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WELSH OFFICE

GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

Tel. 01-270 3000 (Switchboard)
01-270 0549 (Direct Line)FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

7 March 1989

New Caryl.

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LOCAL AUTHORITY INTEREST RATE SWAPS

The Chief Secretary will know from earlier discussions that a number of local authorities besides Hammersmith and Fulham have been engaging in interest rate swaps and will be aware that Ogwr Borough Council in Mid Glamorgan is one of them.

We understand from the District Auditor that they stopped dealing in new swaps in February 1988 after he had advised them about his concern that the transactions might be ultra vires. The District Auditor met the leaders of the Council on 22 June 1988 to inform them that in counsel's opinion the dealings were illegal and was subsequently assured that the Council was withdrawing from its agreements as quickly as possible whilst at the same time trying to ensure that the termination of swaps did not adversely affect its finances. We understand that the Council announced its intention to stop making payments due under the deals with effect from 1 March 1989 (though no such payments have yet fallen due).

The Secretary of State has not yet been asked by the Council to sanction any transactions under their agreements and does not expect to receive such a request. Should the Council seek a sanction we would seek Treasury advice as to the terms of our reply as I imagine that you will be co-ordinating the Government's approach to this problem.

I am copying this letter to Paul Gray at No. 10 and to Roger Bright at the Department of the Environment.

S R WILLIAMS

Miss Carys Evans
Private Secretary to the Chief Secretary
HM Treasury
Parliament Street
LONDON SW1P 3AG



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Treasury Chambers, Parliament Street, SW1P 3AG

Stephen Williams Esq
Private Secretary to the
Secretary of State for Wales
Welsh Office
Gwydyr House
Whitehall
London
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MBM
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16/7

10 March 1989

Dear Stephen

LOCAL AUTHORITY INTEREST RATE SWAPS

Thank you for your letter of 7 March ^{*at Paul*} about Ogwr Borough Council's interest rate swaps.

The Chief Secretary thinks it important that the Government should take a fully consistent line on Hammersmith and Fulham, Ogwr and any other authorities which may have to suspend payments on interest rate swaps. He is therefore grateful for your Secretary of State's assurance that he will consult the Treasury before agreeing to any sanction request from Ogwr. He understands that DOE officials have already sent Welsh Office officials the main papers relating to Hammersmith and Fulham and suggests that Welsh Office, DOE and Treasury officials should continue to keep in close touch about these matters.

I am copying this letter, as you copied yours, to Paul Gray (No.10) and to Roger Bright (DOE)

Yours
Carys Evans

MISS C EVANS
Private Secretary

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