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*n. b. P. M.*

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Treasury Chambers, Parliament Street, SW1P 3AG  
071-270 3000

16 November 1990

The Rt Hon Christopher Patten MP  
Secretary of State  
for the Environment  
2 Marsham Street  
LONDON  
SW1P 3EB

*1/21/90 Chris,*

**LOCAL AUTHORITY INTEREST RATE SWAPS** *plot*

I am grateful for your letter of 24 October and for the Governor's letter of 6 November. *Ref A*

I agree that a statement would be desirable in due course and understand that our officials have been discussing possible drafts. The timing and terms of the statement will, however, need to be very carefully judged to avoid laying ourselves open to claims for compensation from the banks. I would prefer to delay any comment until we have seen the Lords' written judgment as this may affect the terms of the statement. I note that you will circulate the final text in advance for approval.

I accept that in principle there is an argument for local authorities being allowed to use these instruments if a suitable regulatory regime can be devised. However there are clear difficulties in providing the legislation that would be required. I feel we should do no more than indicate that, if local authorities (in consultation with the banks) wish to put forward proposals for a regulatory framework, we will give them careful consideration.

Regarding past transactions I agree that there could be no question of retrospective legislation to interfere with the House of Lords' decision. It is certainly desirable that further



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litigation be avoided, but I understand that it is open to local authorities to reach reasonable settlements with the banks to avoid unpicking past payments.

Whilst I understand the Governor's concern about the damage that the whole affair has caused to London's reputation, I think there are a number of difficulties about legislating to enable the local authorities who wish to honour outstanding contracts to do so. The power of councils to settle claims in advance of legal proceedings will mean that completed transactions need not be reopened and unpicked unless the parties wish to or are determined to embark on further litigation. Whilst I hope they will not do this, I do not think we can remove their right to do so.

I am not attracted to the idea of introducing legislation solely to assist councils who wish to go on making payments on existing contracts until those contracts expire. Apart from the difficulties of drafting and securing the necessary Parliamentary time, I am not sure how many councillors would find the prospect of such payments attractive. The position where some councils continue paying whilst others refuse to do so might well do further damage to London's reputation.

I am copying this letter to the **Prime Minister**, David Hunt, the Governor of the Bank of England and Sir Robin Butler.

*Yours Ever,*  
*John Major*

JOHN MAJOR

LOCAL GOVT : Kelantan #38

