiness have always been its own responsibility. The Government does not stand behind local authority debt. The great majority of local authorities understand the importance of maintaining their creditworthiness and behave in accordance with the rules of financial good practice.

All loan debt is a statutory charge on all the revenues of an authority. If a local authority were to default, creditors - including those who have provided finance for authorities under arrangements such as deferred purchase schemes which do not legally constitute borrowing - might have to take action in the Courts to recover their money. The Public Works Loan Board could not lend to an authority which chose to act illegally or which appeared unable to service and repay the debt, even under its lender of last resort facility.