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PREM 19/1614

PART 4

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CONFIDENTIAL FILING

Urban Development Corporations
Regeneration of Liverpool and London Docklands
Inner Cities Policy and Problems

REGIONAL
POLICY

PE 1: JULY 1979

PE 4: SEPTEMBER 1983

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
14.9.83		26.3.84					
27.9.83		28.3.84					
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PREM 19/16/4

PART PE 4 ends:-

HMT internal note undated

PART PE 5. begins:-

JR to PM + attach 2/5/84

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LIVERPOOL AND LOCAL AUTHORITY CREDITWORTHINESS

Note by HF

~~AT~~
My Letter
Sent by the Banker
HMT

To see & return pd.

An earlier note by HF (submitted with Mr Culpin's submission of 28 February) described the likely effect on the creditworthiness of local authorities generally if Liverpool defaults on its debt. This note offers an updated assessment and considers in greater detail the options available to Ministers. The note takes into account discussions at a meeting we held yesterday - at their request - with Maurice Stonefrost, Chairman of the local government side of the Local Authority Borrowing Committee and Noel Hepworth, the President of CIPFA. The Bank and DOE were also present. AT 115

Background

2. Alone amongst local authorities, Liverpool has so far made no rate for 1984/85. The Council should have set a rate sufficient to balance the budget in the light of other income by the end of March. Instead, it attempted to adopt an unbalanced, and therefore illegal, budget. However, defections from the Labour camp resulted in this proposal being blocked.

3. The Council are to discuss the budget again on 25 April, but it is probable that no decisions will be taken. Most probably, decisions will now be deferred until after the local elections on 3 May. It is likely that Labour will be re-elected with an increased majority, and that an unbalanced budget could be adopted by the Council by mid-May. If so, an immediate challenge is likely in the courts, leading to the rate probably being declared illegal in June.

Liverpool's own debts

4. Liverpool's outstanding debt amounts to about £700 million (2 per cent of total local authority debt), of which £384 million is debt due to the PWLB; the rest, just over £300 million, is due to the private sector. Of the latter, about £210 million is owed to financial institutions, mainly banks. As much as £150 million of private sector debt may be subject to cross default, so that it

could be withdrawn immediately if Liverpool defaulted on another lender. About £90 million is short maturity borrowing.

5. £130 million of existing debt has to be refinanced by early June. This includes a £10 million stock redemption and £5 million repayable to the PWLB on 15 May.

6. As far as we can tell, the market is no longer lending to Liverpool. This could be because Liverpool is not actively trying to borrow and thus is avoiding testing the market; but it seems more probable that, if they were to try to do so now, they would not succeed - at least not until there is a reasonable expectation of a legal budget.

7. Liverpool still does have access to PWLB funds - for example, during the last week on the advice of the Treasury Solicitor the PWLB have approved two loans of £6 million; and the National Debt Office and the Bank of England are possible sources of temporary funds. By also running down their reserves, it might thus be possible for Liverpool to carry on meeting its debts for a while. But the availability of public sector funds also depends crucially on whether Liverpool adopts a legal budget. If it does not very soon after the 3 May election, continued PWLB and other public sector lending will be ruled out on grounds of legality/propriety - quite apart from any other considerations.

8. Thus, if Liverpool makes an illegal rate or fails to make a rate, it will almost certainly default on its debts. If this happens, creditors will have recourse to the courts. DOE's legal advice is that creditors would have a first charge on Liverpool's revenues, including RSG if that continued to be paid - as we think, on legal grounds, it would have to be. But it is highly uncertain how quickly the creditors would be paid out. Until or unless commissioners were sent in, Liverpool would presumably refuse to pay up and the creditors would then attempt to attach Liverpool's assets. That would be a very unattractive prospect. Even after commissioners arrived, it might take a little time for claims to be settled.

9. Precisely when Liverpool would default is uncertain: it could be very shortly after they make an illegal rate; it could be later in the summer if they are able to draw down reserves etc.

Wider effects of default

10. Mr Stonefrost and Mr Hepworth both emphasised the damage which would be done to the credit standing of local authorities generally if Liverpool default.

11. In the short run, they argued, some authorities would probably be unable to borrow at all - particularly those likely to be on DOE's rate capping list. Interest rates for all authorities would almost certainly rise at least temporarily. Over the longer term, there would be a tiering of rates, which would raise the average cost of local authority borrowing even if "best" authorities were able to borrow at fine rates once again. And by making local authority borrowing "non-homogeneous", this would change the whole nature of the market. Because of the need for individual credit assessments and in some cases possibly enhanced security, the process of borrowing would become much more complicated and less efficient. Mr Stonefrost said it would take years for the market to get over a default, and that the change in the nature of the market would probably be irreversible.

12. But he also spoke strongly against HMG artificially propping up Liverpool by lending in support of revenue expenditure. The structure of local authority credit depended upon the clear legal duty of authorities to set a proper rate. If one authority was artificially sustained, others might be enticed to follow Liverpool's example; and this would cause great uncertainty in the market.

13. HF and the Bank broadly agree with this assessment. There are in addition some further points:

(i) the Government's credit standing, and hence gilts rates, might be affected in the short run by a Liverpool default - particularly if there was uncertainty about whether commissioners would be sent in.

(ii) Borrowing by local authorities from the non bank private sector in the form of yearling bonds and other short term paper could - at least in the short term - be at risk. If this market dried up altogether for say a month, we might need to sell up to £1 billion more Central Government debt to keep £M3 on track. This is against the background of a short term monetary prospect that already looks uncomfortable, because of heavy front end loading of the PSBR.

(iii) A switch in local authorities borrowing from banks to Central Government would not affect £M3 but it would add to money market surpluses over the next few months. This would enable the Bank to run off its holdings of bills more rapidly. With the bill mountain now at over £12 billion, this would, in principle, be positively helpful. But excessive surpluses could cause problems for market management, especially if we needed to raise short term interest rates for general monetary reasons.

(iv) We would not want local authorities to become entirely dependent upon the FWLB - and nor would they - because of the greater flexibility of bank borrowing, and because at some point in the future we might want the banks to play a bigger role at the expense of FWLB financing.

(14) tiering of rates might look attractive insofar as it might bring greater pressure to bear on high-spending authorities. But the disadvantages - particularly the higher average cost of local authority borrowing - in our view significantly outweighs this.

14. It is not possible to quantify the effects outlined above. But we believe they would be serious and that action should, if possible, be taken to minimise them or to prevent Liverpool's default in the first place.

Possible courses of action

15. There appear to be 3 principal options:

(i) make a general statement seeking to distance Liverpool from all other local authorities who have behaved properly and to whom the PWLB stands ready to lend and clarifying again the legal position of creditors.

(ii) announce at an appropriate time the intention to legislate and send in commissioners.

(iii) legislate to protect Liverpool's creditors.

Any one of these might be coupled with the announcement of a new short term PWLB facility, which would be designed to strengthen the market's perception of the PWLB as "lender of last resort" and thus provide additional comfort to creditors. (At present, PWLB loans are available for a minimum maturity of 3 years. The idea, which we are exploring with the PWLB and the Bank, would be to offer temporarily a 3-month facility).

16 Option (i). This is the minimalist "hands off" approach, which would enable the Government to stand back from Liverpool as long as possible. The purpose would be to put a "ring fence" around Liverpool.

17. A general statement of the kind proposed - a Treasury/DOE draft is attached - might help to steady the market if it deteriorated in advance of Liverpool declaring an illegal budget. But we should not count on this working. And once Liverpool defaults, it seems extremely unlikely that a general statement - even if accompanied by a short term PWLB facility - would prevent the worst effects outlined in the previous section from occurring. It would become all too clear that Liverpool's creditors' only recourse would be to the courts - with all the uncertainties that that would involve; and there would be little to mitigate the fact that for the first time a local authority had intentionally defaulted.

18. Option (ii). As soon as commissioners are appointed there would be no risk of default - though there might be a short delay in meeting payments while they made the necessary budget decisions. In terms of Liverpool's creditors and the market more generally, the ideal solution would be for commissioner legislation to be announced as soon as there is a serious deterioration in the LA market - ie if necessary, before the Council makes its budget. The introduction of legislation would be conditional on the rate being found illegal by the court. In practice, even if legislation were quickly introduced, the commissioners could not actually be appointed - because of the way the legislation is drafted as approved by L Committee - until the breakdown of services or until Liverpool fails to meet its obligations. This might still leave a short interregnum before creditors received their money. But provided it was made absolutely clear that:

- (i) legislation would be quickly introduced,
- (ii) there was a strong expectation that before long commissioners would be going in,
- (iii) the commissioners would ensure early payment of any debt arrears,

then we believe that should be sufficient to largely prevent the "ripple" effects from occurring.

19. The main disadvantage of this approach is that the Government might have to announce the legislation, albeit conditionally, considerably earlier than hitherto thought desirable on other grounds. Holding off accentuates pressure on the Council to act responsibly. Too early an announcement gives the extremists the chance to seize martyrdom. If it was thought politically impossible to make such an announcement before the Council's budget-making, then a fallback in the event of the market deteriorating in advance would be to make a general statement (ie option (i)) to be followed by option (ii) later.

20. The above assumes that Liverpool makes some kind of budget. The announcement about commissioner legislation would presumably have to say that, if they failed to make any budget at all by say the end of May, legislation would then be introduced.

21. Option (iii). This could take one of two forms. HMG could take over Liverpool's debt - ie debt incurred up to the date of an illegal budget; or we could hypothecate Liverpool's RSG so that it would be used first of all to meet Liverpool's debts. Both would require legislation. Unless in the form of a general power (which other authorities would find highly objectionable), the legislation would be hybrid and therefore might take considerable time to enact.

22. Taking over Liverpool's debts looks very unattractive. The creditors would be paid out and this might steady the LA market. But it would look like a victory for Liverpool's high-spending and a major concession by government. It would presumably add to public expenditure, and when the implication that the Government might possibly do the same for other local authorities had sunk in, this would undermine one of the foundations of the local authority market (ie the point made by Mr Stonefrost) and be highly damaging for the Government's credibility.

23. DOE are giving further consideration to the idea of hypothecating RSG. At first sight, this looks quite attractive. But

there are at least two objections:

(i) there might be administrative problems; there would also be delay until the legislation was enacted.

(ii) more importantly, while the creditors might be protected, Liverpool would almost certainly still be making an illegal budget: with a lower RSG, after hypothecation, the chances of an illegal budget might be that much greater. So commissioner legislation would sooner or later also be necessary. The prospect of two pieces of legislation directed against Liverpool seems sufficient to rule this option out.

Conclusion

24. Liverpool now seems likely to set an illegal budget - or possibly no budget at all. In that case, new lending to Liverpool will wholly dry up and Liverpool will almost certainly default on its debts. That would be very damaging for the local authority market generally, and could well have adverse monetary implications, especially in the short-run.

25. The immediate announcement of commissioner legislation as soon as there is a serious deterioration in the LA market would seem the best option available. This would ensure that Liverpool's creditors are paid out, and although any delay in appointing commissioners might be a slight cause for concern, the wider effects of an illegal budget should be largely contained.

26. If the market deteriorates before there is an illegal budget, and if it is not thought feasible to announce commissioner legislation before there is such a budget, then a general statement on the lines of option (i), followed by an announcement about commissioner legislation later, would be worth having.

DRAFT STATEMENT ON CREDITWORTHINESS (LIVERPOOL)

Local authorities have always enjoyed a very high credit standing, for the practical reasons that the financial viability of authorities is secured at every turn. First, strict requirements of good housekeeping are enjoined on them by law: to borrow prudently and within limits; to make adequate provision for the servicing of debts; to balance their budgets and so on. They may not budget for a deficit and discharge of these legal requirements is scrutinised each year by an independent auditor.

2. Secondly, if in the ordinary course of business a tranche of an authority's long-term debt fell due and it experienced difficulty in refinancing that debt in the market, it can turn to the Public Works Loan Board with its range of facilities, not least the capacity to operate as lender of last resort.

3. Third, if despite these safeguards an authority found itself without adequate funds to cover all its liabilities, then all loans - principal and interest - rank equally ahead of all other liabilities as a charge on the available revenues. But no local authority in Britain has ever been known to default on its market debt and there is no reason for them to start to do so now.

4. What has happened in Liverpool does not alter these safeguards. Liverpool's failure to set a rate at the first attempt is not novel and is not in itself an illegal act. Pending a decision on the rate, Liverpool will have revenue from rents and charges; it will be able to use any balances and investments it may have; and it will continue to receive, as usual, direct financial assistance from the Exchequer in the form of rate support grant and specific grants. In Liverpool's case, rates account for only about $\frac{1}{4}$ of its gross revenue expenditure. Despite the extremely regrettable failure to set a rate, and the irresponsible proposals from the majority Group to set a rate which would be inadequate and therefore illegal, the City Council has a breathing space in which it can set and begin to collect an adequate rate. Hopefully commonsense will prevail. The Government will continue to monitor the position in Liverpool closely.

5. Meanwhile, lenders to local authorities may be concerned about whether Liverpool's behaviour implies that local authorities generally should not enjoy the same credit rating as at present. / ^{Nothing} has changed in that respect. Let me stress that every authority in the country other than Liverpool has taken the usual steps to set a sufficient and proper rate for the next financial year at the right time. The safeguards which I have outlined for lenders will apply in the normal way. Liverpool's behaviour should

not adversely affect other authorities. Lenders should not be deterred from their previous practice of placing absolutely confidence in the ability and intention of local authorities to meet payment on debt at the due time.

26 APR 1984



Subject

File
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JR
cc Masler



bc: Mr. Redwood
MR Buckley co

10 DOWNING STREET

From the Private Secretary

26 April 1984

Dear John,

LIVERPOOL

The Prime Minister held a meeting today to discuss developments in Liverpool. Present were the Home Secretary, the Lord Privy Seal, the Secretaries of State for the Environment, Education, Defence, Trade and Industry, and Social Services, the Chief Secretary and the Attorney General. Also present were Sir Robert Amrstrong and Mr. Buckley of the Cabinet Office. The meeting had before it your Secretary of State's minute of 25 April.

Your Secretary of State reported on the meeting of the Liverpool City Council the previous day. Each Party had put forward its own proposals and each in turn had been voted down. In the absence of any co-operation between the Parties, no budget and no rate were settled. The next event would be the local elections on 3 May at which the Labour Party were expected to increase their majority with the likelihood that they would then be able to pass their proposals.

Your Secretary of State said there had been confidential discussions between his Department, the Treasury, the Bank of England, the Director of CIPFA, Mr. Hepworth, and Mr. Stonefrost of the GLC, on the implications for local authority financial markets of a default by Liverpool. Liverpool had to re-finance £130 million debt by mid-June, with £20 million of bills needing to be re-financed by 23 May. Total local authority non-PWLB debt amounted to around £17 billion, of which £4 billion was short term. There could be a hiatus affecting all authorities which would then have to turn to central Government. An interruption of one month could require extra central Government borrowing of £1 billion to hold £M3 on course. The average cost of local authority borrowing could rise, each extra 1 per cent adding £400 million to public expenditure. Your Secretary of State said it had previously been accepted that the introduction of Commissioners should be delayed until a crisis in the provision of services had occurred, when residents of Liverpool would themselves welcome Commissioners as a way of restoring order. There were two responses to the emergence of difficulties in local authority markets generally. The Government could issue

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- 2 -

a statement of reassurance, falling short of a guarantee, indicating that the difficulties were confined to Liverpool and that other authorities remained sound credit risks. There were doubts, however, about whether this would suffice. Alternatively, the Government could announce the circumstances in which it would be prepared to introduce Commissioner legislation. This would involve an amendment to the draft Bill which related the introduction of Commissioners to action which "prejudiced the interests of inhabitants of that area" rather than to difficulties in local authority finance markets generally.

In discussion, a number of arguments were raised against announcing an intention to legislate for Commissioners in this way. First, it would conflict with the view taken hitherto that for Commissioners to be acceptable to Parliament and in Liverpool, their introduction would have to be delayed until it was manifestly needed to restore a collapse in services. Secondly, doubts were expressed as to whether the consequences for local authority finance markets would be as dire as predicted. While there could be a temporary disruption, the market would subsequently adjust. While there would be more differentiation between authorities it was unlikely that banks and institutions would cease lending to sound authorities. Finally, a substantial redraft of the Bill would be required.

The Chief Secretary asked whether a special audit could be sought, either by a ratepayer or the Secretary of State, to establish the assets and liabilities of Liverpool. Your Secretary of State said he had offered a special audit, under the auspices of the Audit Commission into the efficiency of services in Liverpool. But it was doubtful whether the assets and liabilities of the City could quickly be established as no public authority maintained a balance sheet.

Summing up this part of the discussion, the Prime Minister said the meeting did not favour announcing an intention to introduce Commissioners in response to difficulties in local authority finance markets. It was yet to be established how serious these difficulties would be and this course could cause Commissioners to be introduced before the conditions for their acceptance in Parliament and Liverpool had emerged.

The meeting then turned to the question of whether, after the local elections, the Attorney General should take legal action to prevent an inadequate rate. The Attorney General explained that, with two attempts to establish an illegal rate having been made, there was sufficient basis on which to seek an injunction in the courts. He could, in addition, also seek an order of mandamus to require a legal rate to be made, though this would present greater difficulties. If he were to take action, and he did not personally favour it, it would have to be before the Council met to make an inadequate rate. Once set, such a rate could not at present be altered as the 1982 Act forbade the introduction of substitute rates.

/ In discussion

CONFIDENTIAL CMO

- 3 -

In discussion it was noted that two distinct courses of action were open to the Government; pre-emptive legal action to prevent an illegal rate, or allowing events to take their course, leading ultimately to the question of Commissioners. Against the former course, it was argued that the Government would become involved at a much earlier stage before its intervention would be welcomed. If, however, events were allowed to unfold, the Government could be open to criticism if it could not demonstrate that it had provided adequate warning of the consequences. It was noted that many warnings had been given, by the Attorney General in a PQ, by the Secretary of State for the Environment and by the Council's own offices.

An alternative to this would be to allow the District Auditor to seek to have the rate declared inadequate and hence illegal, and to impose penalties on the Councillors responsible. For this to happen, it might be necessary for the Government to state that it would amend the 1982 Act to allow a new rate to be set.

In further discussion it was noted that the introduction of Commissioners, while being an onerous task for the Government as well as politically dangerous, was also an opportunity to tackle some of Liverpool's longstanding problems. If this opportunity was to be taken, it was important to choose people as Commissioners with the right qualities of leadership. Your Secretary of State said he was preparing a paper on how Commissioners might be introduced and how they might operate and he would circulate this to colleagues shortly.

Summing up, the Prime Minister said the meeting did not favour legal action by the Attorney General. Further consideration should be given to the consequences of action by the District Auditor to declare Liverpool's rate inadequate. The group should meet again shortly after the local elections to consider developments.

I am copying this letter to the Private Secretaries to those present at the meeting, to David Peretz (HM Treasury) and to Richard Hatfield (Cabinet Office).

*Yours sincerely
Andrew Turnbull*

(ANDREW TURNBULL)

John Ballard, Esq.,
Department of the Environment.

Subject

cc Master

MINUTE OF 26 APRIL'S MEETING OF THE PRIME MINISTER'S GROUP ON
LIVERPOOL

For the record the following points were not quite right:

PAGE 2, PARA 1: Amendment of Commissioner Bill. If the Commissioner Bill was to be used where default in Liverpool created a general problem of local authority creditworthiness we might have to amend the criteria for appointment of a commissioner to include a failure by the local authority to meet its financial obligations in a way likely to prejudice the interest of local inhabitants. The Bill as presently drafted is useable only when actual harm has been done to local inhabitants, and this is unlikely to follow immediately on default.

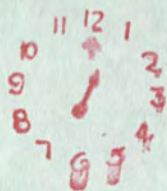
PAGE 2, PARA 3: Audit Commission Study. The Secretary of State proposed to Liverpool Council that they seek a study by the Audit Commission of their efficiency, effectiveness and economy. This would be forward-looking unlike an audit which is a backward look at expenditure.

PAGE 2, PARA 5: Substitute Rates. The Local Government Finance Act 1982 does allow the making of substitute rates at the same level, or lower, than a rate which is quashed. What it does not allow is a supplementary higher rate to be made. If a rate were quashed because it was inadequate and a substitute one made, the authority concerned would have to reduce its expenditure or increase

rents, fees and charges to balance the books (though there must be a question mark over the practicality of this approach).

PAGE 3, PARA 2: Role of the Auditor. The Auditor cannot challenge the validity of a rate. He is concerned with expenditure, here the expenditure consequences of failure to make an adequate rate.

- 8 MAY 1984





PRIME MINISTER

LIVERPOOL CITY COUNCIL: CREDITWORTHINESS

1. In my minute to you of 16 April I promised an urgent report on the creditworthiness of local authorities in the light of events in Liverpool. This minute records the outcome of a discussion I had with the Chancellor on 18 April.

The Problem

2. At the moment the market for lending to local authorities generally is still working; Liverpool itself has recently been lent money by the Public Works Loan Board. But it would probably have difficulty if it sought funds from the private sector. We now know that it has to refinance £130 million of debt by mid-June. If an illegal rate is set, it will not be able to borrow even from the PWLB. So there is now a substantial risk of default, which Treasury and the Bank believe could seriously affect the market for all local authorities. There could be a period in which no local authority was able to borrow, followed by the development of differential interest rates and a permanent upward shift of rates for all authorities. Local authority non-PWLB debt amounts to some £17 billion, £4 billion of which is short-term money. Accordingly, any such development might have a damaging impact on our monetary and public expenditure strategy. It is therefore essential that we lay contingency plans to reassure the market against the risk of default.

3. We cannot be sure when such a default might occur. The City Treasurer, we understand, does not need to go to the market to borrow or refinance debt until mid or late May. Some concern may be shown by the market, however, should Liverpool fail to make a legal rate today or should the election on 3 May result in an increased Labour majority.

Solutions

4. The Chancellor and I are strongly opposed to any solution which would effectively provide a central Government guarantee for local authority debt (even if such a guarantee were secured against future revenues of the authority concerned). The only options we have identified which might be adequate to reassure the market once it becomes seriously concerned about lending to local authorities generally and would avoid effectively giving such a guarantee are:

i. to issue a reassuring statement, on the lines previously discussed, pointing out that Liverpool has put itself in a unique position; that the credit of all other authorities is as sound as it has always been; that the PWLB stand ready to lend to all other authorities (perhaps coupled with announcement of a new 3-month facility); and that the Government will take appropriate action if it should become necessary;

ii. to announce the circumstances in which we would introduce Commissioner legislation. There are three distinct stages: the announcement of the intention to legislate, the introduction of legislation and the appointment of Commissioners to Liverpool. It may be possible to move step by step as the markets need further reassurance and as the situation in Liverpool deteriorates.

5. A general statement of reassurance, without mentioning Commissioners, might help if the markets became unsettled in the period before default. But if default once occurs, we are very doubtful whether such a statement would have the desired effect. It might even serve to heighten concern in that the market would want to know precisely what the Government intended to do.



6. It is the Chancellor's view that an announcement of the circumstances in which we would legislate for commissioners would be the minimum necessary to reassure the market if default had taken place. It is hoped that the market might then live with a delay of some weeks before outstanding sums were paid, unprecedented though this would be, and other authorities would be only marginally affected.

7. I do not dispute the Chancellor's assessment. But we must be very clear that an announcement of intent in advance of an actual breakdown in services does not accord with our current strategy that no action on Commissioners should be taken until there is a clear need to protect the interests of local people. An early announcement would have the following disadvantages:

a. We could not be certain that an announcement of our intention to legislate would be enough to reassure the market. Indeed such an announcement could undermine market confidence in Liverpool and hasten the City's collapse, for which the Government would be blamed.

b. It would weaken the Government's political stance. Parliamentary handling of the Commissioners Bill would be more difficult if it was a response to a general problem of local authority credit rather than a self-evident crisis in Liverpool. We would give the City Council a greater opportunity to make propaganda out of the dismissal of democratically elected councillors.

c. The people of Liverpool would find it much less easy to understand why Commissioners were necessary; the subsequent administrative efforts of the Commissioners would be more likely to secure support from local citizens and staff if viewed against actual experience of a breakdown of services.

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d. If breakdown of services had not actually occurred, we would have to amend the Bill as presently drafted to allow its use when the actions of an authority led to the expectation of harm being done to local people. This would widen the criteria considerably.

e. There is some risk once the precedent of early Government action was set of encouraging other authorities, individually or collectively, to follow Liverpool's lead (particularly those subject to rate limitation). This would be less likely if Commissioners succeeded in demonstrating that they were coping with the Liverpool situation satisfactorily and without causing any serious problems for the Government; but we have to acknowledge that Commissioners might encounter severe obstruction which would make it difficult for them to be seen to be running a smooth administrative machine.

CONCLUSION

8. We face a difficult task in balancing the need to protect local authority credit in general and to maintain our original strategy of using Commissioners in Liverpool as the very last resort. If a default by the City Council, leading to general problems of creditworthiness, is followed very rapidly by a collapse of services in Liverpool, the basis on which we have hitherto been proceeding can be maintained (ie that Commissioners would not be put in until there was a clear local emergency leading to a need for such action). It is, however, much more likely that there will be an interval of a few weeks at least between any evidence emerging of a general problem of local authority credit (not necessarily occurring first in Liverpool itself) and the breakdown of Liverpool's services. We need, therefore, to make our response to the situation as flexible as possible.

9. As a first step we must stand ready to make a reassuring statement (on the lines described in paragraph 4(i) above) about the creditworthiness of local authorities generally at the point when the Treasury and Bank judge it to be needed. But since

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it will inevitably provoke comment and speculation, I hope that it can be held back as long as possible.

10. My understanding of the Chancellor's position is that he does not believe it will be necessary to make an announcement of Commissioner legislation until Liverpool defaults. Once default has taken place, and if that has the effect on the market which the Bank and Treasury fear, I see no alternative but to announce that we are prepared to legislate. If this statement is insufficient to reassure the market, we could have to move quickly first to introduction, then to use, of the Bill, amended as appropriate. We would only move at each stage on the advice of the Chancellor and the Bank of England as to the state of the market. We would not wish to put in Commissioners before the collapse of council services in Liverpool unless there is clear evidence that this is essential to safeguard local authority creditworthiness generally.

11. We shall in any event need to prepare an alternative, contingent version of the Bill to allow the appointment of Commissioners where there was the expectation of harm being done to local inhabitants. This is not a major task.

LEGAL ACTION

12. I should raise one further issue. We will wish to consider urgently in the light of today's events and of the elections on 3 May whether it would be right for the Attorney General to take action against the City Council if they make an illegal rate or fail to rate at all. My own view is that, in these circumstances, early action by the Attorney would be desirable.

13. I suggest that we discuss this minute when we meet tomorrow. I will then be able to report on the outcome of the City Council's meeting today and on any market reaction if the Council have failed again to strike a legal rate.



14. I am sending copies of this minute to Leon Brittan, Nigel Lawson, Keith Joseph, Michael Heseltine, Norman Fowler, Norman Tebbit, Peter Rees, Michael Hävers, Sir Robert Armstrong and Mr Buckley (Cabinet Office).

P.J.

P J

25 April 1984

25 April 1984

MR TURNBULL

LIVERPOOL

No rate was set at today's meeting of Liverpool Council. Liberals and Conservatives voted down Labour's illegal proposal, but failed to agree on a lawful alternative. Given that there is no further meeting before the elections on 3 May, and that these elections are likely to yield an even more extreme Council, we are faced with the likelihood that Liverpool will eventually set an illegal rate.

The setting of such a rate will have two consequences, which need to be distinguished from one another:

1. The Council will default on its debt.
2. The Council's services will break down.

DEFAULT

Patrick Jenkin and the Chancellor are right to oppose any Central Government underwriting of local authority debt.

Nor should we issue a 'reassuring statement' before Liverpool defaults. The issue of such statements before problems occur does more than anything else to undermine markets.

We should wait until default takes place, and should then follow the Chancellor's plan of telling the market that the problem is specific to Liverpool and that other action will be taken if services break down.

Markets will adjust relative ratings of local authority debt to reflect perceived risks of default. Surrey should be little affected; Lambeth will find life more difficult. Even if average rates rise by a couple of percentage points, the effect on public expenditure will be slight.

BREAKDOWN OF SERVICES

If the Council sets an illegal rate, the responsible Councillors will be liable to surcharge and disqualification. These judicial processes should be

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be allowed to take their course.

Soon after the Council sets the illegal rate, it will find itself unable to pay either wages to its employees' or benefits to its citizens.

The Government need not - indeed should not - interfere immediately. It should wait until citizens and employees themselves ask for help; this will make it difficult for anyone to accuse us of playing 'big brother'.

← A writ of mandamus could then be issued in response to the requests. This would put the Councillors in contempt if they failed to carry out their duties. (The Law Officers should be asked to confirm whether this would work.)

It may at a later stage be necessary to put in Commissioners; and it is right that preparations for this contingency have already been made. But the present draft Commissioners Bill is politically inept. It gives Patrick Jenkin power to impose Commissioners not only in the case of Liverpool, but also generally. Like general rate-capping, this will raise a storm of protest from people who ought to be supporters. Echoes of big brother will resound, and would be even louder if the Bill were widened to allow Commissioners to be imposed in expectation of harm, as Patrick Jenkin recommends.

The draft should be ammended so that the Bill deals only with Liverpool. Since this would make it hybrid, the Government would have to pass a motion in the House, stating that the normal hybridity rules did not apply. The Labour Government set a precedent for this in their Aircraft and Shipbuilding Bill of 1976/7; and our backbenchers would no doubt be willing to accept such a move if it were presented as the alternative to a general Bill. (The performance would have to be repeated if any other Council set a similarly illegal budget; and this possibility would have to be clearly stated.)



PRIME MINISTER

LIVERPOOL

In my minute of 16 April, I promised to provide a speaking note which colleagues could use to bring home to Liverpool voters the message that the consequence of the City's setting an inadequate and illegal rate would be far more serious for local people than a higher, legal rate.

I now enclose such a note. I hope colleagues will draw on it in making speeches over the next couple of weeks or so and, wherever appropriate, will add a personal gloss by spelling out in some detail the implications for their own services of a breakdown in the City Council's affairs.

I ought also to emphasise that our objective in making public statements on the situation in Liverpool must be to encourage common sense to prevail so that the council makes a legal rate at its meeting on 25 April or, failing that, as soon as possible after the local elections on 3 May. In accordance with the normal convention, colleagues speaking in a Ministerial capacity must not appear to be trying to influence the outcome of the elections in any party political sense.

Copies go to those who received my earlier minute (Michael Heseltine, Keith Joseph, Norman Tebbit, Norman Fowler, Leon Brittan, Peter Rees, Michael Havers, Sir Robert Armstrong, and Mr Buckley), and in addition to Tom King and Nicholas Ridley who may also find a suitable opportunity to make use of the speaking note.

PJ

P J

19 April 1984

SPEAKING NOTE FOR MINISTERS

Labour Councillors in Liverpool want to bankrupt their City. As the local elections approach, they are telling Liverpoolians that they have no choice. Civic bankruptcy, they say, is the only way to solve the City's severe economic and social problems. What nonsense it is!

Look at the facts.

It is those Labour Councillors themselves who have created the financial mess in which the Council now finds itself. Yes, they did inherit a tight budget position from the Liberals in May 1983; but, with careful rearrangement and some savings, they could have maximised grant; they could have built a stable financial base for 1984/85. They chose to make things worse for themselves. They increased expenditure rather than reduce it. Over £1m went in a £16 decorations allowance to council tenants. Because the council overspent, their grant went down. The result of their failure to act responsibly in 1983/84 is a deficit of £34m to be met by the rates this year.

The Labour councillors now propose to spend this year over £50 million more than the Government's target - a target which itself takes account of the City's undoubted needs.

The Labour Group's reckless spending plans would require a staggering rate increase of 175%. Unable to face up to the consequences of such irresponsible behaviour, however, they

propose to compound their folly by deliberately fixing the rate at a level far below what is needed to balance the books.

They try to justify this by claiming that they want to keep down rates, protect services and save jobs. But, of course, by deliberately planning to run out of money they will achieve exactly the opposite! No-one will lend to a bankrupt council, so they will be unable to borrow; with inadequate rate income and no bank borrowship, they will quickly find themselves unable to pay their staff and unable to keep their services going.

Let us not mince words about what this really means for the people in Liverpool:

- Those who depend on the Council's social services - the elderly, the sick, the handicapped - will be cast adrift without support. The Council's schools will close. Rubbish will pile up in the streets. Council tenants will have to fend for themselves.

- In a city which urgently needs new jobs, existing jobs will be put at risk. It is not only council staff who will suffer. What businessmen will place orders or invest money in a City threatened with chaos?

- And in the end someone will have to pick up the shattered pieces. There is no fairy godmother. It will be the ratepayers of Liverpool who would eventually have to foot the bill for the Council's irresponsibility.

The Labour Group want people to believe there is no other way. This is simply untrue. It is possible for the Council to make a properly balanced budget and rate. The council can, if it has the will, put itself back on a sound financial footing. They do not have to agree to anything like the rate increase which the council has threatened; nor have they ever justified the figure for redundancies needed for a balanced budget.

They could achieve a balanced budget by increasing efficiency, by better financial management, and by cutting out increases in spending. The benefit to ratepayers would be substantial: every £5 million cut in spending earns the Council another £10 million in rate support grant - worth 20p in the £ off the rates.

For its part, the Government continues to provide the City with substantial sums of money to help rebuild its prosperity. We stand ready to work in partnership with any Council which has the interests of the City at heart.

We have suggested to the Council that they should seek the help of the Audit Commission in a study to improve their economy, efficiency and effectiveness; we would fully support this move provided they first set a legal rate. I very much hope they will respond constructively.

The Labour Group are looking to the electorate to support a policy which would break the law and plunge the City into turmoil. I hope the people of Liverpool will not be fooled. It is a policy which will lead, not to civic salvation but to civic suicide.

DEFENSIVE SPEAKING NOTE (IF RAISED)

£120m GRANT STOLEN FROM LIVERPOOL

The allegation that the Government has "stolen" £120m in grant from Liverpool is utterly misleading. The percentage of local government expenditure met by central government has been reduced across the board, for all authorities. There has been no discrimination against Liverpool. To increase the amount of grant now would be at the expense of the local authorities or the national taxpayer.

Liverpool's position has been made worse by the City's failure to meet the Government's spending targets.

BACKGROUND NOTE


1. On 29 March the Liverpool City Council Labour Group proposed expenditure of £269 million for 1984/85 against the Government's target of £216.1 million. In 1984/85 the City Council also has to meet a deficit of £34 million carried over from 1983/84. A rate increase of 175% would be necessary to cover such outgoings, but the Labour group proposed only 9%. This proposal which would be illegal if agreed, was defeated by a combination of Liberals, Conservatives and Labour moderates. Although the City Council meets again to discuss its budget on 25 April, the Labour Group have said that they do not want to set a rate then, intending instead to campaign for the 3rd May local elections on the basis of their earlier proposal. There will then have to be another council meeting to discuss the budget after 3 May.
2. It is clearly possible to reduce the expenditure of the Council as proposed by the Labour Group by greater efficiency, cutting increases in expenditure (the Labour Group propose for instance a £8 million decorative allowance for Council tenants, a veiled method of reducing rents) and better financial management. For each £5 million that the City Council can reduce its expenditure it gains an extra £10 million in rate support grant, bringing a total benefit to rate payers of £15 million or a 20p rate. 35 major authorities faced tougher targets than Liverpool for 1984/85. Nearly two-thirds of these were able to set single figure rate increases, and none claims that anything like what Liverpool City Council propose is necessary.
3. The Secretary of State for the Environment has met the Labour Councillors twice to discuss their financial position but they showed no sign of moving their position.

On 13 April he suggested that the Council seek a study by the Audit Commission to help improve their economy, efficiency and effectiveness, and said that he would support such a study against the background of a valid rate. The Councillors have not yet responded.

4. Over the past 3 years - 1981-82 to 1983-84 - capital expenditure on Merseyside under the Department of the Environment's main programme had reached £650 million. This includes £140 million specifically for Liverpool through urban programme and the Merseyside Development Corporation. The Department of Trade and Industry has given an average of £110 million a year in the last three years to companies within the Merseyside Special Development Area. The Mersey Dock and Harbour Company has received a total of £134 million in financial assistance. The Manpower Services Commission spent around £90 million in Merseyside last financial year. Merseyside is the only area of the country to which a special government task force is assigned.

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AT papers

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:
Your ref:

16 April 1984

Dear Andrew

We spoke about your letter of 5 April to John Ballard enclosing a copy of a letter to the Prime Minister from Councillor Hamilton of Liverpool City Council.

I enclose a short, self-explanatory letter for the Prime Minister to send in reply.

Yours ever
Alan Davis

A H DAVIS
Private Secretary

Andrew Turnbull Esq

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO COUNCILLOR
HAMILTON

Thank you for your letter of 3 April proposing a meeting to discuss Liverpool City Council's finances. Patrick Jenkin has reported to me on his meeting with the Council last Friday, and I have now seen a copy of his letter to you following that meeting.

Regional Policy: Liverpool Pt 4 Pr 20



116
16
Apr 1984



cc DOB

10 DOWNING STREET

THE PRIME MINISTER

17 April 1984

Dear Councillor Hamilton

Thank you for your letter of 3 April. The Government fully appreciate the difficulties facing Liverpool and recognise the factors which you have set out in your letter. It was for this reason that substantial public help has already been provided to the area.

Since you wrote to me, you have had a meeting with the Secretary of State for the Environment and he has now written to you. He strongly urged the City Council to introduce a legal rate. The interests of the people of Liverpool, whether employees of the Council or those who enjoy its services, cannot be advanced by the adoption of an illegal rate. He also suggested an efficiency study under Section 29 of the Local Government Finance Act 1982. I hope you will give this proposal serious consideration.

Yours sincerely
Margaret Thatcher

Councillor John Hamilton.

BM

MJ

PA on file

File

16 April 1984

I attach for your records a copy of the reply which the Prime Minister has sent to Councillor Hamilton of Liverpool City Council.

Andrew Turnbull

A.H. Davis, Esq.,
Department of the Environment.



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

16 April 1984

I was grateful for the opportunity of a further meeting with you and your colleagues following your letter to the Prime Minister of 3 April.

I enclose a copy of my statement issued after the meeting. There are two points I wish to stress.

First we both recognise the problems which Liverpool and Merseyside face. It is an area with formidable economic and social difficulties which have developed over very many years. A measure of the Government's recognition of these difficulties is the wide range of initiatives taken to tackle them (both by this and previous Governments). The financial support given to the area by this Government is very substantial indeed. As I said at our meeting, while some may contest the uniqueness of Liverpool's problems, what cannot be contested, because it is a matter of record, is the range and extent of Government support to the area.

At our meeting last Friday, several members of the deputation argued for still further Government support. While I listened with care to what was said, and will bear the requests in mind, I cannot see my way to making further special payments to Liverpool, additional to the substantial programmes of support already pledged, which could help with the Council's budget and rating problems.

I must emphasise however that if Liverpool City Council fail to decide on a valid budget and rate as soon as possible, then Liverpool's problems would not be eased but made far worse. Any one with the interests of Liverpool at heart must recognise that a breakdown of the services provided by the Council would be a disaster for the City. If you and your colleagues wish, as you say, to maintain the services and jobs provided by the Council, I have to say that the making of an invalid rate - that is, one that is insufficient to finance your proposed budget - must inevitably defeat that objective. To make a rate which does not provide the city with sufficient financial resources is to invite the most severe consequences. Not only, as you clearly acknowledged, would Councillors put at risk their own personal financial position, but the livelihood of the Council's staff would be directly threatened, and the provision of basic services provided for the people of Liverpool would simply not continue. A financial crisis of that magnitude is avoidable; the remedy is in the hands of yourself and your colleagues.

CONFIDENTIAL



Free bc Mr Redwood.

10 DOWNING STREET

From the Private Secretary

16 April 1984

Dear John.

Liverpool City Council

The Prime Minister has seen your Secretary of State's minute of 16 April. She was very grateful for his report and endorses the approach which he has set out. She has commented that, in the forthcoming local government election campaign, the Conservative and Liberal Parties should stress that support for Labour, and its budget of £262m., means a vote for a rate increase of 175 per cent.

I am copying this letter to Richard Mottram (Ministry of Defence), Elizabeth Hodgkinson (Department of Education and Science), Callum McCarthy (Department of Trade and Industry), Steve Godber (Department of Health and Social Security), Hugh Taylor (Home Office), John Gieve (Chief Secretary's Office), Henry Steel (Law Officers' Department), Richard Hatfield (Cabinet Office) and to Michael Buckley (Cabinet Office).

*Your sincerely
Andrew Turnbull*

Andrew Turnbull

John Ballard Esq
Department of the Environment.

CONFIDENTIAL



PRIME MINISTER

LIVERPOOL CITY COUNCIL

As foreshadowed when we met on Thursday, I have now seen Sir Trevor Jones and a deputation of Liberal Councillors, and Councillor John Hamilton and a deputation of Labour Councillors and Merseyside Members of Parliament. Notes of both meetings are attached, together with a copy of the statement issued following the latter. After my meeting with Councillor Hamilton, my officials had a long discussion about Liverpool's budget with the Chief Executive and Treasurer of the City Council.

I have not been reassured by the outcome of any of these meetings that there is any obvious path to the orderly settlement of Liverpool's affairs. The Labour Councillors maintained their previous intransigent stance that there should be no redundancies, no job losses, no service cuts and no large rate increases in the City. They were not receptive to my firmly expressed view that their over-riding duty was to make a properly balanced budget and rate. I proposed to them that they invite the Audit Commission, under the provisions of S29(2) of the Local Government Finance Act 1982, to carry out an urgent study of an improvement in the economy, efficiency and effectiveness of their services, and that if they made a legal rate I would do all that I could to expedite this. I have written to Councillor Hamilton and I enclose a copy of my letter to him.

Eric Heffer pressed the case for a wide inquiry, which would look at the last 10 years of Conservative and Liberal rule in Liverpool and the Government policies, but I gave this no support. I have no doubt that the Council will continue to press for this.

CMO



My meeting on the previous day with Sir Trevor Jones, and subsequent discussions between my officials and Liverpool's Chief Officers have reinforced the view that it will be very difficult for the minority parties on the Council to agree a budget and rate on 25 April. There are policy differences to overcome eg while the local Conservative Party would accept rent increases, the Liberal Party probably would not, and Labour moderates seem unlikely to acquiesce in redundancies or job losses.

The Labour budget of about £262m, plus the financing of last year's deficit, implies a Council rate increase of about 175%. It does not seem difficult to produce a budget of about £230m with a rate increase of about 70%. But it appears on the information available to me, and without access to the Council's books, that a rate increase of no more than 30% would imply a budget of about £210m. To achieve this would mean resolving fundamental policy issues which divide the minority parties and moderates in the Labour Party, including facing up to significant redundancies. I have to say that it would be unrealistic to hope that a coalition will emerge to agree upon such a budget and rate on 25 April, and to campaign upon it for the elections on 3 May, without great external pressure from the national parties.

Whether or not a legal rate is made by a coalition on April 25, the Labour Party seems likely to increase its majority in the elections on 3 May. In that event, the Labour majority will most probably pursue a course which would expose them to successful challenge in the courts by seeking an expansionist budget without the appropriate rate to finance it.

None of this augurs well for the Council's ability to refinance its debt. The officers have so arranged matters that they apparently do not need to go to the market until around mid or end-May. Against the background of an illegal rate

CMO



or no rate at all it is most unlikely that they would be able to raise money, and the City's financial position would rapidly collapse.

If no lawful rate is made on 25 April, and with the strong possibility of an increased Labour majority, the prospect of our having to appoint Commissioners to run Liverpool grows. We all know that prospect to be a daunting one with repercussions for law and order and for local government as a whole, that are quite unpredictable.

We will therefore wish to do all we can to avoid this outcome. I remain clear that such action cannot include yielding to the Council's attempts to blackmail us into providing additional money for the City. Nor do I now hold out much hope that an Audit Commission study will deflect the Labour Group. I therefore intend:

(a) to redouble our efforts to persuade the minority parties to agree a lawful rate on 25 April. This would be welcome even if it provides only a breathing space on the return of a stronger Labour majority; (I suppose there might be a faint chance that the Labour Group would be prepared to accept such a rate if they do not have to make it themselves.) To this end I will organise meetings with Sir Trevor Jones and Councillor Hallows and will talk further with the Labour moderates if this begins to look profitable. I would also approach David Steel and John Cunningham to see what further influence they can bring to bear;

(b) to mount an immediate campaign nationally and locally through Ministerial speeches and briefing, to bring home the message to the voters of Liverpool that the consequences in terms of job losses and service breakdown for the City are infinitely worse if they support illegal rather than legal action. This might encourage the minority to make a legal rate on 25



April and improve their position in the elections.
I will forward very shortly speaking notes for use
by colleagues.

I should add finally that I hope to discuss with Treasury
Ministers early this week the implications of all this
for the creditworthiness of local government. We will report
as soon as possible thereafter to the Group.

I am copying this minute to Michael Heseltine, Keith Joseph,
Norman Tebbit, Norman Fowler, Leon Brittan, Peter Rees,
Michael Havers, Sir Robert Armstrong and Mr Buckley (Cabinet
Office.)

A.H. Davis

for
P J

16 April 1984

*Approved by the Secretary of State
and signed in his absence*

Prime Minister³

Mr. Jenkin offered an enquiry under the Local Government Finance Act
is a Special Audit. This is in line with the conclusions of the
meeting of Ministers. The Liverpool Council may, of course, try to

LIVERPOOL broaden its scope.

AT 13/4

ms

NOTE OF A MEETING WITH THE CITY COUNCIL ON FRIDAY 13 APRIL

Present:

Secretary of State
Sir George Moseley
Mr Heiser
Mr Sorensen
Mr McDonald
Mr Pickup
Mr Ramsay

Councillor Hamilton
Councillor Hatton
Councillor Byrne
Councillor Mills
Councillor Hood
Mr Stocks (Chief Executive)
Mr Reddington (Treasurer)
Mr Kelly (Deputy Treasurer)
Eric Heffer MP
Terry Fields MP
Eddie Loyden MP
Bob Parry MP
Bob Wareing MP

1. The Secretary of State expressed his appreciation (the situation in Liverpool). The difficulties faced by the City were not however unique, except in the degree of help the Government had provided. Liverpool had the 4th highest GRE for a Met District. Other authorities faced tougher targets. An examination of 1983/84 outturn and the proposed budget for 1984/85 suggested that many of the City's difficulties were of their own making. He had said at the last meeting on 22 February that the Department's own calculations were in broad accord with Liverpool's figure of £240m for a standstill budget. This was not the same as saying that £240m represented the minimum budget; cuts could be made. He had read the Chief Executive's advice and that of the District Auditor to the Council on the need to make a legal rate. This must be right in the interests of the City and its employees. To drive the City into bankruptcy would not help the people of Liverpool.

2. In discussion the Council made the following points:

(1) The Council had a duty to make a lawful budget, but in doing so it had to have regard to current levels of unemployment on Merseyside and the outlook for industry. A legal rate should not be secured at the expense of the people of Liverpool. (Councillor Hamilton).

(2) The Council had no choice. It had been given a clear mandate in the elections in May 1984, a mandate reaffirmed in the demonstration of support on 29 March. The present plight of the City was the product of Liberal policies for the City over past years and Central Government policies since 1979. The Council could not make employees redundant in a City where unemployment was already so high. The Council were prepared to negotiate but on the basis of no redundancies, no loss of jobs, no massive cuts in services and no massive rise in rates. (Cllr Hatton)

(3) If the Government remained impervious to the Council's arguments the cost of the breakdown of law and order could not be estimated. Removal of the councillors would not remove the underlying problems which they were seeking to resolve. Responsibility for any breakdown would rest on the shoulder of the Government.

(4) The Secretary of State had demonstrated no flexibility. The first meeting with him in July 1983 had been followed by cuts in the housing programme. There had subsequently been cuts in the partnership programme. The Government's Statement on financial support did not take account of the reductions in RSG, housing subsidies, HIP allocations and housing corporation funds. Overall, Liverpool were losing not gaining financial support. The Treasurer was there to explain the figures if necessary.

3. Mr Heffer said that the present Council were faced with serious problems. The housing stock was one of the poorest in the country. The schools were in urgent need of rationalisation. The present Council were the first to face these problems and to make proposals for their resolution. They deserved support. He believed the Secretary of State when he said that he did not want confrontation. A way forward would be for the Government to examine the housing programme, see what was possible with a rate increase limited to 9% and set up some sort of joint committee.

4. The Secretary of State said that he did not doubt the commitment of the councillors to their local electorate. It was wrong however to assert that the Council had no choice. Costs could be reduced. Alternatively an illegal budget would have deleterious effect on the confidence of industry to invest and remain on Merseyside as well as having a direct effect on those employed by the Council. He was grateful for the offer to explore the Council's figuring on financial resources and suggested that officials might do so at the end of the meeting. He saw every advantage in a mutual understanding on this point.

5. In the discussion with Labour MPs on Thursday 5 April the idea had emerged that some sort of inquiry into the efficiency of the council services might be helpful. Section 29(2) of the Local Government Finance Act 1982 which provided for a council to call for a study by the Audit Commission was the basis for such a study. He was glad that the Council did not reject such an idea outright. He would support such a study on the basis that the Council would make a legal rate. He noted that the Council for their part had said that there should be no redundancies.

This is a definite advance

6. The Secretary of State said that he would consider the points made by Mr Heffer and respond to them in writing to the Council, but he could leave the Council in no doubt of their duty to make a lawful rate.

J F BALLARD
PS/Secretary of State

13 April 1984

Distribution:

- 1. Those present (from the Department)
2. PS/Lord Bellwin
PS/Mr Waldegrave
Mr Owen
Mr Pickup
Mr Gray
Mr Mockler

Secretary of State

This meeting was arranged at short notice and I have another meeting afterwards. I have therefore to leave at 10 o'clock, but if there are any points which it would be helpful for my officials to discuss with yours they will be available afterwards.

Cllr Hamilton

Thank you. I think that will be useful.
Secretary of State

Could I say I very much welcome the opportunity to have another chat. Looking again at the case you have put I would like to reiterate my view of the position. I have never questioned that the Council faces difficult problems. Liverpool is not unique. If Liverpool is unique it is in the extent of the Government help eg MDC, MDHC, Freeports. You are familiar with the figures. Liverpool has had a substantial amount of public help. Capital expenditure of £650 million. Other Departments adding more to help. The Government is determined to help. But we are obliged to apply the same principles to all authorities. We accept Liverpool has problems. But, Liverpool's GRE is 4th highest of all Met Districts. Targets 35 major spending authorities face tougher targets. Two thirds have achieved single figure rate increases. If one looks at outturn for 83/84 and budget of 29th many of your problems are of your own making. There was no attempt made to achieve savings. Increased expenditure. Overspent by £14 million. 84/85 further increase in service provision. Trying to increase efficiency of DLO. What I really have to ask is if this is reasonable for a City in Liverpool's position. A standstill budget, to which reference was made at the last meeting, of £240 million broadly accorded with our own calculations. This is not the same as saying it is the minimum you could achieve. I didn't say or mean that..... If Liverpool takes the same steps to increase efficiency as other authorities I am convinced you could make a better budget. I have read the advice given to the Council by the Chief Executive and by the District

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Auditor of your duty to make a rate and this must be right. It is in no one's interest to budget too high and then rate too low and as a result drive yourself, and here I am using the vernacular into bankruptcy? As elected councillors you were elected to make a lawful rate. I am far from convinced that the task is impossible. I said after the 29th that my door was open. We had a helpful meeting with MPs. The overriding duty of the council is to budget sensibly and make a lawful rate. Most important for the meeting on 25th April

Cllr Hamilton

Of course it is our duty to make a lawful budget. But what does one consider lawful? As a City Council we have lost money, we have lost grant. I acknowledge overall policy of government. When you mention we are 4th highest you are talking of met areas.

Secretary of State

This would mean shire districts.

Cllr Hamilton

Shift has moved from met areas. Fact is we do have one the highest levels of unemployment and one of the worst economic situations, with industrial collapse. We are trying to rescue another firm in Liverpool. As a City Councillor I have put myself on the line in giving the firm money if firm goes out of business I have put myself on the line. I could say I should keep myself within a legal budget. What I am trying to say to you is that we are trying to tackle problems. We are crippled in attempting to hold the situation. Public are responding there is a feeling of dissent. Rules laid down by Parliament. A legal budget would save myself and my 51 Labour colleagues from any personal financial penalties but at the expense of the people of Liverpool. I am fighting

on behalf of Liverpool. You have accepted we are facing problems. Any way Government can assist us to overcome problems to try and tackle and overcome problems that's all we are asking for..

Secretary of State

I don't question your commitment to serve the people of Liverpool but that is a duty on all local authorities. I know you face problems but I must ask are you going to achieve that by driving the City into bankruptcy? What happens if you cannot persuade lenders to lend: If the money market won't roll-over debt.. If you run out of money where is money coming from for the heating of old people's homes? Who pays the teachers and refuse men - have you taken account of that? I have no power to put in Commissioners. Obviously we have made contingency plans. But there is no prospect of me or any government coming in beforehand if the Council is continuing to propose to be unlawful. No government faced with a threat of this kind could bow to it, you must recognise the duty is on you in your duty to the electors. The illegal result is bound to be worse than the alternative. Have you looked at this?

Cllr Hatton

You talk as if we have a choice. We had a clear mandate in the June elections. We have a mandate to protect jobs and services. On the 29th we had that mandate confirmed with 40-50,000 on the streets and 150,000 who stopped work in support. They felt the issue was so important they had to take action. We know the sort of support, feelings and mood in the City. We will storm home in May. We are saying to you we have no choice in the matter. The vast majority of the City is in favour. 41 MPs put down a motion for £120 million back. Whether we like it or not the City has come to bankruptcy because of the Liberals policies and those of the Government since 1979. The City was on its way when we got there. We did not

come here bent on a confrontation. You say it is our duty to rate lawfully. Someone has to say to the people 'sorry, we are not going down the road as well'. We will discuss all day and every day with you to reach a compromise. But what is the sense and logic in sacking people in a City where unemployment is already so high. We cannot and will not go beyond the bottom line. With no jobs lost and no redundancies, no massive cuts in services and no massive increase in rates. We have a mandate. It was confirmed. After May 3 renegades will be irrelevant.

Secretary of State

You have a whole range of choices and have decided to reject them. There are a number of points. You profess you are concerned about jobs. I know what this is like. Are you not aware of the effect of the Labour group's policy on the readiness of firms to come to Liverpool? The Chamber of Commerce say they find it impossible to sell Liverpool.

Other

The Chamber of Commerce issued a circular saying the Council must not make a high rate.

Secretary of State

Plessey say they (intervention by Terry Fields MP "to sack 800") they are basing System X in Edge Lane. Firm commitment from Sir John to make a firm base. They wouldn't do that now.

Cllr Hamilton

The cost of a breakdown of law and order cannot be priced. The damage to the social order and fabric. Removing Councillors

will not remove the problems.

Bob Parry MP

When it comes to the breakdown of law and order, the breakdown of social order we are moving into, who is responsible for that? You say you have no powers to put in Commissioners. You mentioned the refuse men but it is all a question of arithmetic. In May Labour will explain what the battle is all about. All candidates have been picked who will support Labour. If we win 5 seats we will have a majority of 13 and will be able to carry the day even if we don't have the support of 5 renegades. You say you have no powers but surely you will then be forced to bring in troops. That will bring violence in our streets. What is going to happen?

Secretary of State

The Council should ask themselves this question. Where have you got this figure of 5,000 redundancies? I have seen Trevor Jones' budget.

Cllr Hatton

3,000 jobs will go as a result of the budget. It's just like the miners

Secretary of State

That's a different matter altogether

Eric Heffer MP

This is a very disappointing discussion. You were saying Patrick that we must make a legal budget. I had hoped this meeting would be more constructive. How do they make a legal rate? Talk in real terms. What I've heard up to now is not helpful. We know you can't mess with RSG. The basic problem

is finance. Liverpool City Council have one of the greatest housing problems in the country. System built houses are a disaster, we have overcrowding, slums, waiting lists and many problems. They (the council) have tackled this seriously. They were criticised for facing up to the school problem. They got the fury of the parents. The problem was faced up to for the first time in years. They have faced up to housing problems in the year that RSG and HIP were cut. They were quickly put into a penalty position. They have also met this argument in the Chamber of Commerce's circular about not increasing rates. We are dedicated to giving decent services and not to putting rates sky high.

Secretary of State

It is a very serious matter

Cllr Hatton

You had better believe that

Eric Heffer MP

Derek said he was prepared to talk all day and every day. Why can't the Government do something now about the 17 priority areas - cash grant. Look at the penalties as they apply to Liverpool. If we begin to talk about serious terms we will get somewhere. If we are talking about a legal rate further discussion is worthless. We will win more seats in Liverpool. My eighty year old mother-in-law is a good litmus paper on these issues. She says these fellows are 100% right. Faced with the real issue she says they are right and she sums up the decent working people's opinion. Let's talk seriously or we might as well leave.

Secretary of State

Every £ saved is actually £3 in the Council's coffers because

of penalties. I refuse to accept it when the Council says there is no room for savings. Why does street sweeping in Liverpool amount to 4 times the gross cost in Sheffield? I accept the City Council's proposals for schools is with Keith Joseph, he has this in mind and will look at the details as quickly as possible. Why should refuse collection cost more than the met District average? More than £3 per head? I think it would be helpful for officers and officials to go through figures together. Have you tried to negotiate? you must go through the legal process.

Cllr Hamilton

Unfortunately the Liberal administration resolved to end a strike by setting up a bonus system with the men staying in the yards. The streets weren't swept. We recognise the problem. We are going ahead as quickly as possible. For example an education reorganisation which is going through the system. A decision is needed urgently.

Bob Wareing MP

Let's make a general observation. Eric Heffer is absolutely right. Derek is saying there is a bottom line. You say they have a choice. The Chamber of Commerce is not happy about that. The Ford Motor Co told me the same thing. There is an alternative - cuts. You say there needn't be redundancies. You say suppose the Council don't pay wages, who will look after corporation workers? Supposing the City Council make redundancies who will pay for them? You as a member of the Cabinet are collectively responsible. Other Cabinet members will have to pay for these redundancies. There is deprivation in the area. Firms are attracted by many things eg labour relations, sources of the market raw materials. If a market

is very deprived, day by day and week by week, what incentive is there for firms?

Secretary of State

I agree, what is the alternative if the Council pursues its path? If people see the City in chaos, will that attract companies?

Cllr Byrne

This is the 3rd time we've met and you say, 'I will do nothing. It's your problem'. You cut the housing programme. The only thing you've done is make the problem worse. We should have saved the train fare. The first meeting was followed by cuts in the housing programme, and then there were cuts in the partnership programme. You have indicated no flexibility in approach. Here is a list of firms which have closed. 40,000 private sector jobs - we weren't on the Council then, it was not the Labour Party but your Government's policies. We have no intention of making one redundancy or reducing jobs. That is our starting point. It's easy for you to say you have given millions to Liverpool. £120m RSG, £62 million housing subsidy, you have taken. The HIP allocation has been reduced from £47m to £28m. You say you put money into the Housing Corporation but funds have been reduced. New build as a guide. Average starts down, from 442 to 193 (1979/80) cf 1984 (85) and rehab down from 1033 to 545). It's no good you saying this money represents investment it is just a cut in resources. Every one represents a reduction in Liverpool. The one plum is the Garden Festival. We are not impressed that people living in squalid tenements can look from their balconies at the Garden Festival. We won't cooperate to keep them in squalor.

Secretary of State

I must challenge your figures. My people have made calculations. The share of RSG goes to the County Council. We must sit

together. One other point, every authority since 1976 has faced a reduction in RSG. We have not been able to reach a figure of £120 million for grant loss.

Cllr Byrne - Mr Reddington will explain the figures

Mr Reddington

/Mr Reddington explained at this point how the Council had in its calculations taken account of RSG previously paid to the City Council through the City and now paid direct./

Secretary of State

It would be helpful if Mr Reddington could show us his calculations. I don't want you to feel you have come here for nothing. We discussed refuse collection and housing problems. Is there no case for asking for outside intervention? The Audit Commission can be called in. You can ask for a special investigation.

Eric Heffer MP

You don't want confrontation. I believe that. We don't want it either. I am conscious of the courage of my colleagues. I hope I would have the same. I am not so sure.

Cllr Hatton

You would Eric

Eric Heffer

They are determined to fight for what they think is right.

The Government should look at housing. The Government should accept a 9% rate increase. A joint committee should be established to look at the situation and how it has got how it has.

Secretary of State

I would be happy if the Council would call in the Audit Commission under section 29. It is the kind of study

Cllr Hatton

The Audit Commission with the best will in the world will not produce answers out of a hat. It will not produce answers in time for the May elections. We need a moratorium.

Secretary of State

There may be a way. I am glad you have not rejected it out of hand. This is helpful. It has to be in the context of a legal rate. I couldn't condone an illegal rate. If you will see your way to a legal rate.....

Cllr Hatton

In the current situation there is no rate. Eric has made three suggestions (i) the Government to examine HIP cuts (ii) acceptable rate 9% (iii) joint committee - Audit Commission. We are prepared to offer resources and staff to look for a way out. We have also got a bottom line. On this basis - let's talk.

Secretary of State

You make an inescapable condition of no redundancies. Mine is that you must have a legal rate. I have to say the Council must remain within the law.

Cllr Mills or Hood

Are you saying people must be made redundant and cuts must be made?

Secretary of State

You must start with a legal rate, you are under a legal duty.

Cllr Mill or Hood

There is not enough money in Liverpool for services.

Eric Heffer MP

Go and examine the proposals. Don't let's tie ourselves down.

You have got a good response from the City Council. You ought to look at what has been proposed. I think it begins to offer a solution. It will need a long term examination. Leicester are happy and have a Labour controlled council, have had for many years.

Secretary of State

They are very expensive

Eric Heffer MP

I think you've heard the propositions and the Council's response, go away and think about it.

Cllr Mills or Hood

You've visited Liverpool. The day Liverpool was declared a Freeport 1200 people were made redundant.

Eric Heffer MP

Don't let's argue about that.

Secretary of State

May I respond in writing? I must leave you in no doubt that there is a duty on the Council to make a lawful rate.

Cllr Hatton

Those people /showing photograph of demonstration on 29 March/ say we will not have job losses. We have had an orderly demonstration. There will not be an orderly demonstration, they will turn into an angry crowd. No one is threatening violence. John Hamilton has not threatened violence but has predicted what could happen like a doctor predicting plague. You must understand the consequences of your action.

Cllr Hamilton

We all want to be lawful, but we also want to be truthful to our constituents

Secretary of State

This has to be in the context of a lawful budget.

Cllr Byrne

We need to understand people's feelings and remember that Pontius Pilate acted within the law.

Press Notice

198

13 April 1984

MEETING WITH LIVERPOOL CITY COUNCILLORS AND MEMBERS OF
PARLIAMENT: STATEMENT BY THE SECRETARY OF STATE FOR
THE ENVIRONMENT

This morning, for the second time, I met a deputation of Councillors from the majority group on Liverpool City Council. I explained to Councillor Hamilton and his colleagues the absolute necessity of making a legal rate if the people of Liverpool and ^{the} City's employees are to be protected from the consequences of a breakdown in local government in the City. I added that, contrary to reports, I did not at our earlier meeting agree that the lowest possible budget is £240m. The experience of local authorities in general would suggest that further savings are possible.

I fear that if an unlawful rate is made, the Council will be unable to avoid a situation in which Liverpool's services to its citizens could begin to crumble and its staff find themselves without wages. We would see old peoples' homes without heat and food, childrens' homes without staff, rubbish left to rot in the streets. Moreover, it seems to me to offer little comfort to Liverpool's employees to be told that they will be freed from the threat of redundancy if the cost of that assurance is that their prospects would rest in working for nothing in a bankrupt authority.

It remains the Government's hope that sensible Councillors from all the parties will come together to secure a legal rate on 25 April, and that the subsequent management of Liverpool's affairs is conducted on a basis that rules out the risk of a repetition of this unfortunate but entirely avoidable predicament.

Councillors have been elected to take lawful, responsible decisions for the benefit of the people who elected them. It would be a gross betrayal of the trust placed in elected members if they deliberately set out to create chaos.

A lawful rate is quite within reach of the Council if they are prepared to abandon dogma and set about making sensible economies.

The City may not have had the easiest ride, but nor has it had the most difficult. Its GRE is the 4th highest per head of all metropolitan districts. As to spending targets, 35 major spending authorities face tougher assignments for 1984/85 than Liverpool. Nearly $\frac{2}{3}$ of those have, already achieved single figure rate increases 1984/85 and none has proposed the kind of massive increase which Liverpool claim is necessary. A number of authorities have found that their capacity to fix a legal rate this year has rested on their ability to run their services more efficiently.

I, therefore, suggested to the Council that they might consider the possibility of inviting the Audit Commission

to carry out an efficiency study under the terms of Section 29(2) of the Local Government Finance Act 1982. Following further discussion about such a study, I undertook to let Councillor Hamilton have my considered views as soon as possible. However, I indicated that I would be prepared to urge the Audit Commission to give immediate attention to a request from the Council but I emphasised that the Government could not possibly give its support to such a study unless it was in the context of the prior fixing of a legal rate.

Press Enquiries: 01-212 4682/5 & 4690
Night Calls (6.30pm-8.00am)
Weekends and Holidays: 01-212 7071

Public Enquiries: 01-212 3434;
ask for Public Enquiry Unit

Mr Heiser

LIVERPOOL: MEETING WITH SIR TREVOR JONES ON THURSDAY 12 APRIL

1. You were present when the Secretary of State met Sir Trevor Jones, Cllr Clark and Cllr Kemp on Thursday 12 April. Mr McDonald and Mr Sorensen were also present.

2. Sir Trevor said that there were some signs that the true facts were beginning to get through to at least some of the people in Liverpool. It was not easy. The Labour Group continued to misrepresent the position of the Liberal group and that of the Secretary of State. In these circumstances it was not helpful for supporters of the Government to assert that the Liberals had under-budgetted for the last 10 years. It was also untrue. They had hidden in the budget uncommitted funds (£5.8 million) approximately equal to the reductions allocated to services (£5.9 million).

3. The Secretary of State said that he appreciated the difficulties for the Liberal and Conservative parties in recent years. Difficult decisions had been required for the efficient administration of the City on, for example, education and refuse collection but such decisions were difficult to secure without the backing of a firm majority on the Council.

4. Despite past difficulties Sir Trevor was optimistic that the Liberal budget considered on 29 March, as they now proposed to amend it, provided the basis for an agreement with the Conservative group and the 'sensible six' Labour members on a legal rate. (A copy of the proposal is at annex A). Elector reality did however set real limits on all parties concerned in the extent to which they could compromise. The Liberals were satisfied that there were savings to be made through more efficient management. For example whereas the cost of street cleaning in Liverpool was £2,547 per swept mile comparable costs in other cities were Sefton (£1,040), St Helens (£828), the Wirral (£853) and Sheffield (£784). Disregards would however also be needed. The Liberals had proposed 5 - expenditure on libraries and wholesale markets serving the sub region, debt charges on demolished council housing, all expenditure on partnership schemes and the City Council's contribution to MSC schemes. They had appreciated that the Government had already agreed a disregard for 1984/85 for increases in urban programme expenditure and jointly financed schemes. This would be helpful.

5. The Labour Party were likely, in Sir Trevor's view, to press at their meeting with the Secretary of State on 13 April for a public inquiry into how the City had been run in the last ten years. This should be resisted. It would be unnecessarily and provocatively wide-ranging. What was needed was a study of the way in which existing services

were administered. The study commissioned by the Council under section 29 (ii) of the Local Government Finance Act 1982 might be suitable. They would need to consider further. It would only come about however if the commissioning was linked with a budget resolution.

6. The result of the election was uncertain. There was evidence that the Liberal message was getting through - that their policy would protect jobs whereas the Labour Party's policy would destroy jobs. The Secretary of State could help by continuing to make it clear that he did not have the power to bend the rules for the benefit of Liverpool alone and that there was no prospect of extra cash in response to the threat of an illegal budget. Sir Trevor had been advised by the Council's officers that the Liberal budget proposals could be made to work if there was sufficient will among the council. It would require rate increases of the order of 26 to 27% which he appreciated would be difficult for the Conservative support to support. Equally the Liberals were unable to counsel substantial rent increases. If the disregards sought by the Liberals were agreed rate increases could be limited to 16 or 17%.

7. In drawing the discussion to a close the Secretary of State made the following points:

(i) a legal rate on 25 April would provide a firm base for challenging any administration, returned in the 3 May elections, which considered that it had a mandate to commission spending in excess of that provided for in the budget;

(ii) it was vital that the Liberals and the Conservatives agreed, in advance of the meeting on 25 April, upon a budget that would attract sufficient support from the 'sensible six' to be adopted;

(iii) he would continue to reiterate the limits upon his powers to dispel any illusion as the extent of the financial help he was able to give to Liverpool;

(iv) he could only consider a request for a disregard from the Council, and he could not, at this stage, indicate what his response would be to any such request.

J F BALLARD
PS/Secretary of State
13 April 1984

cc PS/Sir George Moseley
Mr McDonald
Mr Pickup
Mr Sorensen
Mr Roscoe
Mr Ramsay

✓ SHIPBUILDING: Policy: Pt 6.

file with AT 14/4



MINISTRY OF DEFENCE
 MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-~~930 7022~~ 218 2111/3

MO 21/8/5

13th April 1984

Dear Andrew,

LIVERPOOL

We spoke earlier today about your letter recording the outcome of the Prime Minister's meeting yesterday on Liverpool. In your final paragraph you record the Prime Minister as saying in her summing up that "the tenders for the Type 22 frigates should be expedited and the issue should come to the relevant Committee of Ministers as soon as possible". I told you that Mr Heseltine is quite clear that it is the issue of going out for new tenders which needs to be discussed by Ministers.

Your letter quite rightly refers to the fact that all previous tenders for the Type 22 frigates have been withdrawn; but it is not correct to say that we are awaiting new tenders: none have been sought. Mr Heseltine's concern, as he explained in his letter of 10th April to the Secretary of State for Trade and Industry, is that the very act of going out to re-tender will carry implications for Merseyside since it is known that Cammell Laird submitted the lowest tender in the previous exercise. Before instructions are given for a new exercise he wishes his colleagues to consider the possible political consequences of taking this route, together with the options available, the range of outcomes and the possible social, economic and political consequences. I am told by the Cabinet Office that E(A) would be the appropriate forum for such a discussion and we will prepare a paper for the Committee to consider soon after Easter.

I am copying this letter to the Private Secretaries of those Ministers who received a copy of yours.

Yours ever

Nick Evans

(N H R EVANS)
 Private Secretary

A Turnbull Esq

Regiment RR. Pt 4

Inner Cities

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1

13 APR 1984

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SUSPECT

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10 DOWNING STREET

From the Private Secretary

11 April 1984

Dear John

LIVERPOOL

The Prime Minister held a meeting today to discuss developments in Liverpool. Present were the Home Secretary, the Lord Privy Seal, the Secretaries of State for the Environment, Education, Defence, Trade and Industry, the Chief Secretary, the Solicitor General, and the Minister of Health, DHSS. Also present were Sir Robert Armstrong and Mr. Buckley.

Your Secretary of State said that underlying the crisis over Liverpool's finances there was an atmosphere of growing violence which was exacerbated by the violence of language in local politics. This should be taken seriously if there was to be no repetition of the riots of 1981.

He had seen a delegation of Labour MPs the previous week and was shortly to see delegations from Liberal and Labour groups on the Liverpool City Council. His objective remained to secure the adoption of a legal rate. It was highly desirable to do this before the local government election on 3 May. The next opportunity would be the Council meeting of 25 April. A legal rate could be achieved if the Conservative group put forward a budget and a rate and were supported by the Liberals, with the six moderate Labour Councillors abstaining. Once an adequate rate had been established, it would be easier to use the Courts to prevent a more militant Labour council from overturning it after the elections. The difficulty was that the Liberals feared they would lose votes if they were associated with the unpopular budget which was necessary.

The Labour group had written to him and the Prime Minister suggesting an urgent discussion. While there was no question of intervention by the Prime Minister, he would have to respond to the Labour group when he saw them. He would continue to stress the need for them to act responsibly and he would again indicate that he had no latitude for action which gave Liverpool more favourable treatment than other local authorities.

At the last meeting with the Labour group, it was noted that not enough was known about Liverpool's financial predicament. To establish the facts, an inquiry had been proposed comprising a small group of former local government officials. Your Secretary of State felt that in an ideal world this proposal would have much

/ to commend

DSC

to commend it. If conducted independently, with full disclosure of the facts, it might demonstrate that a reasonable standard of services could be achieved without excessive rate increases. In practice, however, it was unlikely that the Labour group would cooperate if they did not control the procedures of the inquiry and the information put to it.

In discussion, it was argued that the Government should do everything in its power to avoid being forced to introduce Commissioners. If accepting an inquiry helped to secure a legal rate and helped to demonstrate the reasonableness of the Government's position, this should not be ruled out. Against this, it was argued that such an inquiry would inevitably turn into a claim for more resources for Liverpool.

The Chief Secretary, while doubting the wisdom of such an inquiry, endorsed the need for a clearer view of Liverpool's assets and liabilities. He suggested this could be achieved by securing a Special Audit under the auspices of the Audit Commission. Officials should examine whether the provisions of the Local Government Act 1972 could be used to institute such an audit.

The Chief Secretary said there was growing concern in local authority finance circles about the implications of a default by Liverpool. The City had debts of £700 million of which £130 million had to be rolled over by June. There were doubts about whether this could be refinanced. While it was possible that the reaction of financial markets could be confined to Liverpool there was a danger that disruption could spread more widely. He thought more work was needed.

Your Secretary of State noted that the future of Cammell Laird was closely connected with the problem of Liverpool. He welcomed the decision to postpone the announcement of redundancies. The Secretary of State for Defence was anxious to secure an early decision on where the next two Type 22 frigates were to be built. Three BS yards had tendered, with Cammell Laird the lowest. These tenders had now been withdrawn by BS and the Ministry of Defence were awaiting new tenders. While it might suit the objective of privatising BS for the work to go to other yards, the political consequences of this would be serious. The Secretary of State for Trade and Industry said the Cammell Laird bid had been based on the assumption that the yard would win the contract for the Sun Oil platform but this had been lost. The economics of the Cammell Laird tender had to be re-assessed. Any decision to have the frigates built other than by the lowest bidder should only be taken after full discussion between Ministers.

The Secretary of State for Education and Science said he had received Liverpool's proposals for closure of schools. Excess capacity in the school system was an important factor in Liverpool's financial plight. While the willingness to undertake closures was welcome, the proposals themselves were unsatisfactory from an educational standpoint. He would need to consider carefully the timing of his decisions.

/ Summing up,

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- 3 -

Summing up, the Prime Minister said the Government's objective should remain the achievement of a legal rate before the local government elections. On balance, the group thought the dangers of an inquiry into Liverpool's financial predicament were too great but the possibilities of securing a Special Audit should be investigated by the Secretary of State for the Environment and the Chief Secretary. They should also, in conjunction with the Bank of England, investigate further the dangers of a financial default by Liverpool and the implications for financial markets. The tenders for the Type 22 frigates should be expedited and the issue should come to the relevant committee of Ministers as soon as possible. The Secretary of State for the Environment should pursue his ideas for the establishment of a group, on which the No. 10 Policy Unit could be represented, to consider the political options in Liverpool.

I am copying this to Hugh Taylor (Home Office), David Heyhoe (Lord Privy Seal's Office), Richard Mottram (Ministry of Defence), Elizabeth Hodgkinson (Department of Education and Science), Callum McCarthy (Department of Trade and Industry), John Gieve (Chief Secretary's Office), Henry Steel (Law Officers' Department), Steve Godber (DHSS) and Richard Hatfield (Cabinet Office).

Yours sincerely

Andrew Turner

John Ballard, Esq.,
Department of the Environment.

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PRIME MINISTER

Liverpool

BACKGROUND

The minute of 11 April from the Secretary of State for the Environment reports recent developments in Liverpool. You will be holding a meeting of Ministers to discuss it after Cabinet tomorrow.

2. As you know, the meeting of the Liverpool City Council on 29 March took no decisions on either the rate or the budget for 1984-85. A further meeting on these matters is to be held on 25 April.

3. The Secretary of State for the Environment has received, or is due to receive, a number of delegations.

(a) A delegation of Merseyside Labour MPs, led by Mr Eric Heffer, saw him on 5 April. They asked for further financial assistance for Liverpool and suggested that there should be an inquiry 'to establish publicly the facts of Liverpool's financial position'.

(b) There is to be a deputation of Liberal councillors on 12 April 'to explore the grounds on which they might agree upon a legal rate with the Conservatives'.



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(c) A further deputation from Liverpool, apparently led by the Leader of the Council, is expected to see the Secretary of State on 13 April to discuss the City's problems.

4. Mr Jenkin suggests that there is little likelihood that the courts would agree to intervene before the Council meeting on 25 April. In effect, that means before the local elections on 3 May. He does not propose any change in the Government's stance: that there should be no financial concessions to Liverpool; and that the problems in Liverpool are a local responsibility. He does, however, imply that there may be merit in the proposed inquiry (paragraph 3(a) above). He also promises to report on Liverpool's creditworthiness and its possible repercussions on local authorities generally.

MAIN ISSUES

5. The main issues before tomorrow's meeting are as follows.

(i) What is the current assessment of the chances of a legal rate and budget being agreed on 25 April?

(ii) What, if anything, can the Government do to improve the chances?

(iii) In particular, is there any merit in the proposed inquiry? If so, what would be its scope and constitution?

(iv) What line should be taken at the meetings with the deputations from Liverpool on 12 and 13 April?



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(v) Creditworthiness.

Current assessment

6. It is clear that there is no prospect of a legal rate being agreed unless the Conservative and Liberal Councillors agree. (And unless the Labour moderates at least abstain - but that seems pretty likely). It also seems probable that 25 April will be the last opportunity, since the local elections on 3 May are thought likely to increase the Labour majority. You will wish to check that all that is possible is being done, through both Party and Governmental channels, to encourage agreement.

Government action

7. Apart from this, there seems to be little that the Government can do. But the meeting may wish to ask the Attorney General whether he agrees with Mr Jenkin's judgement that there would be little point in an approach to the courts at this stage.

An inquiry

8. The proposal that there should be an inquiry 'to establish the facts' has apparently gained some currency among Liverpool councillors. I understand from Environment officials that such an inquiry, if it were to be set up, would be undertaken by two or three distinguished former local authority treasurers or chief executives, with perhaps someone from a financial institution in the City of London. Its aim would be partly to go into the history of Liverpool's finances during recent years, but more importantly to demonstrate that it would be possible to provide a reasonable standard of services without excessive



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rate increases. There is no precedent for such an inquiry; and there are no relevant statutory provisions (though that is no bar to setting up an inquiry).

9. If successful, such an inquiry could strengthen the hands of both the Government and the moderate councillors in Liverpool. In particular, it should demonstrate that the Labour majority are wrong in saying that the choice is between drastic cuts in services and drastic increases in rates.

10. However, Ministers will wish to consider the following points.

(a) It seems likely that the Council would refuse to cooperate with an inquiry, and would direct its employees to withhold cooperation. If so, the inquiry could probably not get very far. It is not certain that the Council would be universally condemned for unreasonable behaviour in this event: even some moderate local government opinion, for example, might suspect that an inquiry was a first move towards greater Government scrutiny of the affairs of individual local authorities.

(b) The existence of an inquiry might reduce the pressure on moderate councillors to set a legal rate and budget before 3 May. It might well be argued that 'no decisions should be taken before the inquiry reports'.



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(c) It will not be easy to find people to undertake the inquiry who could be relied on to come up with acceptable recommendations but would not be criticised as partial.

(d) However carefully the members may be picked, enquiries seldom reach conclusions wholly in favour of one side. There must be a risk that some aspects of the findings of the inquiry would drag the Government further into the affairs of Liverpool than it would necessarily want to go.

(e) To the extent that an inquiry went into the stewardship of previous councils, it might be unwelcome to Liberal and Conservative opinion in Liverpool.

11. If Ministers see attractions in an inquiry, you will no doubt wish to invite the Secretary of State for the Environment to put forward more detailed recommendations on composition, terms of reference, and timing. There could be advantage in informally sounding out the two deputations on 12 and 13 April.

Handling of deputations

12. The discussion of the previous issues will give Mr Jenkin guidance on the handling of the two deputations. He may, however, have particular tactical points to raise.

Creditworthiness

13. I understand that Liverpool is due to repay debt of about £130 million at the end of May and that there



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is some doubt about the Council's ability to re-finance this money. Discussions are proceeding between the Department of the Environment, the Treasury and the Bank of England: they have not reached a conclusion. You may wish to invite the Secretary of State for the Environment and the Chief Secretary, Treasury to report as soon as they can.

HANDLING

14. You will wish to invite the Secretary of State for the Environment to open the discussion. Thereafter any of your colleagues may wish to contribute.

CONCLUSIONS

15. You will wish the meeting to reach conclusions on the following.

(i) What action, if any, the Government can take to improve the chances of a legal rate and budget being set by the Liverpool City Council at its meeting on 25 April.

(ii) Whether there are, in principle, attractions in an inquiry into the facts of Liverpool's financial position. (If there are, you will wish to invite the Secretary of State for the Environment to bring forward detailed proposals on composition, terms of reference, and timing).

(iii) What line should be taken in discussions with the deputations from Liverpool which the Secretary of State for the Environment is meeting on 12 and 13 April.

(iv) Further work on creditworthiness.

M.S.B.



APR 1 1984



COMPTON
LONDON

Prime Minister



LIVERPOOL

1. We are due to meet shortly to review the position in Liverpool.

2. Since the Group last met, the City Council has held its inconclusive budget debate on 29 March. A further Council meeting is scheduled for 11 April but the business for this is fixed and does not include the budget. An extraordinary meeting of the Council to discuss the budget has been requisitioned by the Conservatives and Liberals, and this has been set for April 25, in the week before the local elections. We understand that the Council's Treasurer has so arranged his affairs that the financial position of the authority should be secure until at least the local elections.

3. The two main issues which face us now are:
 - (a) what prospect is there for a legal rate being made on 25 April; and
 - (b) what happens after the elections on May 3rd.

PROSPECTS FOR APRIL 25

4. I think we can assume that, despite any discussions with Government (see paragraph 5 below), the majority Labour Group will not be willing to propose a legal rate before the local elections. The making of such a rate on April 25 will depend on co-operation between the Conservative and Liberal Parties; it is sufficient that the Labour moderates abstain for such a rate to be carried. Our own supporters are likely to wish to see a rate made and the critical issue, therefore, is

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how the Liberal Party will act. Sir Trevor Jones may be more attracted by the prospect of campaigning in the local elections against either an illegal rate made by the Labour Party, or no rating decision, rather than be party to making a legal rate before the elections involving a substantial rate increase. I am, however meeting a deputation from the Liberals on Thursday 12 April to explore the grounds on which they might agree upon a legal rate with the Conservatives.

5. Over the next two weeks, we are likely to come under considerable pressure to provide further financial assistance to Liverpool. A deputation of Merseyside Labour MPs led by Eric Heffer, which I saw last Thursday, pressed this and a new proposal emerged to which I will return. The Leader of the Council, Councillor Hamilton, has asked both you and me to visit Liverpool and discuss the problems. I have proceeded on the assumption that it would be more appropriate for me to meet a deputation in London in the first instance - this will take place on Friday 13 April.

*Do E
have been
asked
for advice
on this
letter
which is
enclosed*

6. I should note that I have considered whether there is any case before the local elections for seeking an order of mandamus directing the Council to rate. I have concluded that there is not. With a further budget discussion on April 25, it is unlikely that a court would take such an application seriously. After April 25 if no rate is set there will be insufficient time to act before May 3rd.

7. I will report orally on Thursday on our latest judgements about Liverpool's creditworthiness and possible repercussions on local authorities generally.

AFTER MAY 3

8. Whatever the outcome of the elections on May 3rd, we are likely to face a problem. An increased Labour majority could

C M O



maintain its proposals for an illegal rate or, if a legal rate has been made on April 25, remake the rate at a lower level. In these circumstances, the Auditors would no doubt act against offending Councillors. Illegal action could eventually lead to a collapse of services and the introduction of Commissioners. A moderate coalition might be able to make, or maintain, a legal rate but that could well be as a result of compromises which did not tackle the more fundamental expenditure and financial problems of the authority. On past experience in Liverpool it is doubtful that such a coalition would have the capacity or will, on its own initiative, to embark upon a programme of sufficient retrenchment. This would probably need two or three years of hard and vexatious effort to implement; it would no doubt mean redundancies in pursuit of lower costs and greater efficiency.

CONCLUSION

9. Despite the pressure to do so, I cannot recommend that we change our stance and make specific financial concessions to Liverpool. Although we have identified a number of ways to increase government subventions to the City within the existing local government finance framework, most of these are costly and all carry political risks. The mere offer of a concession would suggest that we had succumbed to blackmail by the Council, and admitted that Government policies had made Liverpool's position impossible. We could not offer concessions to a moderate coalition on the Council alone, and an extremist Council might use them simply to increase expenditure further within the context of a low, illegal rate. There would be demands from elsewhere for similar help.

10. The new suggestion at the meeting with Merseyside MPs was for an inquiry to establish publicly the fact of Liverpool's financial position. I understand this is now being considered



more widely by Councillors in the City. I gather that the Labour Party at national levels had earlier suggested an enquiry of some sort to the Labour majority group, but it ran into the sand because Cllr Byrne, the hard-line Chairman of the Finance and General Purposes Committee, was not prepared to let the City's officers discuss anything with outsiders otherwise than in his presence. We ourselves had also begun to think of some kind of inquiry as a possible way forward, but we may face similar intransigence. I will report further on Thursday.

11. In the meantime, I propose to continue to stress the responsibility of the City Council to make a legal rate for 1984/85, the scope which clearly exists for them to do so, and the consequences of failure. William Waldegrave will be speaking in these terms in tonight's Adjournment Debate.

12. I am sending copies of this minute to Michael Heseltine, Keith Joseph, Norman Tebbit, Norman Fowler, Leon Brittan, Peter Rees, Michael Havers, Sir Robert Armstrong and Mr Buckley (Cabinet Office).

This did not take place

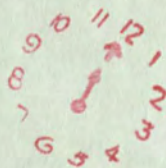
PJ

P J

11 April 1984

LONDON

11 APR 1994



Clk. J.D. HAMILTON ✓

19/4

5 April 1984

I enclose a copy of a letter to the Prime Minister from Councillor J.D. Hamilton, Leader of Liverpool City Council.

I would be grateful for advice on how the Prime Minister should respond to this letter and to Councillor Hamilton's invitation to the Government to hold discussions with Liverpool City Council.

Andrew Turnbull

John Ballard, Esq.,
Department of the Environment.

58

FROM THE OFFICE OF THE LEADER OF THE CITY COUNCIL
P.O. BOX 88
MUNICIPAL BUILDINGS,
LIVERPOOL, L69 2DH.

25/4

Telephone: 051-227 3911 Ext. 22

3rd April, 1984

The Rt. Hon. Margaret Thatcher, M.P.,
10 Downing Street,
LONDON SW1

Dear Prime Minister,

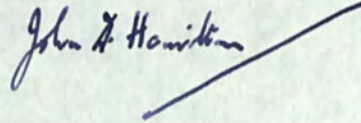
You will, I know, be aware that the Liverpool City Council held its Budget Meeting on March 29th and was unable to agree upon the rate to be levied for 1984/85. After consulting my colleagues, I have announced that a further meeting will be convened on April 25th to enable the Council to consider the issues again and to attempt to agree upon the rate to be levied for the coming year. However, it would be idle to pretend the task facing the Council will be any easier than it was last week, when, after many hours of debate and discussion, agreement eluded us.

The background to the City's financial problems have been well rehearsed. The social and economic considerations which are operating in Liverpool are well known. The legal and financial consequences facing the Council have been fully explained, but in the last analysis the central core of the difficulty remains unaffected. The desperate social and financial plight in which Liverpool finds itself is so grave that the party controlling the Council cannot in all conscience bring itself to adopt either of the two courses which are continually advocated as being the solution to the problem. We cannot bring ourselves either to withdraw services from families and from individuals in desperate need, nor can we bring ourselves to impose further swingeing financial burdens upon those self-same individuals and families.

Liverpool's plight does not derive and never has derived from circumstances arising in Liverpool alone. It has been brought about primarily because of the revolutionary changes which have taken place in the trading pattern of the country as a whole. The decline of traditional industries in the North of England and in the Midlands; the consequent decline of the Port of Liverpool; the competition from the Common Market; and the shift from a colonial to a European approach have all undermined Liverpool's position at a pace and with a vehemence unparalleled in any other part of the country. I frankly say to you, not in any spirit of hostility or with any wish to exaggerate, that there is every possibility that the situation in which we find ourselves is beyond our power to solve locally. The economic holocaust we have suffered, coupled with the attempts of the City Council in recent years to contain the situation within government spending targets, is in acute danger of producing a situation which the normal processes of local government as we know them are not equipped to handle.

Mr. Jenkin has been quoted recently as saying, in relation to the Liverpool situation, that 'the door is open', and that the Government is ready, by inference, to continue to discuss the situation with members of the City Council. I am therefore asking as a matter of urgency if you will accept an invitation to come to Liverpool and to join us, through urgent and thorough discussions, in seeking a solution to the current dilemma. I cannot conceal from you that there is little which I can bring to the discussions which is new. I assure you of my sincere wish not only to find the way through the immediate problems confronting us, but also - and this is I think of critical importance - to do so in a way which enables the Council to look to the succeeding year 1985/86 with reasonable confidence.

Yours sincerely,

A handwritten signature in blue ink that reads "John D. Hamilton". The signature is written in a cursive style and is followed by a long, sweeping horizontal line that extends to the right.

Councillor John D. Hamilton
Leader of the City Council

From: THE PRIVATE SECRETARY

CC/NO.

CONFIDENTIAL



Prime Minister⁽²⁾

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

To note. I will find out
this evening whether this
was successful.

28 March 1984

AT
29/3

Dear Andrew,

LIVERPOOL

MT

In your letter of 26 March to John Ballard, you referred to the question of intimidation of the so-called rebel councillors.

As I told you on the telephone yesterday afternoon they are receiving unobtrusive police cover at their homes, and will be transported in plain police cars to the council meeting on 29 March. The arrangements have been discussed in detail by the Chief Constable personally with the councillors concerned and we understand that they are entirely happy with what is being done. It is obviously in the interest of everyone that these arrangements should be as unobtrusive as possible, though there can be no guarantee that these arrangements will remain confidential.

Your letter also records concern about the demonstration outside the Town Hall. The police remain confident that any demonstration will be peaceful, though it may be quite large; and they are confident of having more than sufficient forces on hand to keep any marchers away from the entrance to the Town Hall to ensure that those attending the meeting can come and go without difficulty. In line with their normal arrangements (because disorder is not infrequent at Liverpool City Council meetings) the police will have plenty of men inside the Town Hall itself. Their normal practice, in arrangements agreed with the chairman of the council, is whenever possible to wait until they are summoned to receive his request to eject disruptors. But there is no doubt in law that if there were to be a breach of the peace within the council chamber the police do not have to wait for an invitation but may go in as of right to deal with it, and they are ready to do so.

The Home Secretary's overall assessment remains that which he gave at the meeting of 26 March. There may well be quite large demonstrations and marches in Liverpool on 29 March. The police are confident of their ability to provide unhindered access by councillors to the meeting itself. The main site for speeches and static demonstrations will, they hope, be the Pier Head which is Liverpool's traditional speakers corner. The main march, which may attempt to stop near the Town Hall, will inevitably cause a degree of obstruction and the organisers have been warned of police powers in this respect. The police will keep such obstruction to a minimum, although their tactics will obviously depend to some extent on the action of the marchers; the central police objective will be to ensure that the city council meeting goes ahead unhindered.

I am sending a copy of this letter to those to whom you copied yours.

Yours sincerely,
Hugh Taylor

H H TAYLOR

A Turnbull, Esq

CONFIDENTIAL

Regional Post A4

Liverpool.



29 MAR 1984

Subject a matter

CONFIDENTIAL CMO

file

VC



10 DOWNING STREET

From the Private Secretary

26 March 1984

Dear John,

LIVERPOOL

The Prime Minister held a meeting today to discuss developments in Liverpool. Present were the Home Secretary, Lord Privy Seal, the Secretaries of State for Education, Environment, Scotland, Trade and Industry, and Social Services, the Chief Secretary and the Attorney General. Also present were Sir Robert Armstrong and Mr. Buckley.

Your Secretary of State said that the Labour rebels now wanted, not just to prevent an improper rate, but to secure a legal rate before the election on 3 May which was likely to result in an increased Labour majority. He had also spoken to members of the Conservative group on the Liverpool City Council. It was clear that the latter had not appreciated that there was a prospect of combining with the Labour rebels to produce a legal rate. They would now be considering how this could be achieved. The Conservative Councillors had, however, been hampered by the fact that they had not been given adequate information on the Council's financial position.

Your Secretary of State said he was coming under pressure from the media who wanted to know what contribution the Government would make to a solution of Liverpool's problems. He and his Department had refused to be drawn in public on this. In practice, the scope was very limited. One possibility was to allow a disregard for urban programme expenditure. But this could not be confined to Liverpool and in any case could not operate in the coming year.

Your Secretary of State then raised the question of intimidation of the rebel Councillors. It was noted that if they were to be expected to carry out their obligations (and absence from the vote would still leave them liable) they were entitled to protection at home and in getting to and from the meeting. It was noted that the march would culminate in a demonstration outside the City Hall which would make it difficult for Councillors to get into the meeting. There was also the problem of order inside the meeting. It was not clear to what extent the Police were able to intervene in a public meeting to maintain order or to what extent they were bound by the wishes of the chairman. Summing up this part of the discussion, the Prime Minister said the rebel Councillors were entitled to public protection. She asked the Home Secretary to consider what needed to be done to protect their homes and to ensure access to the meeting would be maintained despite the

CONFIDENTIAL CMO

/ demonstration

BSP

demonstration outside. He should also consider what was the position of the Police in maintaining order in the Hall.

The meeting then considered the draft statement prepared by the Attorney General on the duties of Councillors and the sanctions for not fulfilling them. This was attached to Mr. Sarjeant's letter to me of 23 March. Since the draft had been prepared, the Liverpool Council Councillors had received very full advice from the Chief Executive, City Solicitor and City Treasurer, and a report from the District Auditor. It was doubtful whether a further statement by the Attorney General would currently add very much. The Attorney General said that he had sought to amend the earlier draft to cover the case where there was no rate at all but had found it difficult to provide a clear-cut statement. It was agreed that there was no advantage in publishing before the Council meeting on 29 March. The Attorney General would look again at the text when the precise situation to be covered would be clearer.

I am copying this letter to Janet Lewis-Jones (Lord President's Office), Hugh Taylor (Home Office), David Heyhoe (Lord Privy Seal's Office), Elizabeth Hodgkinson (Department of Education and Science), John Graham (Scottish Office), Callum McCarthy (Department of Trade and Industry), Steve Godber (DHSS), John Gieve (Chief Secretary's Office, HM Treasury), Henry Steel (Attorney General's Office), Richard Mottram (Ministry of Defence), Richard Hatfield (Cabinet Office) and to Michael Buckley.

Yours sincerely

Andrew Turnbull

ANDREW TURNBULL

John Ballard, Esq.,
Department of the Environment.



Private Secretary to Secretary of State
for the Environment

Hugh Taylor.

My Secretary of State
received this letter this
morning and may refer
to it at this afternoon
meeting with the P.M.

The matters raised are
mainly for the Home Office.

A copy of this letter note
has gone to Andrew Turnbull
(No 10)

John Bellamy

The Right Hon
Patrick Jenkin, M.P.

Read via Lib of Commons
26/3/84

FOR

362, Princess St

Liverpool 14
8XQ

My Dear Sir,

As one of the Six would be Rebels may I seek your kind advice with reference to next Thursday Budget meeting. In view of the threats that have been made of violence inside or outside of the Town Hall & those calls to my home, my wife is a physical wreck, which are similar to my colleagues, we would not wish to meet any such behaviour because of our disbelief of Marxist forces, will not work & my democratic belief of local government.

Can I ask if it is possible that some form of Exemption of attendance will be available to thwart any hysteria & violence on that day.

I am convinced that another 10 persons are sitting on our backs assailing our downfall to avoid them being surcharged & the budget falling on the vote of 43.

In conclusion may I ask what protection is there & why should this march go on, or why it should not be ^{As} routed away from the Town Hall if violence is expected & threatened, as you will

I be aware of the tension our families
 are suffering, I would appreciate your
 fullest confidence that I have written to
 you after 31 years on the Liverpool City
 Council this is the first time I have
 ever written to a Minister of State for
 guidance.

I am yours

Sincerely
 Willard Johnson

P.S. Is it possible
 for an early reply
 before next Thursday

26 MAR 1984



CS/87/84

CITY OF LIVERPOOL

GENERAL RATE 1984/85

Joint Report of the Chief Executive,
City Solicitor and City Treasurer

City Solicitor's Office
MARCH 1984

Joint Report of the Chief Executive,
City Solicitor and the City Treasurer

1. INTRODUCTION

The Council resolved, on the 9th November 1983, "that printed budgets for 1984/85 be prepared on the basis of current budgeted standards of service, together with known inescapable new commitments and a continuing Housing Investment Programme, all based on November 1983 prices, and that they be submitted for consideration in the first phase, to Policy Groups 1 and 2."

The Council further resolved, on the 7th March 1984,

- (a) that notwithstanding the powers and duties of the Policy and Finance Committee, as approved by the Council on the 17th May 1983, the Performance Review and Financial Control Sub-Committee be empowered to make recommendations directly to the Council as to the making of a rate for the financial year 1984/85; and
- (b) that a special meeting of the Sub-Committee be held on Monday the 26th March 1984 and a Special Council Meeting be held on the 29th March 1984.

For the assistance of Members the following paragraphs set out the financial situation regarding the Council's allocation of Rate Support Grant and grant penalties and the legal requirements regarding making a rate, together with a review of the statutory and common law provisions relating to the level of the rate, to failure to make a proper rate, and the practical consequences thereof.

2. RATE SUPPORT GRANT

A graph prepared by the City Treasurer, showing the Rate Support Grant entitlement at various levels of net expenditure, grant penalties and the resultant rate poundage, appears as an Appendix to the City Treasurer's report on the 1984/85 Budget.

3. STATUTORY PROVISIONS

- (a) The General Rate Act 1967, as amended by the Local Government (Finance) Act 1982 -

(i) Every Rating Authority must make such a rate as will be sufficient to provide for such part of the total estimated expenditure to be incurred by the Authority as is not met by other means (e.g. Government grants), and including sums payable under a County Council Precept.

(ii) The Rate must be made in respect of a period beginning immediately after the expiration of the last preceding rate period, i.e. 1st April. There must be no interval between the expiry of the period of the last rate and the commencement of the next rate period.

(iii) the Rate is deemed to be made on the date on which it is approved by the Authority.

(b) Local Government Finance Act 1982

(i) A Rating Authority has no power to issue a Supplementary Rate or a rate for any period other than the financial year.

(ii) A Rating Authority may make a rate in substitution for a rate previously made by it for that year, but not exceeding the estimated product of the rate for which it is substituted and whether or not the original rate was validly made.

(iii) Any question of the validity of a rate must be by application for judicial review and if the Court decides to grant relief it shall quash the rate whether the ground of invalidity relates to the whole or any part of it.

4. COMMON LAW

A. THE LEVEL OF THE RATE

Fiduciary Duty to Ratepayers

The latest case relating to a Council's fiduciary duty to its ratepayers and its duty to act reasonably is R -v- Greenwich London Borough Council ex parte Cedar Transport Group Limited 1983.

The Local Authority made a rate based on estimated expenditure which exceeded the Government target by £10m and resulted in loss of Government grant. In particular the Authority decided not to increase Council house rents and to spend £4m (not £8m as was first suggested) on various new projects and services. A commercial ratepayer challenged, by way of judicial review, the rate on the ground that the Council's decision was so unreasonable that the court should draw the inference that reports and advice placed before the Authority had either been ignored or misunderstood.

The court dismissed the application because it did not consider the conclusion to be so unreasonable as to justify drawing the inference that advice had been ignored; the Council had considered the arguments for and against increasing Council house rents and had been reminded of its fiduciary duty to ratepayers. It had taken this duty into account in rejecting the original expenditure of £8m on new projects.

Further the Council had considered its level of expenditure at many levels; there was no suggestion that the additional spending would not confer a benefit on some section of the community and whether it was right to call on the ratepayers to meet this expense was primarily a matter of political judgment. Also, the court could find no material that would justify accepting the argument that a total overspending of £10m in excess of the Government's target was so large that it must be wholly unreasonable.

Apart from the actual decision, the court made two particularly relevant statements in the course of its judgment.

First, all Members of the Authority had had the advantage of receiving papers from both the Borough Treasurer and the Borough Solicitor which set out all the relevant considerations they should have in mind when deciding on the 1983/84 level of expenditure. The Borough Solicitor's advice was drafted by a distinguished Queen's Counsel and included the following :-

"In summary, in settling budgets and determining the rate levy for 1983/84 members must have regard to: (a) the rating authority's statutory and other legal duties and powers including prospective duties and powers; (b) relevant factual information ensuring that such information is before members when a decision is reached; (c) all relevant factors and leaving out of account all irrelevant factors. Members must not come to a decision which no reasonable authority could reach; (d) the needs of the community as perceived by the members; (e) the rating authority's fiduciary duty to its ratepayers, including: (i) awareness of the financial consequence of any proposal for ratepayers, domestic and commercial; (ii) financial prudence; (iii) striking a fair balance between the interests of ratepayers on the one hand, and the community's interest in adequate and efficient services on the other hand; (iv) giving consideration to any loss of grant arising from the adoption of any course of action; (v) acting in good faith with a view to complying with statutory duties and exercising its statutory powers for the benefit of the community; (f) general economic circumstances including Government policy and guidance.

Members must not fetter their discretion by treating as decisive a proposal or proposals in an election manifesto. Members must reach a decision anew in the light of known factors, but they are entitled to take into account their election manifesto when deciding between lawful options.

It is considered that provided members act in accordance with the above principles, it is for them to decide an appropriate level of expenditure and that the rating authority will not act unreasonably (within (c) above) merely because it resolves on a level of expenditure with which others strongly disagree. It is considered that it is not for the courts to substitute one judgment of what is reasonable for that of the rating authority to whom the discretion has been given by Parliament.

Members should not be afraid to vote for a budget where expenditure exceeds target or the GREA if they are sure that such expenditure is needed, but they should not do so merely because they regard the constituent elements as desirable. Once penalty levels are reached financial prudence and providence dictate a more thrifty approach."

The fact that this advice was submitted and considered was an important factor in the court's decision.

Secondly, dealing with the level of expenditure the court said "there is room for a wide divergence of honest opinion upon the burden of taxation. A Labour Council might perhaps be likely to favour a higher level of taxation to provide for public services than a Conservative Council, or a Conservative

Government. There is no suggestion that the additional plans would not confer a benefit on some section of the community and whether it is right to call on the ratepayers to meet this expense is primarily a matter of political judgment. It is clear from the massive documentation that this question was considered in the Council at many levels before the final decision was taken."

The conclusions to be drawn from the above case are -

1. An Authority is more likely to succeed in defending a challenge regarding the reasonableness of its rate decision if
 - (a) it receives and considers legal advice on the extent of its fiduciary duty; and
 - (b) provided it has given this consideration, the fact that the budget exceeds Government targets and incurs penalties does not per se make the decision unreasonable.
2. The court will be most reluctant to substitute its own view of the way in which the Authority should have exercised its discretion for that of the Authority. Only in a case in which the decision of the Council is so outrageous that no right thinking person could support it would the court interfere with the Council's decision making process.
3. The facts of political control and policies are recognised.

cf DA
B. FAILURE TO MAKE AN ADEQUATE RATE

The previous paragraphs relate to the Authority's position regarding the level of its rate. The legal position if it fails to make any or makes an inadequate rate is different. As stated in paragraph 1. (a) the General Rate Act 1967 makes it compulsory for a Council to make an adequate rate and certain consequences flow from breach of that duty, both for the Council as a whole and for individual Members.

(a) Powers of the Court

Since there is a statutory obligation upon the City Council to make a rate sufficient to meet its requirements, a rate resolution which did not achieve this result would be contrary to law and accordingly open to review by the High Court. If a challenge proved to be successful the costs of it would fall to be met by the Council.

In the event of a successful challenge the consequences of failure to comply with the ensuing Court Order are as follows :-

- (i) it is a Civil Contempt of Court to refuse or neglect to do an act required by a Judgment or Order of the Court within the time specified in the Judgment or Order;
- (ii) Civil Contempt of Court is punishable by way of committal to prison for a fixed term not exceeding two years or, as an alternative, by way of unlimited fine, recoverable in the same manner as a Judgment debt;
- (iii) the persons who govern an Authority are responsible for its acts and are liable to be committed for disobedience R -v- Poplar Borough Council ex parte London County Council 1922.

The facts in this case were that the Local Authority refused to include in its rate provision for payment of the County Council Rate Precept. The Council considered that Poplar was a poor Borough, its account was already overdrawn, its rating was extremely high and would be abnormally and extraordinarily high if the rate was levied to pay the Precept.

The Court rejected appeals against committal for neglect to comply with Orders of Mandamus directing the Councillors to levy rates to meet the County Council Precept and in so doing the Judges said that the question whether the appellants had acted conscientiously or not had nothing to do with the matter

(b) Receivership

If the Rating Authority fails to make a rate to raise the amount of the County Council Precept, the County Council can apply to the Secretary of State for the appointment of a Receiver to recover the amount due, and interest (General Rate Act 1967).

By the Local Authority (Stocks and Bonds) Regulations 1974 and 1983, if any money due in respect of any stock or bonds issued by a Local Authority amounting to £500 or more remains unpaid for two months the person entitled thereto may apply to the High Court for the appointment of a Receiver and the Court may confer upon the Receiver any such powers of collecting, receiving and recovering the revenues of the Local Authority, and of making, collecting and recovering rates, and of issuing and enforcing Precepts, as are possessed by the Local Authority or their officers.

Therefore the County Council or a stockholder could apply for the appointment of a Receiver.

(c) Secretaries of State

Despite research of current legislation the City Solicitor cannot find a general power enabling the Secretary of State for the Environment to assume the functions of the Local Authority.

Various statutes empower the relevant Secretaries of State, in certain cases, if a Local Authority fails to carry out its statutory functions, to exercise default powers. For example a failure to provide an adequate education service may lead to the exercise of default powers under the Education Act 1944 by the Secretary of State for Education and Science. Similar powers exist in relation to Social Services and Environmental Health functions and certain Housing functions. The costs involved in the assumption of such functions would ultimately be recharged to the ratepayers.

For example the Housing Finance Act 1972 empowered the Secretary of State for the Environment, by order, to appoint a person - a "Housing Commissioner" to discharge in the name of the Authority and at their expense the functions of the local authority relating to rents under that Act and to direct that the Authority should not during the term of the Commissioner's appointment perform those functions. The power was invoked in the Clay Cross case.

(d) Wilful Misconduct

Failure to make a rate to cover estimated expenditure would probably amount to wilful misconduct under the Local Government Finance Act 1982, "wilful misconduct" being legally described as a person concerned appreciating that he is acting wrongfully, or is wrongfully omitting to act, and yet persists in so acting or omitting to act regardless of the consequences, or acts or omits to act with reckless indifference as to what the results may be.

The District Auditor has power to certify that the loss or deficiency arising from wilful misconduct of any person is due from that person or persons (jointly and severally) and may take steps to recover that loss or deficiency. If the loss exceeded £2,000 the Councillors responsible would be liable for disqualification for a period of five years. Recovery of the "surcharge" could be by way of proceedings as in the case of a civil debt and, if the debt is not paid, there could follow bankruptcy proceedings and attachment of earnings. In any bankruptcy proceedings the property of the bankrupt vests in the trustee in bankruptcy without any conveyance or assignment and he can set aside any conveyance or transfer of property by the bankrupt to his wife or children within two years before the bankruptcy, or within 10 years in certain circumstances. Further if the Councillor's house is in the joint names of himself and his wife the trustee can apply to the Court for an order for sale.

It may well be decided by the District Auditor that the amount of loss is the difference between the rate income actually levied and the rate income which should have been levied if a lawful rate had been made and that the loss commenced to arise very quickly after the 1st April.

(e) Extra-ordinary Audit

Section 22 Local Government Finance Act 1972, empowers -

- (a) the Audit Commission to direct the holding of an extra-ordinary audit by the District Auditor on the application of a local government elector or if it so decides after receiving an auditor's report, or for any other reason which appears proper to it;
- (b) the Secretary of State, if he considers it desirable in the public interest to require the Commission to direct the District Auditor to hold such an audit.

The previous provisions relating to wilful misconduct referred to earlier are applicable to an extra-ordinary audit.

(f) Responsibility

On making his declaration of acceptance of office of Councillor each Member of a local authority declares that he will duly and faithfully fulfil the duties of his office and it has been said by the Court that those duties require a Member to carry out the provisions of any Acts of Parliament which applied. It is the duty of an individual Councillor to ensure the Council's compliance with the law and therefore to oppose any resolution which does not comply with the law.

The various precedents of cases involving ultra vires acts by a local authority provide the following guide lines -

- (i) there can be no doubt that persons who -
 - (a) vote for a resolution share responsibility for it,
 - (b) vote against it are exempt;
- (ii) where no formal vote is taken those present are presumed, in the absence of evidence to the contrary, to have assented;
- (iii) abstention from voting may amount to acquiescence;
- (iv) even absence from a meeting may not protect a Member. Staying away without good reason may be equivalent to abstention.

(g) Practical Consequences

Quite apart from the legal duty as to the making of a rate set out in paragraph 3(a), there would be severe effects upon the practical operation of the City Council's services if the City Council either made a substantially insufficient rate or failed to make a rate.

In either event there would come a point where, unless the Secretary of State was willing to authorise borrowing to meet a shortfall of revenue income, it would not be possible to make payments due. This would cover all payments, be they to employees for salaries and wages, to suppliers for goods and services received, to the County Council in respect of its precept, to voluntary organisations and to other local authorities in respect of services provided by them and to lenders for interest on debt outstanding.

It is safe to assume, however, that even before this point actually arose those who might be adversely affected would take steps to minimise the risk to themselves. Suppliers would be reluctant to deal with the authority and investors and financial institutions to lend to the authority. Those who have already made loans might be expected to seek repayment at the earliest possible time.

Quite what the effect would be it is impossible to say. There could be a gradual and protracted deterioration in services, or a sudden and dramatic one, and there might be differences depending upon whether an insufficient rate was made or no rate at all.

In the former case it seems clear that, in the light of the provisions of the 1982 Act on substituted rates, prompt action would need to be taken to reduce expenditure to that level which could be financed by the proceeds of the rate. What such action would need to be, and how practicable its implementation, would depend on the size of the shortfall. Failing such action a cessation of payment would, in the absence of the Secretary of State's borrowing consent, appear to be inevitable; the only question would be - When? If a cessation of payment becomes inevitable, there would doubtless be a quick reaction from suppliers and lenders. This reaction would certainly be accelerated if, as a consequence of the decision to make an insufficient rate, payments of rate support grant were withheld. The effect would be more quickly felt upon those services where continuity of supplies is essential, but all services would be affected - even to the point of cessation - if the loss of confidence extended as far as the providers of statutory services.

In the case of a failure to make a rate at the meeting of the City Council on the 29th March, it is possible that the external reaction would not immediately be so severe since there would still remain the possibility of a rate being made which was sufficient to meet budgeted expenditure, and in the meantime it is probable that payments of rate support grant would continue on a provisional basis.

The immediate effect of such a failure would be on the ability of departments to incur expenditure since the budget resolution provides not only for the rate to be levied but authorises expenditure, and without this Chief Officers would have no authority to incur expenditure by placing orders for the supply of goods and services or for

any other form of expenditure which requires their specific authority.

Beyond this, a delay of more than a few days in making a rate would lead to an increase in interest charges paid for borrowing to meet expenditure pending the making and collection of the rate. The bulk of rate income is received by way of payments in July and November, in response to recovery action taken subsequently, or by on-account payments such as those for Crown property and Housing Committee property. It is not anticipated that a short delay in the issue of rate bills would affect such payments.

Of the rate debit some $2\frac{1}{2}\%$ is paid as the bills are received and 20% is paid by instalments which commence after a statutory period of notice and monthly thereafter. These payments would be the first to be affected by any delay in fixing a rate. When this happened the estimated cost to the authority would be some £80,000 for each week of delay initially, but if the delay was protracted and more substantial payments were affected the cost could rise to £150,000 for each week of delay. This expenditure would also incur R.S.G. penalties which more than trebles the cost.

Clearly, a continuing failure to make a rate would ultimately bring about a loss of confidence, with the concomitant effects previously described, but it is difficult to predict exactly when this would happen. It would depend upon when the situation was seen to be not one merely of delay in the due process but as a complete failure.

There is one factor which would outweigh all others in its impact in the event of a loss of confidence - and that is the capital debt outstanding. A considerable proportion of the total debt outstanding (now amounting to £680 millions) matures each year and is replaced by further borrowing. Such borrowing, together with that to cover new capital spending, is estimated at £250 millions in 1984/85.

If it proved impossible to borrow to replace loans maturing, then these repayments would have to be met from existing cash resources, and this would significantly shorten the time before they were exhausted.

Although the Public Works Loans Board act as a lender of last resort to local authorities, it has a statutory duty to have regard to the security offered when making loans and its willingness to lend cannot be taken for granted.

A loss of confidence in the financial management of the City Council could cause long term damage to its creditworthiness. If this happened it could be expected that the City Council would have to pay higher rates of interest on its borrowing for many years to come.

5. CONCLUSION

This report has been submitted to Counsel for approval. Counsel concurs in the views expressed herein and is of the opinion that it correctly states the law.

CITY OF LIVERPOOL

REPORT OF THE DISTRICT AUDITOR

TO THE CITY COUNCIL

MARCH 1984

City Solicitor's Office
MARCH 1984

The District Audit Service

NORROY HOUSE, WATERGATE STREET, CHESTER CH1 2NB
TELEPHONE: 0244 315571

FROM THE DISTRICT AUDITOR
NO 5 AUDIT DISTRICT

19 March 1984

DISTRICT AUDITOR'S REPORT TO THE LIVERPOOL CITY COUNCIL

Ladies and Gentlemen

This report is made pursuant to my duty under section 15 of the Local Government Finance Act 1982.

For some months there have been persistent reports in both the local and national press suggesting that the Council will deliberately make a rate for the financial year commencing on 1 April 1984 which will not be sufficient to meet the Council's outgoings for that year.

It is not my normal practice to comment on press reports. However, I consider it my duty to do so on this occasion in the absence of any official reports produced to or by the Council, and in view of the serious consequences which would result from the reported suggestions. In doing so I should dispel any suggestion that I wish to interfere with policy. The Council is elected to carry out its programme and functions within the law. So long as it does so lawfully neither I nor the Courts will question the substance of what it decides; this position has been repeatedly confirmed by the Courts in recent years.

Where, however, it comes to my notice that serious breaches of the law may be contemplated I have a responsibility to report in the public interest. In my opinion the Council would clearly be in breach of its legal duty if, in the event, it failed to make an adequate rate. It is appropriate in this report therefore that I should remind the Council of its duty in this regard and draw attention to the consequences of failing to carry it out.

RATING PROVISIONS

As rating authority the Council is required under section 2, General Rate Act 1967 "to make such rates as will be sufficient to provide for..... total estimated expenditure to be incurred by the authority during the period

in respect of which the rate is made". In the past there were powers to make supplementary rates, but these powers were abolished by the Local Government Finance Act 1982. Although there is power to make a rate in substitution for one made previously the estimated product of the substituted rate cannot be higher than that of the previous rate.

The position under the legislation is thus clear: the Council is required to levy an annual rate sufficient to meet its estimated expenditure and the product of the rate once determined cannot later be exceeded.

FINANCIAL AND OTHER CONSEQUENCES

The making of an inadequate rate would have serious consequences for the Council, for some or all of its individual members and for the recipients of its services and its employees.

The financial effect of levying an inadequate rate would be that money would be short from the outset and would eventually run out. The Council would be unable to make the position good by borrowing. Although paragraph 10(1)(a), Schedule 13, Local Government Act 1972 permits temporary borrowing to meet a temporary shortfall in cash flow, this facility is only available to defray expenses incurred in anticipation of the receipt of revenues which are receivable in respect of the financial year. The provision does not enable borrowing to meet a shortfall in the rate levy.

Where anticipated revenues are insufficient to meet budgeted outgoings therefore, the Council will be without funds to maintain services and to pay its employees once balances and temporary borrowing powers against non-rate revenues have been exhausted. There will in short be a serious breakdown.

DUTY OF THE AUDITOR

The making of an inadequate rate would inevitably result in losses to the Council and it would be my clear and unavoidable duty to consider whether those losses should be recovered. Section 20(1), Local Government Finance Act 1982 provides that where it appears to the auditor that a loss has been incurred or deficiency caused by the wilful misconduct of any

person, the auditor shall certify the amount of the loss as due from the person or persons responsible. In addition to this personal financial liability, if those involved are members and the amount exceeds £2,000, certification would also result in disqualification from office.

The meaning of the term wilful misconduct has been considered by the courts in various cases. In *Horabin v BOAC* (1952) the effect of these cases was summarised as follows: "to be guilty of wilful misconduct the person concerned must appreciate that he is acting wrongfully, or is wrongfully omitting to act and yet persists in so acting or omitting to act regardless of the consequences, or acts or omits to act with reckless indifference as to what the results may be".

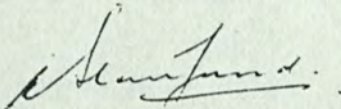
I should not wish of course to prejudge circumstances which have not yet arisen. However, it would be less than helpful if I were to fail to say at this stage that I should find it difficult to see how the deliberate making of an inadequate rate could be anything other than wilful misconduct.

Were the circumstances to arise I should have to consider who, in my view, were the persons responsible. It is relevant in this connection to remind the Council that every individual member has a duty to ensure, so far as it is within the member's power to do so, that the Council complies with the law.

There is no doubt that members voting for a resolution which results in certifiable loss share responsibility for that loss and that members voting against are exempt. Members would in my view also be at risk if a rate was not made because no vote was taken or there was unreasonable delay in making a rate. They would not necessarily absolve themselves from liability by merely abstaining from voting or absenting themselves from meetings.

If the press reports to which I referred earlier are inaccurate or untrue, then clearly this report is irrelevant. If however those press reports do reflect the intention of members, I would urge in the strongest possible terms that the proposed course of action would be a clear breach of duty and would not be in the best interests of the Council and individual members, its employees or the local community.

Yours faithfully

A handwritten signature in cursive script, appearing to read 'L C Stanford', written in dark ink.

L C STANFORD
District Auditor



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P.01257

PRIME MINISTER

Liverpool

BACKGROUND AND
MAIN ISSUES.

The first part of the informal meeting of Ministers under your chairmanship at 2:30pm on Monday 26 March will discuss Liverpool. (The second part will discuss proposals on the details of possible legislation to impose Commissioners on local authorities in certain circumstances; Sir Robert Armstrong is submitting a separate brief on this).

2. The main purpose of the discussion of Liverpool will be to hear an account from the Secretary of State for the Environment of the current situation. So far as I know, the assessment is, in essentials, much as before: that it is unlikely that the Liverpool City Council will vote on 29 March for an illegal (ie. manifestly inadequate) rate; but that it is quite likely that no majority will be found for any rate. As long as that is the assessment, Ministers will presumably continue to take as their main aim keeping up all possible pressure on the council to strike a legal rate.

3. There are, however, two particular points which may be raised by your colleagues:

(i) contingency planning;

(ii) the role of the Civil Contingencies Unit (CCU).

FLAG B (iii) the Attorney General's revised text on the duties of councillors. - see attached minute

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FLAG A (iv) Mr Jenkins' response to the 29 March Budget meeting - see his minute of 23/3.



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Contingency Planning

4. Departments responsible for law and order and for the services run by the Liverpool City Council have undertaken contingency planning for a possible breakdown in services. This planning has been carried out in strict secrecy and without consultation of local interests. Some departments wish to be free to widen the consultations.

5. If any of your colleagues should raise the point, the meeting will wish to consider the following.

(a) It must be true, as a general proposition, that wider consultation would produce better contingency plans. But would they be very much better? The circumstances of a breakdown in one or more local services are extremely hard to predict. Contingency plans made now could not be at all detailed or definite.

(b) Short of acts of sabotage by the council itself, a breakdown would be unlikely to happen for quite a long time. The latest financial assessment is that even if Liverpool failed to strike a rate, funds would be available (from rate support grant, council rents and other income, short-term borrowing and the like) for several months. There are at present no signs of doubts in the money markets about Liverpool's credit worthiness.

(c) Consultations with local interests would no doubt be confidential. But they would be virtually certain to leak. The knowledge that central Government was preparing to intervene would encourage irresponsible councillors. At the very least, it seems unwise to undertake local consultations until it becomes clear that there is no prospect at all of a legal rate for 1984-85.



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(d) There may be a case for treating law and order differently from other services. Local services are the responsibility of the local council. But the Government does accept a large part of the responsibility for maintaining law and order. It would not necessarily damage the strategy of maintaining the maximum pressure for a legal rate if it became known that the Government was conferring with the local police about how to counter any civil disturbances in Liverpool.

Role of the CCU

6. Some of your colleagues may ask whether the CCU should be involved in contingency planning. The Home Secretary, as Chairman of the CCU, will be able to deal with the position in detail. But you will wish to make the following points.

(a) The CCU is a clearing house for information; it can also arrange, in the last resort, for assistance from the Armed Forces. But it has no resources of its own; and it does not relieve departments of their responsibility, within Government, to undertake contingency planning and to deal with any emergencies in the service for which they are responsible.

(b) The CCU would be involved only when the Government was at least contemplating intervention in Liverpool: that stage has not arrived.

(c) Before there was any suggestion of Government intervention, you and your colleagues will obviously need to consider it as a matter of policy. Only if Ministers collectively were satisfied that the Government should intervene would it be right to consider bringing the CCU into play.



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HANDLING

7. You will wish to invite the Secretary of State for the Environment to open the discussion by describing the current situation. The Home Secretary can deal with any points of law and order, and the Chief Secretary, Treasury with any financial questions, including opinion in the money markets. If the points discussed in detail in this brief should be raised, then:

- (i) any of those present may wish to speak on contingency planning; you will probably wish, however, to give special consideration to law and order aspects, on which the Home Secretary will be able to advise;
- (ii) the Home Secretary can also discuss in detail the role of the Civil Contingencies Unit.

CONCLUSIONS

8. It is not clear that the current situation in Liverpool requires any special action by Ministers now. It may be necessary to do no more than record that the situation should be kept under review and that Ministers should be ready to meet again if events require it. If the points are raised in discussion, you will wish to record conclusions on:

- (i) whether departments can consult outside interests, for the purposes of contingency planning, on
 - (a) law and order;
 - (b) any other local services;
- (ii) the role of the Civil Contingencies Unit.

PLG

P L GREGSON
Cabinet Office.
23 March, 1984



PRIME MINISTER

LIVERPOOL CITY COUNCIL

1. We are due to meet on Monday to consider the latest position in Liverpool. This minute is to bring you and colleagues up to date with developments.

2. Although the national leadership of the Labour Party appears to have failed to dissuade the City Council Labour Group from imposing an inadequate rate on 29th March, there is now no majority on the Council for making such a rate. Seven Labour Councillors have declared their intention not to support the action, one has resigned; and one is debarred from voting after declaring an interest. We do not know whether the Liberals, the Conservatives and the Labour dissidents will be able to agree on an alternative budget and rate which will command majority support. Clearly if no such agreement is reached over the next few days Liverpool will enter the financial year 1984/85 without budget and rating decisions having been made.

3. With the 29th March passed, the next critical date is May 3rd when one third of Councillors must stand for re-election. Barring an electoral upset the signs are that the Labour Party will increase its majority on the Council. It is just possible that they will gain sufficient seats to enable an illegal rate to be passed. With that possibility in mind, it is extremely important that the Conservatives, Liberals and dissident Labour members join together during April to fix a properly balanced budget and rate. I am speaking today to Councillor Hallows to this end.

4. We will inevitably be asked to respond to any action that takes place on Liverpool's budget on 29th March. On the assumption that no rate will be set, I attach the draft of a short statement on which I intend to base any comment (at Annex A).

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5. On creditworthiness, I am informed that the market remains calm. It is an open question as to how the market will react if no valid rate is made on 29th March. It is the view of the Treasury and the Bank of England that it could remain calm in April if the Council do not act illegally. The market will be aware of the pressure brought to bear on the City Council by the national Leadership of the Labour Party and, even if no rate is made on 29th March, may take comfort from the fact that the possibility remains open for a valid one to be made.

6. I understand that the Attorney General is still considering the nature and value of a statement on the duties of local councillors and officers. He may wish to report on this on Monday. (This has now been circulated).

7. I am sending copies of this minute to Michael Heseltine, Keith Joseph, Norman Tebbit, Norman Fowler, Leon Brittan, Peter Rees, Michael Havers, Sir Robert Armstrong and Mr Buckley (Cabinet Office.)

I. G. G. G.
for PJ

23 March 1984

Approved by the Secretary of State and
signed in his absence

NO RATE MADE 29th MARCH
DRAFT STATEMENT BY THE SECRETARY OF STATE

1. I was naturally very concerned to see that the Labour Group on Liverpool City Council carried out its threat to propose an inadequate rate for 1984/85. Responsible members of the Council have united, however, to ensure that the rate was not passed and that the dire financial consequences which would have followed have been avoided. All the people of Liverpool should be grateful to them.

2. The way is now open for Liverpool councillors to come together to produce, as quickly as possible, a properly balanced budget and rate which will command majority support. The sooner the uncertainty is brought to an end and the City is set on a sound footing for next year the better it will be for local residents, business and the employees of the Council.

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05 7641 Ext. 3782

Communications on this subject should be addressed to

THE LEGAL SECRETARY
ATTORNEY GENERAL'S CHAMBERS

ATTORNEY GENERAL'S CHAMBERS,
LAW OFFICERS' DEPARTMENT,
ROYAL COURTS OF JUSTICE,
LONDON, W.C.2.

Our Ref: 400/83/308

23 March 1984

Andrew Turnbull Esq
Prime Minister's Office
10 Downing Street
LONDON S W 1

Dear Andrew,

LIVERPOOL

letter dated 5/3

As we agreed, I enclose a copy of a revised text of a draft Answer which the Attorney General might give to a written Question in the House, setting out the duties and obligations of Councillors and the sanctions to be incurred if they are not fulfilled.

The text has been revised to take account of the current situation in Liverpool and to clarify the legal position of a Conservative Group who vote against an extravagant rate.

I am copying this letter to the Private Secretaries to the Secretaries of State for Environment, Home Office, Education & Science, Defence, Health & Social Security, Trade & Industry, Scotland, Wales, Transport, to the Private Secretaries to the Lord President, Chancellor of the Exchequer, Chief Secretary, Treasury and to Richard Hatfield and Mr Buckley in the Cabinet Office.

Yours sincerely,

D J Serjeant
D J SERJEANT

CONFIDENTIAL

DRAFT/STATEMENT

It is the personal and individual responsibility of every member of every local authority to do all that is within his power to ensure that his authority complies with the law.

A local authority by law owes a fiduciary duty to its ratepayers. This includes a duty to expend monies with thrift.

In addition, under section 2 of the General Rate Act 1967, it is the legal duty of every authority which is a rating authority to make a rate which is sufficient, together with its other sources of income, to meet its estimated expenditure. If an authority makes an inadequate rate or fails to make any rate at all it is in ~~the~~ breach of that duty.

If an authority makes a rate in order to finance an extravagant expenditure it is in breach of the fiduciary duty I have described.

It is the personal responsibility of every member of a local authority to oppose any measures which contravene these principles. Failure to do so (including, for example, abstaining or being wilfully absent from a vote) is a breach of the member's own legal duty.

It is the duty of every rating authority, bearing ^e these principles in mind, to make a proper rate. It is equally the duty of every member of every authority to do all within his power to ensure that a proper rate is made.

The Local Government Finance Act 1982 sets out the consequences which follow where a member has not acted in accordance with his duty. I will summarise them for convenience.

If a local authority engages in unlawful expenditure, every member of the authority who was responsible for incurring it or who authorised it may, if the Auditor makes an application to the Court for that purpose, be personally ordered to repay the whole or part of it. Where more than one member is so concerned, each of them may be personally liable for the whole of the repayment.

If the expenditure in question exceeds £2,000, such a member may also find himself disqualified from membership of any local authority for such period as the Court may order.

Moreover, if a loss or deficiency is incurred by a local authority and it is caused by the wilful misconduct of a member of the authority, the District Auditor is obliged, of his own motion, to certify that the sum in question is due from that member. The member (or each member if there is more than one involved) is then personally liable to repay that sum. If the amount certified exceeds £2,000, the member or members in question are automatically disqualified from membership of any local authority for a period of 5 years.

Failure to vote in accordance with the principles I have summarised could well be regarded as such wilful misconduct. It obviously follows that members who vote against unlawful measures of the kind I have described will have acted in accordance with their duty and will not be liable to surcharge.

I also draw attention to the fact that the protection from personal legal liability which a member of a local authority ordinarily enjoys by virtue of section 265 of the Public Health Act, 1875, as amended, in respect of things done by the local authority concerned, or by him in his capacity as a member of that authority, subsists only to the extent that what was done was done in good faith for the purpose of executing the relevant statutory provisions. Conduct by a local authority or by its members which constitutes a breach of their legal duties as I have described them could operate to deprive the members in question of this protection from personal liability.

This statement is intended to be by way of general guidance and assistance to local authorities and their members. It necessarily cannot deal with the decisions of individual authorities. I would advise any local authority or member in doubt as to the lawfulness of any action to take legal advice which can apply these well-established principles to the specific issue which falls for decision.

20 MAR 1984



Regional Policy

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PRIME MINISTER

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THE RIVER MERSEY INITIATIVE

You may recall that this was among the initiatives which Michael Heseltine drew to your attention at the end of 1982. Since then, with the help of a major DOE conference last year, public interest has continued strongly - and indeed has drawn in the European Community.

I have reviewed the Initiative against the latest public expenditure background, and remain convinced of its cumulative benefits and long-term potential - however carefully it will have to be paced. The linking together of water quality improvements with enhanced use of the land alongside the watercourses, throughout the Mersey basin, should give a significant boost to jobs and living conditions across the most urbanised part of the North West. In addition, there is scope for considerable European aid for a campaign of this kind.

You may like to see the text of a statement I will be making in Manchester today, moving the initiative into its next phase. I am sending copies also to colleagues with particular departmental interests - Norman Tebbit, Michael Jopling, and Tom King (who chaired the Mersey Conference last year) - and to Peter Rees at the Treasury.

Among the many bodies supporting the Initiative, the CBI have been the most guarded. They have made clear their backing in principle, but are understandably sensitive about the



pace of the campaign as it bears on the costs to industry. This will be very much a matter for consultation and negotiation as the work evolves, and my statement brings this out. However, I am writing to the CBI Director-General to reassure him on his point.

Dunca
(Private Secretary)

P J

(Approved by the Secretary of State
and signed in his absence)

16 March 1984

MERSEY INITIATIVE

Patrick Jenkin, Secretary of State for the Environment, announced today that he is establishing a campaign organisation to carry forward the Mersey Clean-Up Initiative. Speaking at a Press Conference in Manchester he said:

"The River Mersey ^{and} ~~of~~ its tributaries are among the most polluted rivers in Europe. Over the years, the life of the region has turned its back on this great river system. It could be one of the region's finest assets; it has become one of its greatest liabilities.

Michael Heseltine saw this as a great new opportunity. We need to clean up the quality of the water. We need new water- side development schemes. We need new recreational and amenity projects. The river system - its tributaries, its main water-courses and the Mersey estuary itself - should become a focus for the towns and countryside through which they pass.

There is a huge job to be done before we can begin to enjoy a full network of attractive riverside walks past handsome waterfront buildings and landscaped open spaces; before we can count canoes and sailing dingys using these waters freely; and watch kingfishers over rivers long deserted by wildlife.

Modern industry and polluted rivers do not go well together. Raw, untreated sewage is a smelly neighbour. Water skiing lacks some of its attraction if the skier's equipment has to include a stomach pump.

In 1982 Michael Heseltine published "Cleaning Up the Mersey". This went to a wide range of local people and organisations for consultation. Last year Tom King chaired the Mersey Conference at Daresbury. Over 200 people attended the conference and heard speakers from the Water Authority, from the local authorities and from many other bodies.

The enthusiasm was high but it was also realistic. Yes, we face a long difficult haul. Yes, it will require resources - money, people and commitment. And yes, there are arguments about the pace of the programme.

But three clear messages emerged. We need a radical clean up campaign. We need a new non-statutory body to run it. And we need the Department of the Environment to take the lead.

Last Autumn the North West Water Authority - who have the key role to play - published its own consultation paper on water quality, setting the Mersey initiative against the needs of the whole region. And only last month the Tenth Report of the Royal Commission on Environmental Pollution gave its firm backing to the Initiative.

We must now move forward. Today I am announcing the establishment of a campaign organisation.

This will be a non-statutory body with 3 component parts. We want to involve as many groups and organisations as possible. Therefore we will set up a Representative Conference headed by an independent chairman from the region whom I intend to invite to take the lead. I am already consulting on possible names. The conference would meet, I envisage, in full session every one or two years; it would receive progress reports; and it would maintain the momentum of the clean-up campaign.

The direction of the campaign would be in the hands of a board of professional officers under the chairmanship of the DOE regional director. David Renshaw will thus become the first Chairman of the Board. He will be supported by a small but strong team in the DOE regional office which I hope will include people seconded from outside the Department to bring particular skills and expertise.

And then there will be three project groups to cover the three main divisions of the Mersey basin: the estuary; mid-Mersey and Southern; and the upper catchment. These project groups will, as far as possible, be built on the existing teams.

The actual work will be done by a wide range of bodies and people: public sector and private sector, statutory and non- statutory, commercial firms, voluntary bodies and local groups of enthusiasts. Obviously the local authorities will play a leading part, as will the North West Water Authority. So I hope will the Countryside Commission and the Sports Council.

Where will the money come from?

At the heart of the campaign will be investment in water quality. Much the greater part of this must come from the North West Water Authority, and that is why their Chairman George Mann is on the platform here with me today. The Authority's £170m programme to improve the Mersey Estuary is already well under way. Their strategy document proposed spending £3,700m over 25 years in water quality improvement throughout the North West; the Government supports the authority's long term aims in principle. We shall give the authority a high priority when allocating external finance - with a strong but certainly not exclusive concentration on the Mersey basin. Higher standards must inevitably mean higher charges - there is no escaping this. But it is not part of our policy to impose unacceptable costs on the Authority's customers. There is a trade off between the pace of change and the increase in charges.

The private sector, too, must work in partnership with the Water Authority. An excellent start is the 50% contribution which Shell are making to the extension of the Ellesmere Port Sewage Treatment Works.

Then there is what happens on land. Improved water quality will increase the opportunities and incentives for waterside redevelopment and improvement schemes. Private companies, voluntary bodies, local authorities, the Countryside Commission, the Sports Council all have a role to play. The Department can help with derelict land grants and with the Urban Programme. In making grants I shall want to give priority wherever possible to projects which contribute to the clean-up campaign.

We can look for help from the European Community. Already Community funds are supporting the water authorities' sewage treatment programme in the assisted areas. The European Commission has shown a great interest in the Mersey clean-up campaign and the Government will fight hard for the greatest possible commitment from the European Regional Development Fund.

Next question: how long will it take?

The answer - certainly not less than 25 years. The scale of the problem is enormous. We are coming to grips with the dereliction and pollution of centuries. I liken the task to that of the great medieval architects who set out to build the cathedrals which they themselves

would never see finished, but which are part of the glory of Britain today.

We must think long and we must think big. The prize is beyond price. It means new jobs particularly in the construction industry. It is also a new opportunity to harness the commitment of the young to the improvement of our environment; it is a chance to get clean water, pleasant surroundings and new opportunities for leisure. Where there is today squalor and stench, we can bring back the beauty of nature.

The time to act is now.

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10 DOWNING STREET

From the Private Secretary

13 March, 1984

Dear John,

The Prime Minister held a meeting today to discuss developments in Liverpool. Present were your Secretary of State, the Home Secretary, the Secretaries of State for Education, Defence, Trade and Industry and Social Services, the Chief Secretary to the Treasury and the Attorney General. Mr. Buckley from the Cabinet Office was also present. The meeting had before it your Secretary of State's minute of 9 March and the text of a Parliamentary Answer which the Attorney General might give setting out the duties of councillors and sanctions they faced if those duties were not fulfilled.

Your Secretary of State said that since the last meeting the situation had changed. Six Labour Councillors, to be joined perhaps by two more, had indicated that they would not vote for an inadequate, and hence illegal, rate. The calls for responsibility from the Government and the growing realisation of the consequences, perhaps reflecting advice from Liverpool's Chief Executive, were beginning to take effect. The Opposition front bench was giving the militants no support. Fears of a crisis in the local authority finance markets had subsided.

Although an illegal rate could not be ruled out, the more likely outcome was now that no rate would be made at all. This would create a messy position as it was not clear when matters would come to a head. The Council might be able to muddle through for a time, drawing on balances if it had any, on RSG payments, rents and possibly income from receipts from asset sales. On the other hand, failure to make a rate might produce a quick collapse, particularly if officers of the Council felt they were unable to meet contractual payments.

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It was still not clear how the difficulties in Liverpool would resolve themselves. One possibility was that the Labour Group could switch tack and set a very high rate, seeking to put the blame for this on the Government. The Conservative Group would be faced with a choice between opposing such a rate and perhaps producing no rate at all, or abstaining. Another possibility was a lower rate which in the end would prove inadequate but which it would be difficult to demonstrate as being inadequate at the start. This would allow the Labour Group to get through the election before the problems appeared.

The discussion then turned to the Attorney General's text on the duties of councillors. This had been drafted to deal with a situation in which an inadequate rate was likely. It did not address itself to the new situation in which no rate was the most likely outcome. It also did not make clear the position of a Conservative Group who voted against an extravagant rate and who thereby caused no rate to be made. Such a position could occur in Hounslow. The Attorney General agreed to look again at the text to ensure that it covered these contingencies. The issues of who should be asked to put down the question and when it was best answered were left aside until a new draft was available. Discussion then turned to the ways in which pressure for a proper rate to be made could be increased. It was argued that the two most powerful forces were the unions, if they came to fear for the livelihood of their members, and the national leadership of the Labour Party to whom this issue could be an embarrassment. The Government should continue, e.g. in the forthcoming Adjournment Debate, to maintain its existing line that the Liverpool Councillors should behave responsibly. Although work was continuing on legislation for the introduction of commissioners this remained the Government's last resort.

The Secretary of State for Social Services reported that he had minuted the Prime Minister on Liverpool's health strategy. The proposals were in line with national policy to cut back provision for acute beds and to devote the resources to community health care. He recommended that this be agreed as if it were not the District Health Authority who would have difficulty living within its budget and that this could create a further bone of contention between Liverpool and the Government.

Summing up the discussion, the Prime Minister asked the Attorney General to prepare a new draft answer to take account of the points made. The matter could be raised orally at Cabinet. The Group would in any case need to meet again to look at the situation as it developed.

I am sending a copy of this letter to Hugh Taylor (Home Office), Elizabeth Hodgkinson (Department of Education and Science), Richard Mottram (Ministry of Defence), Callum McCarthy (Department of Trade and Industry), Steve Godber (DHSS), John Gieve (HM Treasury), Henry Steel (Attorney General's Office) and to Richard Hatfield (Cabinet Office).

Yours sincerely
Andrew Turnbull

J. Ballard, Esq.,
Department of the Environment

(Andrew Turnbull)

cc B1



CONFIDENTIAL

Reference E023

PRIME MINISTER

Liverpool

BACKGROUND

You held an informal meeting of Ministers on 29 February to discuss developments in Liverpool. The main conclusions of the meeting were as follows.

(i) The Attorney General was invited to prepare the draft of a statement on the duties and obligations of local councillors regarding the making of a rate, and the penalties they faced if they failed to discharge their duties; it was envisaged that this statement might be made to Parliament by way of an arranged Question and Answer.

(ii) The Treasury and the Department of the Environment were asked to discuss with the Bank of England a draft statement on the credit-worthiness of local authorities; this statement was not to be volunteered, but might be made if market conditions deteriorated.

2. The meeting also authorised certain contingency work; it was agreed to hold a further meeting in about a fortnight's time.

3. That meeting is to take place tomorrow, 13 March. In preparation for it, the Law Officers' Department
A _____ (letter of 5 March to Mr Turnbull) has circulated the



CONFIDENTIAL

draft of a statement which might be made by the Attorney General. The Secretary of State for the Environment has also sent you a minute dated 9 March describing current developments and suggesting a number of topics for discussion.

B

MAIN ISSUES

4. The main aims of the meeting appear to be as follows.

(i) To hear the latest assessment of the situation.

(ii) To review contingency planning.

(iii) To consider the draft statement by the Attorney General.

(iv) To consider other publicity.

Commissioner Legislation on which Mr Jenkin has just circulated a paper is best discussed at a separate meeting.

AT 12/3

Current situation

5. Mr Jenkin's minute of 9 March reports a number of developments which make it unlikely that the Liverpool City Council will make an illegal rate for 1984-85. It is, however, still quite likely that the Council will fail to adopt a rate at all.

6. No doubt Mr Jenkin will be able to provide further details tomorrow: in particular, he is holding a private meeting with Mr Cunningham, the Opposition spokesman on environmental matters, today.

Contingency planning

7. Departments already have contingency planning in hand, and we are not aware of any particular problems. The Ministers concerned will be able to report if necessary.



CONFIDENTIAL

8. You may in particular wish to ask the Chief Secretary, Treasury whether there are any signs of a withdrawal of confidence by the money markets, whether from Liverpool or from local authorities more generally.

Statement by Attorney General

9. The draft statement by the Attorney General seems well-suited to its purpose: you will recall that the meeting on 29 February took the view that the statement should be of general application and not overtly directed against Liverpool.

10. Apart from the drafting, there are two points which Ministers will wish to consider.

(a) How should the statement be made?

If by an arranged Question and Answer, who should be invited to put the Question down?

(b) When should the statement be made?

In particular, when is it most likely to influence those members of the majority on the Liverpool Council who have misgivings about being party to the making of an illegal rate? Mr Jenkin suggests that it should be made as soon as possible.

Other publicity

11. Mr Jenkin suggests that no change is needed in Government publicity. But the meeting will wish to review the situation.

HANDLING

12. It will probably be convenient to take the meeting in separate parts corresponding to the main aims



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suggested in paragraph 4 above.

(i) Discussion of recent developments might be opened by the Secretary of State for the Environment; the Home Secretary may wish to inform his colleagues of any new information on the likelihood of public disorder in the area.

(ii) The review of contingency planning might again be opened by the Secretary of State for the Environment; other Ministers could then be invited to say whether there are any points they wish especially to draw to the attention of their colleagues. The Chief Secretary, Treasury could be asked to report on current sentiment in the money markets and progress with the drafting of the statement commissioned by the meeting on 29 February.

(iii) Discussion of the draft statement on legal obligations could be opened by the Attorney General. The Secretary of State for the Environment will no doubt wish to comment, particularly on the timing of the statement.

(iv) The discussion of other publicity could again be opened by the Secretary of State for the Environment.

CONCLUSIONS

13. You will wish the meeting to reach a decision on:



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(i) The draft statement by the Attorney General, including

- its terms;
- its timing;
- its form and (if it is to be by Question and Answer) which Member should be invited to table the Question.

Depending on the course of discussion it may also be appropriate to record conclusions relating to:

(ii) contingency planning;

(iii) any publicity or other measures which might increase the likelihood of the Liverpool City Council making a legal rate without undue delay.

M.S.B.

M S BUCKLEY
Cabinet Office.
12 March, 1984

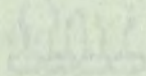


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LONDON

CONSOLE





cc B1
 Prime Minister ②

This report plus the text of the Attorney General's answer provide the agenda for Tuesday's meeting of Ministers.

AT 9/3

Prime Minister

LIVERPOOL

1. We are meeting on 13th March to discuss Liverpool. This minute reports on events since we last met, and lists a number of topics which we might usefully consider.
2. On the political front there have been a number of developments since our last meeting:
 - a. The Liberal Group on the Council have publicly outlined budget proposals, which, they claim, would require a rate increase in single figures, and would, they say, require no redundancies and no rent increases. This has been attacked by the Labour leadership as a 'cruel deception' requiring compulsory redundancies and savage service cuts. The Conservative leader has also denounced it as an irresponsible sham, but has gone on to urge all-Party talks to secure a responsible budget and rate.
 - b. In contrast to NUPE and NUT, NALGO voted at a public meeting to support the strike called for 29th March; according to newspaper reports, that vote is likely to be confirmed in a ballot of NALGO members in Liverpool. Moreover individual NUPE branches in the city are reported to be about to challenge their executive's decision. The present indications are that there is still likely to be a significant display of support for the Council in the one-day strike on 29 March.
 - c. Six Labour Councillors have formally announced that they will not vote for an illegal rate, and they have since been joined by a seventh; if they stand firm on that, that ought to mean that an illegal rate will



not be made, since the overall majority is only 3 (51 Labour, 30 Liberal and 28 Conservative). But there is of course no guaranteed majority for an alternative budget proposal.

d. Messrs Kinnock and Cunningham are meeting Liverpool Labour MPs and Councillors in an attempt to persuade them to make a legal rate.

e. Jack Cunningham has asked to speak to me privately and I have arranged to see him on Monday morning. I will report on the outcome.

3. The press gave wide publicity to the statement by the six Labour rebels, and have not unreasonably concluded that an illegal rate now seems most unlikely. The position is still far from clear, but I think we should assume for the time being that the most likely outcome on 29 March is no longer an illegal rate, but rather a failure to rate at all. This affects our contingency planning.

4. I suggest that our discussion should cover the following main headings:

i. Councillor's duties: we have the draft answer to an inspired PQ circulated by the Attorney General's office on 5th March. I think it would be useful for the answer to be given as soon as possible.

ii. Creditworthiness: my officials have been discussing with the Treasury the preparation of a revised statement on creditworthiness. However, the latest indications are that the markets have already been considerably reassured by recent developments in Liverpool. Moreover, no statement



short of an announced decision to send in Commissioners could offer totally convincing reassurance to lenders on the security of their loans to Liverpool. For the time being, therefore my strong view is that we should not volunteer a statement on Liverpool's creditworthiness.

iii. Commissioners: I am circulating separately a paper on Commissioner legislation, and on Commissioner' accountability in particular.

iv. Party Publicity: Clearly the local Conservatives will not want to be seen to be supporting the Liberal budget proposals in the run-up to the elections on 3 May. They have, I believe, emphasised the need for a legal and viable budget, and offered the Conservative group's support for all Party talks which might lead to such a budget. I shall keep closely in touch with them.

v. Government Publicity: I suggest no change. My Department is briefing the national and local press as necessary. In a short debate in the House of Lords on 5 March, Lord Bellwin set out the Government's position and declined to intervene in, or make any exacerbating comment on, a local authority's decision. I do not think anything would be gained by a different approach now: the press seem to have got the message about right, and the national Labour Party leadership are helping too.

vi. Contingency Planning: my officials are continuing to discuss with other Departments the consequences of progressive breakdown of the City Council's services before a total financial collapse, and consequent irresistible

*In folder
but best
dealt with
at a separate
meeting.*



pressure for the installation of Commissioners. My Department is preparing an analysis of when central Government action might be needed in such circumstances. We are also pursuing separately the possibility of legislation allowing a second, higher, rate if the first rate is declared invalid.

5. I am sending copies of this minute to Michael Heseltine, Keith Joseph, Norman Tebbit, Norman Fowler, Leon Brittan, Peter Rees, Michael Havers and Sir Robert Armstrong.

PJ

P J

9 March 1984



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

9 March 1984

Dear Henry

LIVERPOOL

Thank you for your letter of 5 March with which you enclosed a text of an Answer which the Attorney General might give in the House.

My Secretary of State is content with the text. On timing he would be content for it to be considered by the group of Ministers considering Liverpool when they meet next Tuesday 13 March.

I am copying this letter to Hugh Taylor (Home Office), Elizabeth Hodgkinson (Department of Education and Science), Richard Mottram (Ministry of Defence), Steve Godber (Department of Health and Social Security), John Gieve (Chief Secretary's Office), Andrew Turnbull (Prime Minister's office), Richard Hatfield and Mr Buckley (Cabinet Office).

Yours sincerely

John Ballard

JOHN BALLARD
Private Secretary

Henry Steele Esq CMG OBE



10 DOWNING STREET

From the Private Secretary

8 March 1984

Dear Henry.

Liverpool

BF/ Thank you for sending me a copy, attached to your letter of 5 March, of the text of an Answer which the Attorney General might give in the House. You asked for advice on timing. A meeting of the group of Ministers considering Liverpool has been arranged for next Tuesday. The Department of the Environment see no need to issue this statement before then so the text could be put on the agenda for that meeting. If other Ministers have substantive comments to make on it, it would be useful if these could be circulated in advance.

I am copying this letter to Hugh Taylor (Home Office), Elizabeth Hodgkinson (Department of Education and Science), Richard Mottram (Ministry of Defence), John Ballard (Department of the Environment), Steve Godber (Department of Health and Social Security), John Gieve (Chief Secretary's Office), Richard Hatfield (Cabinet Office) and to Mr. Buckley (Cabinet Office).

Yours sincerely

Andrew Turnbull

Andrew Turnbull

Henry Steel, Esq., C.M.G., O.B.E.,
Law Officers' Department.



10 DOWNING STREET

Prime Minister ⁽²⁾

- (1) To note Attorney General's text and to avoid comments from colleagues.
- (11) On timing, the Liverpool group meets again next Tuesday. I am in contact with Do E about the best time to issue such a statement. One possibility is immediately after the meeting when Ministers have given it their approval.

AT
6/3

Rep. Pol:
Inner Cities

Liverpool file

GOVERNMENT HELP FOR MERSEYSIDE AND LIVERPOOL

Over the last three years capital expenditure by local authorities and other bodies on Merseyside, under the Department's main programmes, has reached £650 million, much of it supported by Exchequer grant. This figure includes about £140 million for the City in these three years through the Urban Programme and the Merseyside Development Corporation. In addition, the Department of Trade and Industry has given an average of £110 million a year in the last three years to companies within the Merseyside Special Development Area, the Merseyside Docks and Harbour Company have received a total of £134 million in financial assistance, and the Manpower Services Commission is expected to spend £90 million on Merseyside in 1983-84.

Merseyside

- the area has continued to benefit from Special Development Area Status;
- an Enterprise Zone has been established;
- the Port of Liverpool has been designated as a Free Port;
- the City of Liverpool has partnership status under the Urban Programme;
- the Merseyside Development Corporation is one of those two Development Corporations in England.

A
CONFIDENTIAL : CMO



H. Steel CMG OBE

LAW OFFICERS' DEPARTMENT
ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

5 March 1984

Andrew Turnbull Esq
Prime Minister's Office
10 Downing Street
LONDON S W 1

See below,

LIVERPOOL

In your letter to John Ballard of 1 March you recorded the agreement, at the Prime Minister's meeting with various other Ministers on the previous day, that the Attorney General should circulate the text of a draft Answer to a written Question in the House, setting out the duties and obligations of Councillors and the sanctions to be incurred if they were not fulfilled.

With the assistance of the lawyers in the Department of the Environment, the Attorney General has now prepared a possible text. I enclose a copy for consideration by the Prime Minister and by the other Ministers present at the meeting. The Attorney General has not yet identified a Member who might be asked to put the Question to him. He will be giving that matter more thought in the next few days but we should be grateful for suggestions. It would also help to have some indication of the desirable timing of this exercise.

I am copying this letter to John Ballard and the other recipients of yours.

*Yours ever,
Henry Steel*

CONFIDENTIAL : CMO

Under section 2 of the General Rate Act 1967, it is the legal duty of every local authority which is a rating authority to make a rate which is sufficient, together with its other sources of income, to meet its estimated expenditure. Making an inadequate rate or failing to make any rate at all is a breach of that legal duty.

It is the personal and individual responsibility of every member of every such local authority to do all that is within his power to ensure that his authority complies with its duty to make an adequate rate. Every member of an authority who fails to discharge that duty, whether by positively obstructing the making of an adequate rate or even by abstaining or wilfully absenting himself or otherwise deliberately withholding his support from the making of the rate, is himself thereby in breach of his legal duty and his behaviour could well be regarded by the courts as constituting "wilful misconduct" within the meaning of the Local Government Finance Act 1982.

If a local authority engages in unlawful expenditure, every member of the authority who was responsible for incurring it or who authorised it may, if the auditor makes an application to the court for that purpose, be personally ordered to repay the whole or part of it. Where more than one member is so concerned, each of them may be personally liable for the whole of the repayment. If the expenditure in question exceeds £2,000, such a member may also find

/himself

himself disqualified from membership of any local authority for such period as the court may order.

Moreover, if a loss or deficiency is incurred by a local authority and it is caused by the wilful misconduct of a member of the authority, the Local Government Finance Act 1982 provides that the auditor may, of his own motion, surcharge that member for the amount of that loss or deficiency and the member (or each of them if there is more than one so surcharged) is then personally liable to repay the whole of the amount. If the amount certified exceeds £2,000, the member or members in question are automatically disqualified from membership of any local authority for a period of five years.

I also draw attention to the fact that the protection from personal legal liability which a member of a local authority ordinarily enjoys (by virtue of section 265 of the Public Health Act 1875, as amended) in respect of things done by the local authority concerned, or by him in his capacity as a member of that authority, subsists only to the extent that what was done was done in good faith for the purpose of executing the relevant statutory provisions. Conduct by a local authority or by its members which constitutes a breach of their legal duties as I have described them could operate to deprive the members ~~/in question/~~ of this protection from personal liability.

Regional Vol: Inner Cities pt 4

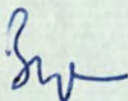
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~~MR. COLES~~

LONDON DOCKLANDS RAILWAY

This was raised by Premier Davies, of Ontario. I am told by a friend of mine that there is a big row brewing over the tendering for this project. An Anglo-French consortium, which would build 80% of the system here, is complaining of a refusal to allow it to tender.



B. INGHAM

1 March 1984

SUBJECT

cc MAHAER

file

WB/JP



10 DOWNING STREET

From the Private Secretary

1 March 1984

Dear John.

LIVERPOOL

The Prime Minister held a meeting yesterday to discuss developments in Liverpool. Present were your Secretary of State, the Home Secretary, the Secretaries of State for Education and Science, Defence and Social Services, the Chief Secretary to the Treasury and the Attorney General. Mr. Buckley, Cabinet Office, was also present.

Your Secretary of State said that, as set out in his paper of 27 February, there was great uncertainty about the way events would develop. There was uncertainty too about the interpretation of the law in a number of areas. The main possibilities were that the Liverpool City Council would make a legal rate; it could make an illegal rate which was insufficient to finance its budget; or perhaps most likely of all it could fail to make a rate at all. The key date for the Council to make its budget and rating decisions appeared to be 29 March, though this could change.

As agreed at the meeting on 15 December, he had sought to maintain a low profile to allow pressure on Liverpool Councillors to mount. Following the meeting he had had with Labour Councillors, the Liverpool issue had come into the spotlight and he was inevitably having to take a higher profile. It was agreed that, thus far, this question had been handled well from the Government's point of view. The Government had successfully projected the theme of the need for responsibility; the Labour Group was split and the unions were clearly worried; and the Government had avoided appearing to issue threats.

The meeting agreed that the Government's objective should be to increase the pressure on Labour Councillors to make a legal rate. The Attorney General suggested that he could answer a Question in the House, setting out the duties and obligations of Councillors and the sanctions to be incurred if they were not fulfilled. This statement would be couched in general terms and not related specifically to Liverpool. There was a precedent for this in a statement

/which had been

which had been made on secondary picketing. It was noted that this could establish central Government as a focus for opposition and that it might be better to rely on the advice which the Liverpool Chief Executive would be providing to Councillors. It was argued, however, that this course could leave the Government open to the charge that it had taken no steps to prevent a crisis in Liverpool. On balance, therefore it was agreed that such a statement would be useful. The Attorney General undertook to consider its terms and also who might best be asked to put the Question to him. He would circulate a text to colleagues.

The discussion then turned to the need to prepare legislation on a contingent basis. The Attorney General said that two Bills might need to be prepared. First, the 1982 Act prohibiting supplementary rates had the effect that, if the first rate was declared illegal, an adequate substitute rate could not be made. Faced with this, the courts could be inhibited in declaring the rate illegal if a legal void would thereby be created. It was thought doubtful that the courts would order a cut in the budget as they would not be in a position to judge the consequences. Secondly, legislation on Commissioners was being prepared, though it was agreed that this should be the last resort. The aim should be to make Liverpool Councillors face the consequences of their action and not allow Government to be manoeuvred into taking responsibility for the unpleasant measures which were required.

The meeting then considered whether the Government should issue a statement on the credit-worthiness of local authorities. Your Secretary of State reported that financial markets were becoming increasingly concerned. This could provoke several responses; there could be increasing differentiation between the terms available to different local authorities; some lenders to the local authority market might withdraw altogether and might be difficult to coax back; a shadow could be cast over local authorities threatened with rate capping.

One possibility was to seek to reassure the market by issuing a statement setting out the general position on local authorities. Against this, it was argued that such a message could indicate nervousness on the part of the Government and make Liverpool Councillors think they had identified a point on which the Government was vulnerable. Any suggestion that the Government was guaranteeing local authority debt should be avoided. It was agreed that such a statement should not be issued for the time being but that the Treasury, Bank of England and Department of the Environment should continue work on a text which it might be appropriate to issue later if market conditions deteriorated.

The meeting then discussed the impact of surcharges. These might have more impact if the amount concerned were sufficient to impose a severe financial penalty but not so

large as to appear incredible. It was noted, however, that the Government had no influence in this matter. The District Auditor had to impose a surcharge which related to the size of the loss involved.

The Home Secretary reported that the Chief Constable of the Merseyside Police was well aware of the risks to law and order. His Force was a good one and was able to draw on resources from outside if necessary. The Secretary of State for Social Services said that contingency arrangements were needed to meet any threat that homes for children and old people would be closed. The Secretaries of State for Social Services and Education and Science had had submitted to them strategy proposals on health and education. It was agreed that, in dealing with these, every effort should be made to avoid a new source of conflict with Liverpool during the critical period relating to rates and the budget.

Summing up, the Prime Minister said the Attorney General would work on a draft of a statement on the duties and obligations of Councillors and the penalties that they faced; the Treasury, Bank of England and the Department of the Environment, would confer on a statement on the credit-worthiness of local authorities which might be issued if market conditions deteriorated; drafting would proceed on a contingent basis on Bills to allow an adequate substitute rate and to introduce Commissioners. Ministers should continue contingency work on the maintenance of services for which they were responsible.

I am copying this letter to Hugh Taylor (Home Office), Elizabeth Hodgkinson (Department of Education and Science), Richard Mottram (Ministry of Defence), Steve Godber (Department of Health and Social Security), John Gieve (Chief Secretary's Office, HM Treasury), Henry Steel (Law Officers' Department), Richard Hatfield (Cabinet Office) and to Mr. Buckley.

Yours sincerely

Andrew Turnbull

(ANDREW TURNBULL)

John Ballard, Esq.,
Department of the Environment.



CONFIDENTIAL

P.01238

PRIME MINISTER

Liverpool

BACKGROUND

FLAG A. | You are holding an informal meeting of Ministers tomorrow to consider the problems that may be posed by a refusal by the Liverpool City Council to set a legal rate for 1984-85. The subject was previously considered by Ministers at an informal meeting under your chairmanship on 14 December. The present situation is described in the Secretary of State for the Environment's minute of 27 February; this also describes some of the contingency planning that is in hand and discusses what public attitude should be taken by the Government. The Ministers concerned will be able to give oral reports supplementing certain aspects of the minute.

MAIN ISSUES

2. The main issues before the meeting are as follows.

(i) Is present contingency planning satisfactory?

The main contingencies covered are:

(a) breakdown in individual services for which the Liverpool City Council is responsible;

(b) breakdown of law and order in the area, or elsewhere;

(c) financial collapse, with possible repercussions on the market for local authority debt;



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(d) imposition of Commissioners.

(ii) What can be done to maximise the chances of the Council striking a legal rate? In particular, what line should Ministers take in public?

Contingency planning: general

3. It is clearly hard to predict the timing, circumstances and extent of the disruption which would inevitably result if the majority in the Liverpool City Council continue in their declared course of action. But it would be helpful to have the Secretary of State for the Environment's best assessment of such things as:

- (a) the likelihood of defections from the majority grouping;
- (b) the attitude of the other party groupings on the Council;
- (c) the attitudes of the staff (particularly the senior officers) and the trade unions;
- (d) the likely timing of a breakdown in services, whether deliberately engineered by the Council or resulting from shortage of cash as income fails to cover expenditure;
- (e) the services most likely to be affected.

Individual services

4. Departments have been asked at official level, with strict injunctions to secrecy, to consider whether Government should take action in the event of a breakdown of individual services for which the Council is responsible. The main services are:

- education;
- personal social services;
- refuse collection.



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The Merseyside Metropolitan County Council, not the City Council, is responsible for public transport but it is possible that industrial action in the Liverpool district may lead to disruption.

5. It is thought unlikely that there will be disruption in the police and fire services, which are the responsibility of the Metropolitan County Council.

6. You will wish to ask the Ministers responsible for a report on the current state of contingency planning in their departments. In the light of assessments from departments the Home Secretary will be considering whether there is likely to be any role for the Civil Contingencies Unit (CCU) - for example in connection with the provision of servicemen. At present it seems that the only area in which this might be contemplated (as a last resort) is refuse collection.

Law and Order

7. Law and order do not come within the remit of the CCU but the Home Secretary is looking into that separately. He will be able to give an account of the likelihood of a breakdown of Law and order, both in the area and elsewhere (there have been threats of action against Ministers, especially the Secretary of State for the Environment).

Financial collapse: effects on confidence

FLAG B
8. Attached to the minute of 27 February is a draft statement designed to reassure financial markets in the event of a loss of confidence in the security of local authorities besides Liverpool. It has not been discussed with the Treasury or the Bank of England. You will not wish the meeting to go over the text in detail; but it would be helpful to have the advice of the Chief Secretary, Treasury on whether such a statement may have to be issued in the near future, and whether a statement on the general lines proposed would have its intended effect.

Commissioner legislation

9. In the event of a complete breakdown of Council services, the Government might have to put in Commissioners. Legislation would



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be needed. It is being drafted on a contingency basis. The Secretary of State for the Environment intends to bring forward proposals shortly on a number of policy questions which will need to be answered so that drafting can proceed. There is no need to discuss the substance of them at the meeting. However, the Secretary of State may ask which would be the appropriate forum for discussion. The right course will probably be to arrange discussion in an ad hoc meeting. The subject does not fit easily into the terms of reference of any existing Committee; and it will be easier to keep circulation of papers to the necessary minimum outside the standing committee system.

Securing a legal rate

10. As is clear from the minute of 27 February, the consequences of failure to strike a legal rate would be serious. Action by Government could only palliate the effects; and as Ministers and departments would be working in uncharted territory, and against the opposition of the local authority and probably much of its staff, even the best contingency planning will not be able to deal with all possibilities. The priority is therefore to do whatever is possible to secure a legal rate.

11. The task does not seem impossible: the Labour grouping has a majority of only 3 over Liberals and Conservatives; and some half a dozen Labour councillors have already expressed unwillingness to embark on illegal action. On the other hand, reluctance to vote for an illegal rate on 29 March, the date of the crucial meeting, need not entail voting for a legal rate. The quite possible outcome is that no rate will be agreed for 1984-85. Some councillors might prefer to try to defer a decision until after the local elections on 3 May, which are thought likely to return an increased Labour majority. There is no legal deadline for the setting of a rate.

12. The meeting will therefore probably find it useful to bear in mind that it is not necessarily sufficient to discourage the setting



CONFIDENTIAL

of an illegal rate: it is very desirable that the Council should set a legal rate on 29 March.

13. When they last discussed the matter, on 15 December, Ministers decided that the Government should confine itself to the statement that the duties and powers of councils and the sanctions applying to them were set out by Parliament and that the Council should take legal advice on its course of action; the Government should avoid appearing to issue threats. As the Secretary of State for the Environment points out, it may be more difficult for Ministers to distance themselves now that the City Council has made its intentions public through the media. The meeting will wish to consider the action proposed in paragraphs 6 and 7 of the minute of 27 February against this background.

14. One specific point that may be raised (it was touched on at the meeting on 15 December) is whether the Government should bring pressure to bear on the Council by varying payment of rate support grant. It would be difficult to do this if the Council struck no rate, since it would have done nothing illegal. And even if the Council took action that was declared illegal by the courts, Ministers would wish to weigh the risk that if payment of RSG was varied the Government might be accused, however unfairly, of itself precipitating financial collapse.

HANDLING

15. It will probably be convenient to divide the meeting into two main parts:

(i) a review of the current situation and contingency planning;

(ii) action to maximise the chances of the City Council setting a legal rate.

You might invite the Secretary of State for the Environment to open the first part of the discussion and then go through the topics



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mentioned in paragraphs 4 to 9 above, asking the Minister or Ministers responsible for an account of contingency planning within their departments.

16. The second part of the discussion might also be introduced by the Secretary of State for the Environment. Any of your colleagues may wish to contribute. The Attorney General will be able to advise on any legal questions.

CONCLUSIONS

17. You will wish to reach conclusions on:

(i) Contingency planning;

(ii) what can be done to maximise the chances of the Liverpool City Council setting a legal rate, preferably on 29 March; and, in particular, what line should be taken in public by Ministers.

PLG

P L GREGSON
Cabinet Office
28 February, 1984.

CONFIDENTIAL

PRIME MINISTER

LIVERPOOL

1. We are to meet on 29 February to discuss Liverpool. You will have seen a note of my meeting with the deputation on 22 February, and the statement I issued after it. This is a further progress report, which might usefully serve as an agenda for our meeting.

2. The Councillors in the deputation alleged that if they did not receive £30 million in extra government grant, they would be left with no alternative but to make an unlawful rate for 1984-85. They claimed to have been carefully preparing public opinion in Liverpool for this policy, and that they believed they had massive support. The alternative - which they described as either a 200% rate increase or sacking 5,000 council employees - they dismiss as totally unacceptable. They planned, they said, to organise a local general strike and mass demonstrations on 29 March in order to prove to the world that they had public backing. Since the meeting however there are some signs that their public support may not be as solid as they hope. On 23 February, the Liverpool branch of NUPE decided not to support the strike. The media, reasonably in my view, interpreted this as a recognition that their members' jobs were more at risk from the consequences of illegal rating than from other action the council might take. On 24 February, the local branch of the National Union of Teachers appeared to have reached the same decision for much the same reasons. These developments are helpful since they show that the public understanding of the chaos that would follow an illegal rate is increasing. It should not be assumed however that other unions will necessarily follow, or that there would not be massive support for a demonstration on 29 March which could put public order at risk (see paragraph 8c below).

CONFIDENTIAL

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3. The key steps are:

i. In the next 2-3 weeks the Chief Executive is to give Councillors formal written advice on the legal position. We have not seen it, but we understand that he will spell out the risks of surcharge and disqualification; and he will advise that abstention is not a way out: to avoid surcharge Councillors would in his opinion have to show by their votes that they were willing to make a legal rate.

ii. On 29 March the Council will meet to take their budget, and rating, decisions.

iii. Also on 29 March as mentioned above, they intend to organise a mass strike in Liverpool, and demonstrations in support of the Council's policies in both London and Liverpool.

iv. On 2 May, Her Majesty the Queen is due to open the Liverpool Garden Festival. This would provide an obvious opportunity for further demonstrations and could pose security problems.

v. On 3 May, there are local elections in which one third of Liverpool Councillors (one in each of 33 wards) are up for re-election. (The present balance is 51 Labour, 30 Liberal, and 18 Conservative.) Our local party colleagues believe that as things look at present, the Labour majority could be expected to increase: the Liberals are defending seats won four years ago in wards more recently won by Labour with large majorities.

4. The Council at its meeting on 29 March could decided to do one of three things:

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a. make a legal rate, ie one which is sufficient to finance its budget. It would doubtless represent a big increase, (the delegation quoted a 60% increase even for a 'standstill' budget) but coupled with the Merseyside CC precept increase of 9.4%, the aggregate increase for Liverpool ratepayers would in that case be some 46%. A legal rate, whatever the increase, would remove the immediate problem, although of course the Council would blame the Government;

b. fail to make a rate at all: that would happen if no majority emerges either for a steep rate increase or for stringent cuts, for fear of the electoral consequences on 3 May. Failure to make a rate would cause uncertainty, but not an immediate crisis. The council might be able to pay its way for a while, using rate support grant so long as it continued and rent income. But mandamus could be sought by a precepting authority or interested person to oblige the Council to rate; in that case the court would need to be convinced that the Council did not intend to make a rate of its own accord, since the statute does not lay down a date by which authorities must rate. In addition, borrowing could become increasingly more difficult; the officers would doubtless become increasingly uncertain about their ability to pay bills, or to enter into new contracts (eg for supplies or construction work);

c. make an illegal rate, ie one which is insufficient to finance its budget. A rate which was demonstrably insufficient could give rise to immediate challenge in the courts by an interested person including for example any ratepayer and the court could rule the rate invalid. The auditor could also start proceedings leading to surcharge and disqualification of councillors. He needs evidence of actual financial loss to the Council due to failure to make a rate sufficient to meet outgoings. I am advised that the auditor would be unlikely to be in a position to sign a surcharge certificate at least until June, after which the councillors can of course appeal

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through the courts. One crucial difficulty is that once a rate has been made, whether or not it is subsequently found to be illegal, it cannot be increased: our 1982 legislation abolishing supplementary rates provides that no higher rate can replace the original rate, even if that original rate is declared invalid. For this reason there is a possibility that the courts might seek to uphold the rate and require the Council to amend their budget so as to make their expenditure fit the rate actually made. (This illustrates the difficulty of predicting the courts' response to a novel situation). Without new legislation therefore, the Council or a moderate minority successor could find itself, either as a result of such a court order or of the quashing of the original rate and the setting of a substitute rate, still faced with seeking colossal budget cuts to reduce spending to the level implied by the original and deliberately unrealistic, rate.

5. If therefore on 29 March the Council opt for no rate or an illegal rate, an immediate consequence will be serious uncertainty, with risks for service provision and creditworthiness; a second consequence will be a threat to law and order; and a third, but later, possible consequence might be the establishment of a new majority of more moderate Councillors. But they would be faced either with probably unachievable budget cuts (if a totally unrealistic rate had been set) or with a politically difficult combination of very large rate increases and very large budget cuts (if no rate had been set).

6. Between now and 29 March, I recommend that our general position should remain unchanged: ie that this is a problem for the Council and one which they themselves must solve; it is open to them to act legally, like all other local authorities; any illegal action would be a conscious political decision. Events have however moved on. The meeting with the delegation attracted very wide public attention. It allowed the Council to make their case against the Government in the national media. Although I was able to put the Government's case in the statement which I issued, in several radio and

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TV interviews and in a short press conference, I doubt whether this has yet had much impact in Liverpool. On the whole, the national press has been helpful and it is clear that the leadership of the Labour Party, while expressing great sympathy for Liverpool's problem, is counselling firmly against illegal action. In the light of all this, it is now open to us to adopt a much higher profile than was appropriate before I met the delegation. I suggest that our stance should be as follows:-

- i. nailing the lie that the only choice facing the Council is one between 5,000 redundancies or a 200% rate increase;
- ii. stressing that the Council themselves have said the rate increase would be only 60% on what they call a standstill budget;
- iii. pointing out that if they were prepared to consider any sensible economies the rate increase could be significantly lower than that: every £1 cut in spending would bring about a £2 increase in rate support grant, thereby saving the ratepayer £3 altogether; and
- iv. building on the argument attributed to NUPE, that the scare stories put about by the Council as being the result of their taking legal rating action pale into insignificance when compared with the consequences for the Council's services and staff which would follow from their taking illegal rating action.

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7. I have talked to John Gummer about what can and should be done on the party network by way of a counter-campaign locally to get the message across to the people of Liverpool before 29 March. He is now pursuing that further. As far as Government action is concerned, I have been invited to appear on World In Action to discuss Liverpool, and subject to your views, I should propose to accept. I think we should also consider unattributable briefing to the press, particularly the local Liverpool press. We might also explore ways of getting the message across, and particularly the message at 6iv above to leaders of the Liverpool community, including the Bishops with whom I am already in touch. I am preparing speaking notes on Liverpool for Government Ministers incorporating this more positive approach.

8. Against the risks summarised at paragraph 3 above, I have set in hand the following contingency actions:

a. my officials have discussed, informally, with service Departments the implications of the possible breakdown of the services run by Liverpool City Council, and the need for Government action. The intention is to be ready with contingency plans, involving the Civil Contingencies Unit as necessary, if the need arises.

b. my Department is considering the question of creditworthiness further with the Treasury and the Bank of England. It now appears that there are some signs that the market is beginning to have doubts about lending to Liverpool, but there is no evidence that that is jeopardising the creditworthiness of local government generally. I shall report further on Wednesday, when I hope to have more detailed Bank of England advice. But the present indications are that if there is need for Government action at all, it will be a statement to the effect that Liverpool is a wholly exceptional case, and that nothing which happens there affects the creditworthiness of other local authorities. I attach a draft, not yet seen by the Treasury or the Bank, of the sort of statement I envisage.

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c. the Home Secretary will report separately on the law and order dimension. I would only stress that, in my judgement the social and political circumstances in Liverpool at the moment are such that we should take seriously the Council's threat to bring large numbers of disaffected people on to the streets.

d. I am pressing ahead with preparation of Commissioner Legislation. I can report on progress on this orally on Wednesday.

- / 9. I am sending copies of this minute together with the note of my meeting with the Liverpool deputation on 22 February and / my subsequent press statement, to Michael Heseltine, Keith Joseph, Norman Tebbit, Norman Fowler, Leon Brittan, Peter Rees, Michael Havers and Sir Robert Armstrong.

PJ

P J

27 February 1984

CONFIDENTIAL

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DRAFT STATEMENT ON CREDITWORTHINESS (LIVERPOOL)

Doubt has been expressed about the position of those who have lent money to local authorities in view of the possibility of an authority deliberately putting itself in a position in which it could not service its debt.

Local authorities have always enjoyed a very high credit standing. The market has rightly perceived that lending to local authorities is one of the very safest ways of lending money. This applies both to the small private investor with a few hundred pounds worth of bonds and to the large finance house with millions of pounds to place.

In normal circumstances, there is absolutely no reason why any authority should ever default on its loan charges. There are several safeguards. First there is a legal requirement for an authority to estimate its financial liabilities including sums required for servicing loan debt and then, so far as there is insufficient other revenue, to rate to meet these liabilities. Second, authorities may not without my consent borrow long-term for revenue spending, which is not backed by fixed assets; I would be wary of giving such consent, so there is no scope for that sort of financial imprudence. Third - and this is an absolutely crucial point - all loan debt ranks equally and takes priority over all other liabilities as a charge on the revenues of the authority; that too is laid down in law. Fourth, an authority's financial transactions are subject to independent scrutiny in an annual audit. Finally, if for some reason, despite all these safeguards, a tranche of an authority's long-term debt fell due and it experienced difficulty in refinancing that debt in the market, the Public Works Loan Board would be available with its lender-of-last resort facility for the authority to turn to.

With all these safeguards, no local authority has in fact ever been known to default on its debt. But what if an authority opted for deliberate flouting of the law and thus brought itself into default? I hope, of course, that that will never happen. The law makes provision for penalties in the form of surcharge and disqualification which are quite sufficient to give prudent councillors pause for very careful thought before embarking on a course of deliberate financial misconduct. If a council nevertheless went ahead, the Government would of course have to consider urgently what steps to take, not only for the protection of lenders but for the whole conduct of the authority. In the last resort, a remedy for lenders would be available through the Courts.

I should stress that if such an event did occur, its effects so far as market confidence is concerned should be confined to that one authority. The illegal actions of that authority would not constitute any grounds for thinking that any other authority would prove uncreditworthy. The various safeguards I have outlined would continue to apply to all other authorities. I trust that if such a case arose the market would recognise this very important point and would continue to place confidence in local authorities as a whole as it has always - and with good reason - done hitherto.

NOTE OF A MEETING WITH LIVERPOOL CITY COUNCIL ON WEDNESDAY 22
FEBRUARY

1. Mr Hamilton said that he was grateful for the opportunity to put the City Council's case. The Labour Council had inherited a budget which was inadequately funded, with balances that had been completely drawn down. The Council was not engaged on an extravagant programme.

2. In the ensuing discussion the Councillors and MPs made the following points.

(1) The Liberal Council had budgeted for an income of £218 million when the cost of the services was of the order of £237 million in 1983/84. They had proposed to narrow this gap by unspecified cuts of about £6 million and drawing £7 million from reserves. Only £2 million of the £237 million could be attributed to the cost of new policies introduced by the Labour administration.

(2) The latest estimate of outturn for 1983/84 was £225 million. This did not however take account of the £7 million expenditure funded from 'reserves'.

(3) The Expenditure Target for 1984/85 set by the Government was £218 million. Yet starting with the £237 million figure of expenditure for 1983/84, and if inflation was 5% as the Government assumed, the Council would require a budget of £244 million to "stand still". And they had no balance to carry forward or special funds on which to draw. The Secretary of State and his colleagues and officials were invited to visit Liverpool to see what the Expenditure Target figures meant on the ground.

(4) Whatever financial measure was used, Liverpool had lost out. Since 1980 funds for further education had been reduced by £18 million, housing subsidies had been reduced by £62 million and the HIP allocation had been reduced from £47 million to £28 million in real terms for 1984/85.

(5) Liverpool was to some extent a regional centre, providing services for many outside the boundaries of the authority. When account was taken of this factor, Liverpool had a comparable number of employees per 1,000 of the population as other cities (59.00 c.f. 58.88). In addition while Liverpool had lost population, those that remained were those most in need of the services the Council provides.

(6) A standstill budget would require a rate increase of 60%. The Council was however not prepared to rest on a standstill budget in a city where 60,000 people were unemployed. The programme it considered the minimum necessary would require an increase of 200%, which was why a further £30 million in additional finance was needed from Central Government. The was determined to adhere to its expenditure programme.

The delegation represented a city that had, in the last local elections voted for a change and its members were confident of the support they would receive from the people of the city, and the Council's own employees and Trade Union members in general. The Council had looked for economies, subject to the constraint that there should be no reduction in the number of jobs, or drop in the quality of services. A previous attempt at rational dialogue had failed. The Council had presented its housing strategy to the Secretary of State earlier in the year. The result had been a reduction in the authority's HIP allocation. They were aware of the consequences of the course of action upon which they were embarked, which were appalling but were better than accepting the policy the Government wished to impose. Liverpool would be taking action which other authorities would follow next year.

(7) Laws were laws because they were accepted and recognised as just. If the Government continued with its present policies they would be broken.

3. Cllr Hatton intervened to say that the Council was united in its determination to get what they wanted, if necessary by taking to the streets in Liverpool and more directly at the Secretary of State's home in London. This was not an idle threat but a threat of the action they would take. At the end of the day "the gloves were off".

4. The Secretary of State said that he was grateful for the clear way in which the City had presented its case. In response to Mr Hatton he said that he had a poor understanding of human nature if he believed any Government could react to threats of that nature. He appreciated the strength of feelings expressed but Liverpool did have to live within its means as did all authorities. Similarly the RSG and Expenditure Targets were part of a system of local government finance approved by Parliament that was applied without distinction to all authorities: it was not possible to single out individual authorities for particular treatment.

5. This did not mean that the Government was not aware of Liverpool's problems. These were recognised by the GRE based distribution system for RSG. In addition Liverpool were receiving substantial additional aid from the Urban Programme. But in this connection the City did not help itself by such action as spending £3 million on the purchase of housing on Joliffe Street, for which there was a private sector market.

6. The net cost of all services in Liverpool was £466.3 per head compared to an average, in all met counties of £385. The Government were asking Liverpool to make economies from what was therefore a high base. The Labour Party had, upon taking office accepted responsibility for the conduct of the authority's affairs, in the knowledge of the imbalance between funding and

expenditure in the Liberal budget for 1983/84. Yet they had not sought any ways of closing the gap but had embarked upon new policies that would add £2 million to expenditure in the current year. Their target represented a very small fall in expenditure compared with the 1983/84 budget and what was being asked of many other authorities. Liverpool needed to consider not only how it appeared to itself, but how its action and the treatment it had received (through Expenditure Targets and the Urban Programme) appeared to other authorities who considered themselves less generously treated.

7. The Department had a Task Force on Merseyside, the only part of the country in which this was the case. He and his colleagues also made more visits to Merseyside than to any other part of the country. He was well aware of the difficult situation that the City had inherited. This did not however absolve the City from looking for economies and living within their means. He accepted that a "standstill" budget might require a 60% increase in rates. This corresponded with his official's own estimates. But Liverpool had benefited from a series of low rates increases in the 1970's. And he did not understand however how this squared with the City's estimates that rates would need to rise by 200% unless this reflected not a standstill but an expansionist budget.

8. The Secretary of State asked the City Council to consider very carefully the action they appeared to be contemplating. He did not doubt the sincerity of their views but the consequences were likely to be appalling, for the City, the people and the services they were seeking to protect. Business confidence would crumble. The City was not being left with no alternative. It could still budget responsibly and safeguard the bulk of its services. The alternative would cause such chaos that it should not be contemplated. Such consequences would be the responsibility of the Council. The Government could not bend the rules for Liverpool, but it was willing to maintain a dialogue with the objective of making the most efficient use of the resources available.

J F BALLARD
PS/Secretary of State

22 February 1984

PRESENT

The Secretary of State
Lord Bellwin
Sir George Moseley
Mr Heiser
Mr Sorensen
Mr McDonald
Mr Ponsford
Mr Ramsay
Mr Owen

Cllr J D Hamilton
Cllr D Hatton
Cllr T Byrne
Cllr F Mills
Cllr T Hood
Mr A J Stocks
Mr M Beddington
Mr B Caldow
Mr E Loyden MP
Mr T Fields MP
Mr R Wareing MP
Mr R Parry MP

STATEMENT BY THE SECRETARY OF STATE

1. The Secretary of State for the Environment, Mr Patrick Jenkin, today met, at their request, a deputation from Liverpool City Council - Councillors Hamilton, leader, Hatton, Deputy leader, Byrne, Hood and Mills - to discuss the implications of the 1984-85 RSG Settlement.

2. Following the meeting, Mr Jenkin said:-

"Liverpool City Council are by no means unique in facing tough political choices in 1984/85. A number of councils face such decisions and that is what they are elected to do.

The principles of the grant system have to apply to all authorities. I have no power to make special rules for Liverpool. In fact, the City has been set an expenditure target for next year, which implies a relatively small reduction in its expenditure, compared with some other authorities who are faced with much higher reduction.

I am afraid that the City Council have done nothing to help themselves in this matter. They inherited a tight budget position in May 1983, which required savings to balance the books. They have not only failed to find these savings, but they agreed that they have actually increased expenditure.

How can a council which claims to be ~~in~~ⁱⁿ severe financial straits afford over £1m. to give all its tenants a £16 cash handout.

Liverpool have alleged that in order to meet the Government's 1984/85 expenditure target they either have to reduce the number of Council employees by 5,000 or levy a 200% rate increase. These estimates do not appear to square with what was said at today's meeting. They admitted that a standstill budget - with no savings - would mean a 60% rate increase, little over a quarter over the 200% they have been threatening. The steps which Liverpool can take to reduce their expenditure is of course a matter for them, as is their rating decision.

For every £5 million by which the Council can cut its spending plans and come closer to target, it stands to gain £10 million more in Government grant. So each £5 million expenditure reduction saves them £15 million cash. That £15 million is equivalent to over 20p in the pound. That is the measure of the benefit to be gained for the ratepayers in Liverpool if the Council could moderate its spending plans for next year.

The Government is sympathetic to the economic and social problems of Liverpool. Our record shows that is .

the case. The City Council have claimed that the Government has stolen £120 million Rate Support Grant from Liverpool since 1979, but this figure is very misleading. It ignores the fact that before 1981, under the old RSG system, Liverpool received grant on behalf of Merseyside County Council which is today paid direct to the County. It also assumes that spending levels should have remained constant, but we have asked all authorities to contain their expenditure, and we have accordingly reduced the proportion of local spending supported by the national taxpayer. This has applied to all authorities, not just Liverpool. And finally, it overlooks the substantial increases in other forms of Government assistance for Liverpool, notably in terms of Urban Programme aid.

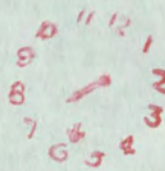
Over the last three years 1981/82 to 1983/84 capital expenditure by local authorities and other bodies on Merseyside, under the Department's main programmes has reached £650 million. This includes about £140 million for the City in these 3 years through the Urban Programme and the Merseyside Development Corporation. In addition, the Department of Trade and Industry has given an average of £110 million a year in the last three years to companies within the Merseyside Special Development Area, the Merseyside Docks and Harbour Company have received a total

of £134 million in financial assistance, and the Manpower Services Commission is expected to spend £90 million on Merseyside in 1983/84.

To sum up, I had a very frank discussion with the councillors. I recognised that the Council inherited a difficult situation on taking up office. The Government fully accepts that Liverpool has exceptional social problems. That is why we set up for Merseyside alone a special task force, why we make a major contribution through the partnership programme, and why the block grant arrangements take account of social and environmental factors. But the Council is now proposing to spend money it hasn't got, and asking us to go outside the rules to make it up. That is not acceptable. We must apply the same rules even-handedly to all authorities. I strongly urged them to consider the consequences for Liverpool, the services they seek to protect and for the people they represent of the illegal action they are considering. I cannot believe that a responsible local authority will ignore its responsibilities in this way.

Post for Liverpool
for

27 JUN
1984



CHEQUERS
BUTLER'S CROSS · AYLESBURY
BUCKS

2000.

25th Feb. 1984

My dear Lord Bishop,

A note to let you know

that I have received and read your
letter of 21st February to Patrick with
both interest and deep concern. The problems
are so urgent, the solutions so elusive. We
will think again.

In haste

Every good wish

Yours sincerely

Nargant Thaiter

HL

24 February 1984

The meeting to discuss Liverpool scheduled for 1500 hours on Wednesday 29 February is now commencing at 1430. It will still be at Downing Street.

Caroline Ryder

Henry Steel, Esq., C.M.G., O.B.E.,
Law Officers' Department.

HS



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

Prime Minister ⁴

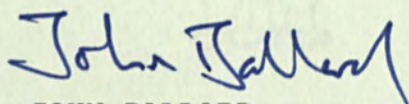
23 February 1984

Dear Andrew

/ I enclose a letter my Secretary of State received today from
the Bishop of Liverpool.

He has read the letter and suggests that the Prime Minister
might wish to see it.

Yours sincerely



JOHN BALLARD
Private Secretary

Andrew Turnbull Esq

Bishop's Lodge Woolton Park Woolton Liverpool L25 6DT

February 21 1984

Ivan Patrick,

I very much appreciated the time which the Prime Minister and you gave us on February 1st and the way in which both of you were trying to enter into our world of Merseyside. I was particularly struck by Mrs Thatcher's remarks about being unable to meet and listen to young people here, because of demonstrators making a hearing impossible.

We have just completed a week-end in which the Archbishop of Canterbury's Commission on Urban Priority Areas has been visiting Merseyside. It was a very demanding, sometimes overwhelming visit, as the Commission divided into groups who met a wide range of people. I am serving on the Commission and found it a remarkably fresh experience to visit my own patch!

I wished you both could have been present at the Open Forum we held in Kirkby. We made it known that anyone could come to one of three places, to tell us whatever they felt we should hear. The Kirkby meeting was most impressive: scarcely a word was

wasted. One London member of the Commission said that, if the meeting had been held in Hackney, it would inevitably have ended in shouting and angry resolutions. In Kirkby it was strong but very articulate.

Forgive a long letter, but I really want to attempt to give you the flavour of the evening. And would you consider putting this in the Prime Minister's hands too?

Unemployment fixed the foreground throughout — very long term unemployment. We went back for a further two hours the next morning: we were then told that unemployment hit Kirkby in a big way just when the Labour Government introduced selective Employment Tax in the 1960s. Newly arrived firms started to look sharply at surplus labour, and hundreds of young people became unemployed. Repeatedly the picture came through of a generation which has already grown up with no prospect of work.

"We lived with unemployment for ten years. My husband's pride is at the bottom. He's 42 and on the scrapheap. He's very talented, but he can't use most of his talents, because they cost money. My children are embarrassed, because they've got to ask him for anything. I'm desperate as a wife and mother of five to sustain our family. One child wants to study archaeology, one is thoroughly anti-social."

"Indignity is put on us by the Sun newspaper. Christmas comes and you've got to starve yourself to give your kids a present.... Give us our dignity"

"There's frustration and apathy in our family. My son did a four year apprenticeship: then his firm paid him off. He keeps going after jobs. He got married.. stays in bed in the morning. I chivy him to get up. He says, 'what's the point?' Now he's 21. There's a baby coming."

"We are an industrial wilderness"

"You have to borrow on this week's and next week's social security if anything goes wrong. The fabric of our life is being eroded."

"I have a wife and two children. I receive £48.80 plus £13 Family allowance. That means there's no room for house insurance or personal insurance, Christmas or birthday presents. We're spending £3 a day on gas and electric, because we're in all day. My boys joined the Cubs: the uniform costs £8. My mother and relations help, but my pride is hurt. You find that borrowing spirals?"

"Whole families are unemployed. In a magistrates and I know that often there is no way that a fine can be paid, because all the family is out of work."

"There are no facilities, no dance halls. You can't afford to travel to the Leisure Centre."

The next morning we had a considerable discussion about the problems of funding for voluntary bodies, including Centre 65, the Church Youth Centre where we met. We were told, "We receive donations from the Borough of Knowsley" — £35,000 running costs, £3,500 from the Borough. Capital money can often be found, but not revenue.

One member of our Commission David Booth is Chairman of BICC a large employer nearby. He said that BICC gave a building ^{to be a Leisure Centre} in Prescott, because they were making people unemployed. "Now the Leisure Centre turns out to be for the employed."

There were two on line predictions of Toxteth-like troubles. There was also a long and disturbing account of police relations in Kirkby, which reflected all too similarly what

57
we heard about Toxteth. I was in a way more overwhelmed by the sense of powerlessness than by the threat of violence. If powerlessness breeds a sense of worthlessness, then everyone gives up.

When we came to see you, we had quite a discussion about mobility. This week-end, looking at Inner City and Outer City areas in Merseyside with our visitors has made me see again what mobility of the self-confident does to create communities of the left behind. If you could stand in the shoes of people in, for example, Kirkby I think you would feel how devastating it is to see those who could bring leadership and renewed vigour to their own community being pressed by the absence of jobs and good housing to move away.

That makes me argue for measures to lean much harder on industry to invest in Merseyside. The Kirkby evening, in which groups from Hayton and Steelmerdale made very similar comments, highlighted for me the need to acknowledge in public policy that

Very high unemployment is not a temporary phenomenon. 1960s school leavers are already 35. I hope we do not have to ~~marish~~ another whole generation to experience this total absence of jobs.

In Kirkby on Friday, people said, "we need reduction of working hours and of the retiring age. Trade Unions have not got to be so greedy for overtime." But also, "Industry no longer wants manpower" (we'd just been told of £17m investment producing jobs for 150). "Man needs to be wanted, but industry won't provide the jobs." "We hope your Commission will dream a little: look at ways of using man's creativity outside industry. This a way in which people can contribute to society and receive a reasonable wage for it."

I said the other day that the Community Programme is a small acknowledgement that unemployment is not a temporary phenomenon. But it is very small. In Hereford we receive something like 6800 places when we have 150000 unemployed. In Hereford we have

7
as many unemployed young people as in the whole
of Greater London - which is ten times bigger

Forgive me for writing at such length.

That meeting in Kirkby was very special and I
feel the responsibility of passing on some of
the deeply-felt hurt, which came across to us.

I am very conscious of adding to the
burdens which you bear: I also have a
strong sense of how difficult it is in
Westminster and the City of London to
understand how life is experienced in "the
North West Triangle" of Belfast, Glasgow and
Liverpool.

Yours sincerely
+ Dave Liverpool.



2 MARSHAM STREET
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01-212 3434
My ref:

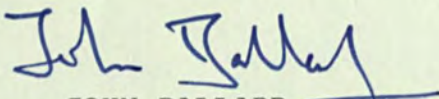
Your ref:

22 February 1984

Dear Andrew

I enclose a copy of a note of today's meeting with Liverpool City Council's Labour leadership. I have also sent a copy to Bernard Ingham.

Yours sincerely


JOHN BALLARD
Private Secretary

Prime Minister (2)

I suggest this be circulated to Ministers attending next Wednesday's meeting in Liverpool. Do E are preparing an agenda note

AT
22/2

Andrew Turnbull Esq

NOTE OF A MEETING WITH LIVERPOOL CITY COUNCIL ON WEDNESDAY 22
FEBRUARY

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(5) Liverpool was to some extent a regional centre, providing services for many outside the boundaries of the authority. When account was taken of this factor, Liverpool had a comparable number of employees per 1,000 of the population as other cities (59.00 c.f. 58.88). In addition while Liverpool had lost population, those that remained were those most in need of the services the Council provides.

(6) A standstill budget would require a rate increase of 60%. The Council was however not prepared to rest on a standstill budget in a city where 60,000 people were unemployed. The programme it considered the minimum necessary would require an increase of 200%, which was why a further £30 million in additional finance was needed from Central Government. The was determined to adhere to its expenditure programme.

The delegation represented a city that had, in the last local elections voted for a change and its members were confident of the support they would receive from the people of the city, and the Council's own employees and Trade Union members in general. The Council had looked for economies, subject to the constraint that there should be no reduction in the number of jobs, or drop in the quality of services. A previous attempt at rational dialogue had failed. The Council had presented its housing strategy to the Secretary of State earlier in the year. The result had been a reduction in the authority's HIP allocation. They were aware of the consequences of the course of action upon which they were embarked, which were appalling but were better than accepting the policy the Government wished to impose. Liverpool would be taking action which other authorities would follow next year.

(7) Laws were laws because they were accepted and recognised as just. If the Government continued with its present policies they would be broken.

3. Cllr Hatton intervened to say that the Council was united in its determination to get what it wanted, if necessary by taking to the streets in Liverpool and more directly at the Secretary of State's home in London. This was not an idle threat but a threat of the action they would take. At the end of the day "the gloves were off".

4. The Secretary of State said that he was grateful for the clear way in which the City had presented its case. In response to Mr Hatton he said that he had a poor understanding of human nature if he believed any Government could react to threats of that nature. He appreciated the strength of feelings expressed but Liverpool did have to live within its means as did all authorities. Similarly the RSG and Expenditure Targets were part of a system of local government finance approved by Parliament that was applied without distinction to all authorities: it was not possible to single out individual authorities for particular treatment.

5. This did not mean that the Government was not aware of Liverpool's problems. These were recognised by the GRE based distribution system for RSG. In addition Liverpool were receiving substantial additional aid from the Urban Programme. But in this connection the City did not help itself by such action as spending £3 million on the purchase of housing on Joliffe Street, for which there was a private sector market.

6. The net cost of all services in Liverpool was £466.3 per head compared to an average, in all met counties of £385. The Government were asking Liverpool to make economies from what was therefore a high base. The Labour Party had, upon taking office accepted responsibility for the conduct of the authority's affairs, in the knowledge of the imbalance between funding and

expenditure in the Liberal budget for 1983/84. Yet they had not sought any ways of closing the gap but had embarked upon new policies that would add £2 million to expenditure in the current year. Their target represented a very small fall in expenditure compared with the 1983/84 budget and what was being asked of many other authorities. Liverpool needed to consider not only how it appeared to itself, but how its action and the treatment it had received (through Expenditure Targets and the Urban Programme) appeared to other authorities who considered themselves less generously treated.

7. The Department had a Task Force on Merseyside, the only part of the country in which this was the case. He and his colleagues also made more visits to Merseyside than to any other part of the country. He was well aware of the difficult situation that the City had inherited. This did not however absolve the City from looking for economies and living within their means. He accepted that a "standstill" budget might require a 60% increase in rates. This corresponded with his official's own estimates. But Liverpool had benefited from a series of low rates increases in the 1970's. And he did not understand however how this squared with the City's estimates that rates would need to rise by 200% unless this reflected not a standstill but an expansionist budget.

8. The Secretary of State asked the City Council to consider very carefully the action they appeared to be contemplating. He did not doubt the sincerity of their views but the consequences were likely to be appalling, for the City, the people and the services they were seeking to protect. Business confidence would crumble. The City was not being left with no alternative. It could still budget responsibly and safeguard the bulk of its services. The alternative would cause such chaos that it should not be contemplated. Such consequences would be the responsibility of the Council. The Government could not bend the rules for Liverpool, but it was willing to maintain a dialogue with the objective of making the most efficient use of the resources available.

J F BALLARD
PS/Secretary of State

22 February 1984

PRESENT

The Secretary of State
Lord Bellwin
Sir George Moseley
Mr Heiser
Mr Sorensen
Mr McDonald
Mr Ponsford
Mr Ramsay
Mr Owen

Cllr J D Hamilton
Cllr D Hatton
Cllr T Byrne
Cllr F Mills
Cllr T Hood
Mr A J Stocks
Mr M Beddington
Mr B Caldow
Mr E Loyden MP
Mr T Fields MP
Mr R Wareing MP
Mr R Parry MP

22 JAN 1984

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CC AT
BT
Poygunur

STATEMENT BY THE SECRETARY OF STATE

1. The Secretary of State for the Environment, Mr Patrick Jenkin, today met, at their request, a deputation from Liverpool City Council - Councillors Hamilton, leader, Hatton, Deputy leader, Byrne, Hood and Mills - to discuss the implications of the 1984-85 RSG Settlement.

2. Following the meeting, Mr Jenkin said:-

"Liverpool City Council are by no means unique in facing tough political choices in 1984/85. A number of councils face such decisions and that is what they are elected to do.

The principles of the grant system have to apply to all authorities. I have no power to make special rules for Liverpool. In fact, the City has been set an expenditure target for next year, which implies a relatively small reduction in its expenditure, compared with some other authorities who are faced with much higher reductions.

I am afraid that the City Council have done nothing to help themselves in this matter. They inherited a tight budget position in May 1983, which required savings to balance the books. They have not only failed to find these savings, but they agreed that they have actually increased expenditure.

How can a council which claims to be ⁱⁿ severe financial straits afford over £1m. to give all its tenants a £16 cash handout.

Liverpool have alleged that in order to meet the Government's 1984/85 expenditure target they either have to reduce the number of Council employees by 5,000 or levy a 200% rate increase. These estimates do not appear to square with what was said at today's meeting. They admitted that a standstill budget - with no savings - would mean a 60% rate increase, little over a quarter over the 200% they have been threatening. The steps which Liverpool can take to reduce their expenditure is of course a matter for them, as is their rating decision.

For every £5 million by which the Council can cut its spending plans and come closer to target, it stands to gain £10 million more in Government grant. So each £5 million expenditure reduction saves them £15 million cash. That £15 million is equivalent to over 20p in the pound. That is the measure of the benefit to be gained for the ratepayers in Liverpool if the Council could moderate its spending plans for next year.

The Government is sympathetic to the economic and social problems of Liverpool. Our record shows that is

the case. The City Council have claimed that the Government has stolen £120 million Rate Support Grant from Liverpool since 1979, but this figure is very misleading. It ignores the fact that before 1981, under the old RSG system, Liverpool received grant on behalf of Merseyside County Council which is today paid direct to the County. It also assumes that spending levels should have remained constant, but we have asked all authorities to contain their expenditure, and we have accordingly reduced the proportion of local spending supported by the national taxpayer. This has applied to all authorities, not just Liverpool. And finally, it overlooks the substantial increases in other forms of Government assistance for Liverpool, notably in terms of Urban Programme aid.

Over the last three years 1981/82 to 1983/84 capital expenditure by local authorities and other bodies on Merseyside, under the Department's main programmes has reached £650 million. This includes about £140 million for the City in these 3 years through the Urban Programme and the Merseyside Development Corporation. In addition, the Department of Trade and Industry has given an average of £110 million a year in the last three years to companies within the Merseyside Special Development Area, the Merseyside Docks and Harbour Company have received a total

of £134 million in financial assistance, and the Manpower Services Commission is expected to spend £90 million on Merseyside in 1983/84.

To sum up, I had a very frank discussion with the councillors. I recognised that the Council inherited a difficult situation on taking up office. The Government fully accepts that Liverpool has exceptional social problems. That is why we set up for Merseyside alone a special task force, why we make a major contribution through the partnership programme, and why the block grant arrangements take account of social and environmental factors. But the Council is now proposing to spend money it hasn't got, and asking us to go outside the rules to make it up. That is not acceptable. We must apply the same rules even-handedly to all authorities. I strongly urged them to consider the consequences for Liverpool, the services they seek to protect and for the people they represent of the illegal action they are considering. I cannot believe that a responsible local authority will ignore its responsibilities in this way.

①

PRIME MINISTER

Liverpool

Mr. Jenkin will need to make a statement to the press tomorrow following his meeting with Liverpool councillors. Bernard has seen Mr. Jenkin and his information people and has asked that the emphasis should be on the need for the Council to act responsibly rather than dwell on what the Government would do if they acted illegally. On this score, the statement seems fine, though the material at the bottom of page 2 on the Government's record in supporting Liverpool and Merseyside could be presented in an even more advantageous light.

During the course of briefing for Questions we concluded that the second paragraph of annex B was defective. The following would be more consistent with the theme suggested above.

"The Government does not believe that Liverpool will be so irresponsible as to precipitate a serious breakdown of essential services. Its efforts are now concentrated on persuading the City Council to accept its responsibilities and act on them."

Y
to
Mr

X |

Agree Mr. Jenkin's statement, with these minor amendments?

AT

21 February 1984

Note

Told M Ballard we were content subject to

- (i) backing up the para at the bottom of page 2
- (ii) replacing para 2 of Annex B with X leaving points about Commissioner to come out in questioning rather than being volunteered.

CONFIDENTIAL the theme of responsibility was endorsed

AT 22/2

CONFIDENTIAL



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

21 February 1984

Dear Andrew

LIVERPOOL CITY COUNCIL

As the Prime Minister knows, my Secretary of State is tomorrow to meet, at their request, a deputation of Councillors from Liverpool to discuss the effects on them of Rate Support Grant Settlement for 1984/85.

My Secretary of State proposes to handle them as much as possible like any other RSG delegation at this time of year. He will, however, use the opportunity to seek better information about Liverpool's financial position, and to underline for the Councillors where their responsibilities lie and the consequences for them of illegal action.

The meeting has already received a great deal of advance publicity, including speculation about whether the Government will take powers to appoint Commissioners to the City. Since the Councillors will use the meeting to publicise their case, my Secretary of State proposes to issue his own statement afterwards. I attach a draft at 'A' of the line he intends to follow.

For your immediate use in briefing for Prime Minister's questions and responding to questions from the press I attach at 'B' a short brief as a response to questions about the Government's intentions towards Liverpool.

My Secretary of State will report the outcome of tomorrow's meeting to the Prime Minister.

Yours sincerely

J F Ballard

J F BALLARD
Private Secretary

Andrew Turnbull Esq

C O N F I D E N T I A L

DRAFT STATEMENT BY THE SECRETARY OF STATE

1. The Secretary of State for the Environment, Mr Patrick Jenkin, today met, at their request, a deputation from Liverpool City Council - Councillors Hamilton, Leader, Hatton, Deputy Leader, Byrne, Hood and Mills - to discuss the implications of the 1984-85 RSG Settlement.
2. Following the meeting, Mr Jenkin said:-

"Liverpool City Council are by no means unique in facing tough political choices in 1984/85. A number of councils face such decisions and that is what they are elected to do.

The principles of the grant system have to apply to all authorities. I have no power to make special rules for Liverpool. In fact the City has been set on expenditure target for next year, which implies a relatively small reduction in its expenditure, compared with some other authorities who are faced with much higher reductions.

I am afraid that the City Council have done nothing to help themselves in this matter. They inherited a tight budget position in May 1983, which required savings to balance the books. They have not only failed

to find these savings, but have actually increased expenditure. How can a council which claims to be in severe financial straits afford over £1m. to give all its tenants a £16 cash handout?

The Councillors told me that they envisage a budget of £ million in 1984-85, and that that would require a rate increase of pence in the pound, or %. That cannot be necessary. I have advised them to go and re-examine their budget very closely to see what savings can be made. For every £5 million by which the Council can cut its spending plans and come closer to target, it stands to gain £10 million more in Government grant. So each £5 million expenditure reduction saves them £15 million cash. That £15 million is equivalent to over 20p in the pound. That is the measure of the benefit to be gained for the ratepayers in Liverpool if the Council could moderate its spending plans for next year.

I certainly do not want to give the impression that the Government is unsympathetic to the economic and social problems of Liverpool. Our record shows that is far from the case. Through the Urban Programme and the Merseyside Development Corporation we have allocated about (£140) million for the City in the 3 years 1981-82 to 1983-84.

240
170

I hope that City Councillors will think very carefully and take legal advice before setting out on any course which could involve illegal rating action. Such behaviour could only compound the problems of Liverpool and have very serious consequences for the Councillors themselves, for the local authority's staff and for the people of Liverpool."

3f.

C O N F I D E N T I A L

BRIEFING FOR NUMBER 10

LIVERPOOL CITY COUNCIL

a. GENERAL SPEAKING NOTE

1. Responsibility for running Liverpool lies with the elected city council. Councillors should think very carefully and take legal advice before setting out on any course which could involve illegal rating action. Such behaviour could only compound the problems of Liverpool and have very serious consequences for the Councillors themselves, for the local authority's staff, and for the people of Liverpool.

2. The Government has no powers to appoint Commissioners to take over the running of a local council. However, if the action of any local authority led to a serious breakdown of essential services, the Government would need to consider appropriate action.

b. QUESTION AND ANSWERS

Q1. Have you prepared legislation to allow the appointment of Commissioners?

A1. No.

Q2. If such legislation proved necessary, how quickly could it be enacted?

A2. That would be a matter for Parliament, but it would be bound to take some time.

Q3. Would disqualification of an individual from office as a local councillor following surcharge lead to his disqualification as a Member of Parliament? (Mr Loyden MP is a Liverpool Councillor as well.)

A3. No. I understand that surcharge of itself would not be grounds for the disqualification of an MP, unless it caused bankruptcy.

Q4. Are you planning to suspend the May elections in Liverpool? (As suggested in The Guardian 20.2.84)

A4. NO.

2 Press

PS/Secretary of State

LIVERPOOL CITY COUNCIL - FEBRUARY 22ND

I have discussed with Bernard Ingham and my colleagues on the Inter-Departmental Official Committee on Local Government Policies, the tactics for handling the press/media following the Secretary of State's meeting with the deputation of Liverpool Councillors.

We agreed that the Secretary of State should be advised to make himself available to talk to the press and to give radio/T.V. interviews on request. We do not propose to call a formal Press Conference but we know that the press will be at the Department, hoping to talk to the Councillors as well as to the Secretary of State. I suggest, that after the meeting, we allow the Liverpool Councillors to be interviewed on the doorstep and that we should monitor what they say. The Secretary of State could then be available to see the press either in the Press Conference Room or in his office, depending on numbers.

We have also received bids for interviews from:

- ITN
- BBC TV News
- Channel 4 TV News
- Granada TV News
- BBC Radio - World at One

We expect in addition bids from the two radio stations in Liverpool. We will work out the precise arrangements for these interviews and inform you early tomorrow morning.

As to the stance to be adopted by the Secretary of State, Bernard Ingham and my colleagues endorsed the view that an expectation that Liverpool will act responsibly should be the theme. Bernard Ingham argued that no attempt should be made to answer hypothetical questions about possible future action. That view was also endorsed.

David ...

D McDONALD

21st February 1984

- cc PS/Lord Bellwin
- PS/Mr Waldegrave
- Mr Heiser
- Mr Owen
- Mr Ponsford
- Mr ...

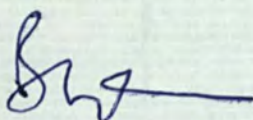
MR TURNBULL

You invited my comments on the proposed statement by Patrick Jenkin following his meeting with Liverpool City Council tomorrow. Please see at Annex A a note of my meeting with Mr Jenkin's Chief Information Officer, today.

I think the draft is OK. But I think it could be strengthened in the penultimate paragraph (page 2) but inserting the material at Annex II after, "Our record shows that is far from the case". This would replace the last sentence of that paragraph, "Through the Urban Programme to 1983/84".

There is no need to worry about the length. The proposed addition is very good stuff.

On paragraph 2 of the briefing, I do not like the second sentence. I suggest that, consistent with my advice, see Annex A, it should be replaced with: "The Government does not believe that Liverpool will be so irresponsible as to precipitate a serious breakdown of essential services. Its efforts are now concentrated on persuading the City Council to accept its responsibilities and act on them."



B. INGHAM

21 February 1984

LORD PRESIDENT

LOCAL GOVERNMENT

This note reports on the rate capping/abolition campaign.

We had this morning our official meeting, preparatory to Mr Jenkin's Ministerial group tomorrow.

I established:

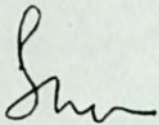
- (i) Patrick Jenkin is absolutely firm on no more money for Liverpool;
- (ii) he is less firm over playing it long - ie. in wishing to get over the idea that the Government in the last resort would not stand idly by; I have urged that he should refuse to answer hypothetical questions about what would happen if Liverpool went bankrupt and to portray his current efforts as being to persuade Liverpool to act responsibly; I shall be seeing a draft of his statement later today;
- (iii) the Cooper & Lybrand report tomorrow on the cost of abolition of MCCs will not be helpful to the MCCs who commissioned it.

Mr Jenkin had a successful meeting with the Newspaper Conference - London editors of provincial newspapers - last Friday. It seems to have been so greatly appreciated by the London editors that they are now thinking of arranging a similar event for editors of provincial papers. The London editors apparently felt the rate capping argument has been won; they are now much more interested in abolition and Mr Jenkin knocked down very firmly suggestions of compromise.

We agreed to recommend speaking notes on (i) abolition; (ii) the savings to be obtained in local government from greater efficiency - to be issued as new rate demand notes arrive; and (iii) the cost of local authority campaigns against Government measures.

Christopher Monckton is to have a word with his friends on The Standard about their failure to cover the Government's recent measures to safeguard concessionary fares for pensioners in London.

Altogether a useful meeting.



B. INGHAM

21 Febraury 1984

AT

Are you looking for a response
from Environment to the
question raised in para 4
of your letter of 8/2. (at
Clap) ?

If so I will chase.

Mark

17/2

Mark

I expect there will be a meeting
before long. When I set that up
I will ask for X to be
covered. - so no action for you

Thanks

AT

CONFIDENTIAL
CMO



10 DOWNING STREET

From the Private Secretary

8 February, 1984.

Liverpool

The Prime Minister has seen your Secretary of State's minute of 3 February, and the annexes attached to it. She feels that the Government should aim to stand back as long as possible. In contrast to what is said in paragraph 17, she feels there might well be circumstances in which the Government should stand aside right up to the breaking of a crisis. Whether it would be right to intervene earlier can only be judged nearer the time.

The Prime Minister agrees that the measures listed in paragraph 12 should be rejected as they would reward irresponsibility. Indeed, it may be part of the intention of the Liverpool City Council to draw the Government into providing additional resources. She also feels that it would be unwise to provide unattributable Press briefing, as there could be no guarantee that the source of such briefing would be protected.

The Prime Minister has noted the further work which officials will be undertaking. While recognising that officials need to be in a position to react quickly according to events, she doubts whether much is to be gained from formalising the existing arrangements for interdepartmental consultation; there could be some disadvantages, particularly if the existence of a group dealing with Liverpool became public.

The Prime Minister has seen Annex C on the consequences for financial markets of a breakdown of Liverpool City Council. In her view, the conclusions may be too sanguine, and she wonders whether they reflect the advice from the Treasury and the Bank of England.

The Prime Minister welcomes the contingency work being done on legislation to appoint Commissioners, though she agrees that this should be regarded very much as a last resort.

CONFIDENTIAL
CMO

// The

* See AT notes

R

The Prime Minister would be willing to call a meeting of Ministers, should developments accelerate and decisions be necessary on the Government line.

I am sending copies of this letter to Janet Lewis-Jones (Lord President's Office), Richard Mottram (Ministry of Defence), Callum McCarthy (Department of Trade and Industry), Elizabeth Hodgkinson (Department of Education and Science), Steve Godber (Department of Health and Social Security), John Gieve (Chief Secretary's Office, HM Treasury), Henry Steel (Law Officers' Department), and Richard Hatfield (Cabinet Office).

Yours sincerely
Andrew Turnbull

Andrew Turnbull

John Ballard, Esq.,
Department of the Environment.

①

PRIME MINISTER

Liverpool

Mr. Jenkin has now reported, following up the meeting of Ministers on 14 December. I find the paper rather unsatisfactory:

(i) Some of the options it lists in paragraph 12, albeit ultimately rejected, are such that I ^{can} envisage no circumstances in which the Government would want to adopt them. *Mud*

(ii) Annex C on the consequences for financial markets of a default by Liverpool is rather sketchy. While the outcome might not be as bad as the Bank of England might lead one to believe, the conclusion that the markets might "take the Liverpool threat in its stride" seems rather complacent. *Mud*

Record attached

(iii) The paper shows signs of a Department itching to get involved. The meeting of Ministers in December concluded that the Government should delay becoming involved as long as possible. A number of Ministers at that meeting would not agree with the first sentence of paragraph 17. *Mud*

(iv) While the Department of the Environment needs to be in a position to react quickly it is not clear why existing arrangements for inter-departmental consultation have to be formalised.

Agree I minute back:

(i) saying that the Government should aim to stand back as long as possible and that it is not inconceivable that it would do so right up to the breaking of a crisis; *Yes*

(ii) repeating that there is no question of adopting the measures in paragraph 12 and warning against the use of unattributable press briefing suggested in paragraph 16; *Yes*

(iii) questioning whether it is necessary to formalise existing arrangements for work at official level; *Yes*

(iv) questioning whether the conclusions on the financial consequences of a default by Liverpool are too sanguine; *Yes*

(v) welcoming the contingency work being done on Commissioners though recognising this very much as a last resort; *Yes*

(vi) indicating that you are ^{ready} ~~right~~ to hold a meeting of Ministers should developments accelerate and decisions be necessary on the Government line. *Yes*

AT

*Hardy on very much
no*

7 February 1984

CONFIDENTIAL

File



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

PERSONAL

My ref:

Your ref:

7 February 1984

Dear Andrew

LIVERPOOL

/ I would be grateful if the attached annexes A and B could be substituted for those attached to my Secretary of State's minute of 3 February to the Prime Minister. They are a more up to date assessment. Those circulated earlier should be destroyed. Annexes C and D remain unaltered.

Copies of this letter go to Hugh Taylor, Richard Mottram, Callum McCarthy, Elizabeth Hodgkinson, Steve Godber, John Gieve, Miss D Wickins and Richard Hatfield.

Done AT 8/2

Yours sincerely

John Ballard

JOHN BALLARD
Private Secretary

Andrew Turnbull Esq

PERSONAL AND CONFIDENTIAL



Minister of State

Department of Employment
Caxton House Tothill Street London SW1H 9NF
Telephone Direct Line 01-213 5949
Switchboard 01-213 3000

David Barclay Esq
Private Secretary (Home Affairs)
Prime Minister's Office
10 Downing Street
London
SW1

Pa
Dues
7/2

6 February 1984

Dear David

Thank you for your letter of 26 January. As you know my Minister was delighted to hear that the Prime Minister was attracted to the idea of visiting a Community Programme Scheme, and at once asked me to be in touch with you to identify a suitable opportunity.

On Mr Morrison's advice, we agreed that Merseyside would not be the best occasion to do so, but you kindly offered as an alternative to make available some time from the Prime Minister's visit to Warwick on 24 February.

Although there are many excellent Schemes some way from Warwick, I am afraid that none of the Schemes in the immediate vicinity are suitable for the Prime Minister to visit. I am grateful for your further suggestion that some part of Saturday 7 April might be made available in the Penzance area, and after making careful and discreet inquiries I will be in touch with you again.

I hope this is helpful.

Yours sincerely

Mark Howdle

MARK HOWDLE



PRIME MINISTER

LIVERPOOL

1. At our meeting on 14 December I undertook to provide a fuller note on how a crisis might develop in Liverpool and what our response might be.

LIVERPOOL'S FINANCES - THE LATEST POSITION

2. Members of the Labour Group continue to threaten to rate inadequately in 1984/85. Some Labour members of the Council may not wish to be party to such illegal action, and the overall Labour majority is only 3 (51 Labour, 30 Liberal, 18 Conservative). We should not be too optimistic however that defections from the Labour Group will solve the problem.

3. We have not of course been able to get authoritative figures from the Council on their finances. Appendix 1 of Annex A summarises Liverpool's financial position on the best information available to the Department. For 1984/85 their GRE is £198m and their target £216m. The budget set by the Liberals at the beginning of 1983/84 of £219m assumed that there would be significant savings, but these were never identified. This budget was abandoned by the incoming Labour Group elected in May 1983 who decided not to find savings; indeed they have marginally increased expenditure. We now expect outturn expenditure in 1983/84 to be about £230m. (We assume that the additions to the Liberal budget will be financed by the use of balances).

4. A standstill budget in volume terms for 1984/85 (revaluing the likely outturn in the current year by only 5% inflation) would require expenditure of about £240m, which in turn would require a rate increase of about 60% or more to finance it. A growth budget which allowed for carrying out the Labour Group's political commitments such as rent reductions - see paragraph 2 of Annex A - would probably be over £245m requiring



a rate increase well in excess of 60% if a deficit were to be avoided.

5. The Labour Party have been discussing, in public as well as in private, a proposal to make a much lower rate which, if declared, would inevitably lead to financial collapse. Even if the majority group fail to make an illegal rate, it is possible that no majority will be available for any rate; this could also lead to serious problems including perhaps resignations of councillors or Party Groups (see Annex A).

6. Three things stand out:-

(a) The history of political division in Liverpool has meant that the full effects of the Government's block grant and target/holdback policies have neither been appreciated nor provided for. No attempts have been made to increase efficiency - on which Liverpool's record is poor. The situation now is therefore a very serious one whatever kind of administration is in control.

(b) Even a standstill budget would require a level of rate increase (about 60% or more) which would cause grave political difficulty for the Council, of whatever political persuasion.

(c) If the Council budget for carrying out their Manifesto commitments and then make an inadequate rate which does not allow for holdback, then they would be heading for financial collapse. It is possible that in these circumstances a moderate majority would emerge and be able to take power; they would need to make cuts in services in order to balance the budget. On the assumption of a 1984/85 growth budget of over £245m it would be necessary for a moderate majority to cut that budget by over £18m (nearly 7½%) if a deficit were



to be avoided. this would represent a real reduction in spending levels (after deleting proposals for growth in the budget) of about 5½% in less than a single year. This could well be impossible.

THE GOVERNMENT'S RESPONSE TO A CRISIS

7. We must make contingency plans based on the assumption that the City Council will take illegal action - either by setting an inadequate rate or by failing to rate at all. There is great uncertainty about how events will develop in Liverpool, or at what speed. Annex B sets out the main possibilities.

8. Between now and about mid-March there will be a difficult period when postures will be struck but no decisions will have been reached. We know that the Policy and Resources Committee is meeting at the end of February to consider the 1984/85 budget and rate. It is most unlikely that any decisions would be taken then - Liverpool usually rates late - but it will be important that councillors should at that stage be aware of the possible consequences of illegal action. I understand that the Chief Executive is fully alive to his responsibilities in this regard and will take the necessary action in good time.

9. What happens from mid-March onwards depends on what rating decisions - if any - are taken by the Council. I am sure that we must, at least initially, aim to resolve any problems that arise within the existing framework of existing local authority law, audit and finance. If the City Council rate illegally they should (as soon as illegality is clear) be challenged in the Courts - either by a ratepayer or, if appropriate, by the Attorney General acting ex officio - so as to limit the disruption and financial damage. This could of course ultimately lead to imprisonment of councillors for contempt if they refused to obey the Court's directions. The normal processes of audit and surcharge of councillors



would also follow automatically in the longer term, perhaps leading after about a year to disqualification.

10. A more probable course of events would be for the council to fail to rate for some little while. As is set out in paragraph 2 of Annex B, there could be doubt about the precise point of time at which failure to make a rate becomes illegal.

If such a point is reached, then events could follow the course in paragraph 9 above. A further possibility might be that after the initial failure to make a rate and before the failure reaches the point of illegality, a moderate majority might emerge willing to try to act within the law and balance the books. Such a majority would obviously need time to agree on a package of cuts and on the consequential rating decision. The later such a moderate majority emerges, the more difficult it will be to make the necessary spending cuts so that they begin to take effect within the year; correspondingly, the larger the rate increase would have to be to avoid illegality. If it became apparent that there was a possibility of a moderate majority taking the necessary steps to keep within the law and balance the books, it might be necessary for the Government to consider buying time for them by bringing forward payments of RSG to which Liverpool would be entitled. This could however be very difficult since, although it would in theory involve no extra financial commitment, it would clearly be seen as bailing the council out. Nevertheless, it remains an option which may have to be considered at the appropriate time.

11. If the Council rate illegally (or fail to rate at all) there is bound to be a period of growing crisis pending the outcome of legal proceedings. It is possible that during this period crucial local authority services might simply be not performed, for example, if the officers refuse to sign cheques. In these circumstances we would have to look to the voluntary organisations, outside as well as inside Liverpool, and the Services to help the most vulnerable groups (eg the frail elderly and children in care).



12. While we must do all we can to avoid putting in Commissioners if possible, alternative courses of action have serious disadvantages. We might legislate to make a special grant available in one form or another to Liverpool; but this would reward irresponsibility and tempt others to follow suit. We could legislate to empower the Council to make a supplementary rate later in the year, but this may not be politically tenable to an embattled moderate majority - or indeed to the Government. Finally we might approve temporary borrowing in anticipation of future revenue under existing legislation. It is difficult to predict at this stage whether such an offer would prove acceptable to a moderate Council because it would involve an eventual rate higher than would otherwise be the case to repay the borrowing; but it might be. We would have to consider in such circumstances what help the Public Works Loan Board, as "lender of the last resort", might give.

13. If it were clear that no group of councillors was able or willing to run the authority on a sound financial basis we would as a last resort need to consider introducing legislation to appoint Commissioners to run the City. The legislation would ensure that the Commissioners had the necessary rating powers to restore the City's finances on to a sound footing. My Department is well advanced on the preparation of contingent legislation and is beginning to consider the detailed administrative implications and the selection of Commissioners.

EFFECT OF CRISIS IN LIVERPOOL ON CREDITWORTHINESS OF OTHER AUTHORITIES

14. Since there is no precedent for major default by a local authority in this country, we can only speculate at this stage on its possible effect on the market. A brief note is at Annex C.



IMMEDIATE ACTION

15. I see no need at present to alter our earlier conclusion that we should take no early action to involve ourselves in developments in Liverpool. The councillors will be fully briefed on their own legal position. An attempt by us at this stage to intervene would be likely to stiffen the resolve of the militants rather than to weaken it. The Council have asked, as have many other councils, for a meeting to discuss the RSG Settlement. It would be impossible to refuse such a request and I have therefore agreed to meet them.

16. It is important however that their political resolution to hold their present course should be undermined before they take irrevocable budget decisions. Any relaxation of their present hard line would help to moderate the scale of a financial crisis, and could make all the difference to our ultimate ability to get the City back on course without the need for Commissioners. The most telling political argument is the severe hardship that would result for the most vulnerable groups within Liverpool, and for the Council's own staff, as an inevitable consequence of a decision to rate unlawfully. The media are beginning (but slowly) to understand these problems, and perhaps the case will be adequately developed without any need for action by us. We cannot however afford to wait too long. The budget process in Liverpool will be gathering momentum from about the middle of February, and if the full implications have not become publicly apparent by then we shall need to consider whether we should take the initiative to bring home to all concerned (ie the staff, the public in Liverpool etc) the perils of the course on which the Council is bent. One possibility would be to provide unattributable Press briefings aimed particularly at illustrating the consequences of breakdown for local residents.

17. While I am sure that we must keep our distance at this stage, I do not believe that the Government could stand aside right up to the breaking of a crisis without putting itself



in a politically untenable position. But the moment and method of intervention, if it comes, will be extremely difficult to judge, because there is no clear legal or financial trigger for Government action.

18. By way of preparatory action at the present time, I propose that we formalise the existing arrangements for inter-departmental consultation at official level and instruct officials to meet regularly under my Department's chairmanship to review the position in the light of the latest reports from sources in Liverpool. I have already asked my officials:-

- i. To monitor prospective decisions by Whitehall Departments that might create difficulties (see Annex D for current report).
- ii. To examine whether there are any Government financial programmes which could be adjusted within normal groundrules to assist the finances of Liverpool at an appropriate time.
- iii. to examine the practical implications of temporary use of the Services to protect vulnerable groups in the event of a breakdown of services before a moderate Council emerges or Commissioners are put in.

19. I am sending copies of this minute to Willie Whitelaw, Michael Heseltine, Norman Tebbit, Keith Joseph, Norman Fowler, Peter Rees, Patrick Mayhew and to Sir Robert Armstrong.

PJ

P J

3 February 1984

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ANNEX A

LATEST POSITION IN LIVERPOOL

1. Leaders of the majority Labour group continue to threaten to rate inadequately in 1984/85. A campaign unit has been created within the City Council to seek support for the majority group's position within Liverpool and from other local authorities and organisations. This has the support of the local NALGO branch.

2. The objectives remain:

- no redundancies from the Council workforce;
- no privatisation of council services;
- expanding public services and creating jobs;
- securing greater resources for the City from Government.

A combination of these manifesto commitments, the weak budget position inherited from the Liberals, and the effect of targets/holdback has placed the Labour Party in what they believe to be an impossible position.

3. An attempt has been made through the local Labour Party to put pressure on the neighbouring districts of St. Helens and Knowsley to follow Liverpool's lead, but apparently without success. Merseyside County Council does not appear to be under pressure to rate inadequately.

4. There are some hopeful signs.

(a) There is clear evidence that some Labour Councillors would not support illegal action. Councillor Orr has declared on television that he would not support a resolution proposing an invalid rate. As many as 6 other Labour Councillors might support him. Labour's overall majority on the Council is 3. The total number of councillors is 99. 51 are Labour; 30 are Liberal; and 18 Conservative. The next Council elections are due in May.

(b) The Council's officers will be providing Councillors at February's meeting of the policy and Resources Committee with advice (cleared with Counsel) on their duties in relation to rates and budgeting.

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(c) It is not clear what action the Liberals on the Council will take. They might propose a rate increase in line with inflation against a budget which proposes unallocated and unspecified savings. With defections from the Labour group and Conservative support such a resolution could be passed. However the Liberals might be deterred by the size of the savings that would need to be found, and the political difficulties involved in the run-up to the May elections.

5. It seems unlikely that the rate increase could be less than about 60% unless there were major cuts in services. This will make it difficult for the opposition parties to agree a rate and budget even if the majority party is undermined by defections, and this could result in no rate being declared at all. The unattractiveness of the options might lead members of either the Liberal or Labour parties to resign rather than face the problems.

6. Much would turn on the size of reductions and rate increases which a moderate majority would think technically possible and politically feasible, especially with the May elections imminent; and the extent to which they might regard temporary borrowing as an acceptable means of bridging any deficit gaps, given that such borrowing would have to be recouped by an additional rate increase in a subsequent year.

7. A detailed note on the possible financial position of Liverpool next year is attached at Appendix 1.

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APPENDIX 1

LIVERPOOL'S FINANCIAL SITUATION

1. The following paragraphs set out the Department's current assessment of Liverpool's financial position; but it is necessarily based on limited information. A full assessment could only be made in discussion with Liverpool's officers.

2. The Labour majority inherited from the Liberals a rate that assumed significant savings during 1983/84 leading to a budget of £219m. Liverpool's Grant Related Expenditure for 1984/85 is £198m. Its target - any expenditure in excess of which will result in grant holdback - is £216m.

3. Labour abandoned the search for savings, and instead increased expenditure, making use of balances, to an estimated £230m.

4. To maintain expenditure in 1984/85 at the 1983/84 level (without any further increase to meet the Labour group's political commitments such as rent reductions - see paragraph 2 of Annex A) the rate will have to be increased beyond its current level to meet:

- the increase in the level of expenditure that was paid for during 1983/84 by using up balances;
- the holdback for 1984/85;
- normal cost inflation.

5. Taking account of these factors, even a "standstill" budget would be about £240m and would require a rate increase of about 60% or more. (The increase in the County precept - which is likely to be large - would be additional to this). Liverpool's current general rate poundage is 154p - this compares with an average of 143p for all metropolitan districts but is lower than Newcastle (216.3p) and Manchester (204p).

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6. The Labour group's threat is that they will not rate for holdback. If an illegal rate were set on the basis of a standstill budget and no provision for holdback, the rate increase required would be only about 22%. If the council were subsequently required to adjust its expenditure to enable it to be met from the product of that rate plus the RSG entitlement, it would need to reduce cash expenditure by about 6%. This would result in a budget of £225m - lower than the cash expenditure for the current year. A reduction of this magnitude - which would obviously produce real term cuts - might be very difficult to achieve in one financial year even if planning for such a reduction began now: and of course the later such reductions are attempted, the less can be achieved in the forthcoming financial year.

7. This is only one of many possible outcomes. If the Labour group budgeted for real growth to cover its commitments to provide more jobs and cut rents - at, say, £245m - the required lawful rate increase would be about 80%. A rate increase on this assumption which did not cater for holdback would be about 29% and the cuts subsequently required to balance the books 7% plus. As this example makes clear, the percentage level of cuts required to balance the books rises slowly as expenditure increases because of the rapid accumulation of holdback which is subsequently cancelled out.

8. If a moderate majority sought to make economies, but felt unable to strike a rate which balanced the books because it would involve too big a rate increase in one year to be politically tenable, then one answer possible under existing statutory provisions would be for the Secretary of State to approve temporary borrowing to fill the gap. But this of course would eventually have to be recouped by a rate increase in a subsequent year higher than would otherwise be the case, e.g. a rate increase of 8p (5% of the present gross rate poundage) would be needed to repay a short term loan of £5m borrowed at 15% for six months (½p of such an increase would be to meet interest payments).

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ANNEX B

DEVELOPMENT OF A CRISIS IN LIVERPOOL

1. Unless the majority group reverse their present policies, the development of a financial crisis of some severity in Liverpool next year seems very likely, though the precise course of events cannot be predicted at this stage. Already the City Council is falling behind its traditional pattern of budget making. Between now and the beginning of next financial year the position could become very confused as parties align or re-align to consider the options. From this confusion action which may be unlawful could emerge - either by design or because the parties are unable to agree on an acceptable course.

2. In normal circumstances a rating authority such as Liverpool would finalise its budget and strike a rate in March. The General Rate Act 1967 does not stipulate a time by which a rate must be made (see S.2 - every rating authority shall "from time to time" make a rate). The structure of the relevant provisions suggests that the rate must be made within the financial year to which it relates, i.e. a period of 12 months beginning 1 April. A cause of action for breach of statutory duty would arise when the estimated expenditure, or contingencies of the council cannot be met by any means other than raising a rate. Depending on the circumstances of the authority it could be some way into the financial year before this would arise particularly if the council had substantial reserves, or had means other than raising a rate to meet their estimated expenditure or contingencies.

THE SEQUENCE OF EVENTS

3. The sequence of events could take a number of different turns. Much will depend on the attitude of the court. Remedies to compel the performance of a statutory duty are discretionary and the courts have shown reluctance to dictate how a local authority should conduct its business in the absence of illegality.

The Council fails to make a rate

A. A councillor, ratepayer (or the Attorney General acting ex officio) could seek an order from the Court directing that the Council make a rate to meet their estimated expenditure or contingencies which cannot be met by any means other than raising a rate. The council comply with the order.

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- B. As (A) but the court order is not complied with. If this was due to deliberate obstruction those members responsible could be proceeded against for contempt and be subject to fines or imprisonment. If there was individual or mass resignation of members following the order it could not be enforced. There would have to be fresh elections. Depending upon the behaviour of members there could be a quorum ($\frac{1}{2}$ of the council) sufficient to fix a budget and make a rate.
- C. As (A) but in complying with the Court's order to make a rate, the council make an inadequate one, i.e. one which will not meet their estimated expenditure or contingencies which cannot be met by any means other than raising a rate. The consequences of this are the same as if the council had set an inadequate rate in the first place and are covered at (D) below.

The Council makes an inadequate rate

- D. Under the legislation which abolished supplementary rates, a substitute rate can be no higher than the original rate even if the original rate is subsequently declared invalid. In this situation it is possible that the court would declare the budget unreasonable or quash the budget resolution but this is a novel situation and much will depend on the attitude adopted. The problems of enforcing any order are the same as in (B) above. The Council would have to budget according to the available revenue.

4. Under (A) and (B) above, it will be open to the Council to adjust both the rate and budget to get their income and expenditure into balance. Under (C) and (D), however, this would have to be achieved solely by cuts. If the majority group rated on the basis they have threatened, cash cuts of over 7% would have to be achieved in less than a single year.

TIMING OF EVENTS

5. A range of unpredictable political legal and financial issues will affect the timing of any crisis.

6. There are major political uncertainties. There may not be a moderate majority in Liverpool prepared to combine to make a lawful rate/budget in the face of the political

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odium that cuts and high rate increases would involve. Liberal/moderate Labour councillors might prefer to resign. Faced with a court order to make a rate or reduce its budget, the Labour militants might resign rather than implement the required cuts. Further uncertainty is created by the run-up to the May elections and their potential outcome.

7. Particular legal uncertainties include:

(i) The difficulty of establishing breach of the duty to rate.

(ii) The attitude of the court and the efficacy of enforcing court orders.

(iii) The position of the auditor who can take action for surcharge and disqualification where loss has been incurred or deficiency caused by wilful misconduct, e.g. interest run up on short term borrowing for expenditure which could not be met by other means by reason of failure to make a rate.

8. If the council were to fail to make a rate for a precept or failed to pay a precept, it would be open to the precepting authority to enforce the payment. Irrespective of enforcement, interest would be payable on the amount of the unpaid precept.

9. The speed at which the underlying financial crisis develops will depend on the size of any rate made and on details of the council's cash flow which are not at present known to us. The pattern of major debt repayments and the tolerance of creditors will be important: a crisis could develop very quickly if concern about the financial probity of the council led creditors to seek to recover their money (this could have wider ramifications, discussed in Annex C). The reaction of the City's bankers, Barclays, will be critical, but if the Government is to keep at arm's length from the problem it cannot approach the bank.

10. Another critical factor will be the attitude of officers who are vulnerable to action by the auditor in the same way as members. It has been suggested that they may seek

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a court order of mandamus to force the council to rate or to balance its rate and budget (we are aware of one Chief Officer of another authority who has said that he would do this if faced with the problem). It has also been suggested that officers might refuse to process rate demands based on an unlawful rate though latest information on officers' attitude to this, based on legal advice they have obtained, indicates that they probably won't do this. More probably they might refuse to authorise payments on behalf of the authority if it were clear that there would not be sufficient revenue to meet commitments. Legal advice from Counsel (Robert Alexander) was that proper officers could continue to write cheques on behalf of the authority if there were funds to meet them whether or not any (or an inadequate) rate had been made, provided that they were acting under the authority of the Council or a Committee. But he considered that there might be risks to officers in incurring fresh commitments on behalf of an authority when there were grounds for thinking that the obligations could not be met: it is difficult however to draw the line between continuing commitments and fresh commitments. Officers might be vulnerable under Section 19 for incurring unlawful expenditure unless they could satisfy the Court that they had acted reasonably. Councillors might be prepared however to take this risk on themselves and authorise payments directly, so extending the operation of the authority.

11. Depending on how these factors combine, a crisis might develop very quickly, or steadily over a period. If the crisis took some time to come to a head, the ultimate cost of restoring the finances of the council would be greater and it would be less practicable to look to cuts in services to provide the necessary funds.

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ANNEX C

FINANCIAL BREAKDOWN OF LIVERPOOL CITY COUNCIL: EFFECT ON CREDITWORTHINESS OF OTHER LOCAL AUTHORITIES

1. Major default by a local authority is unprecedented and we cannot be certain of its effect on the ability of other local authorities to borrow. Scottish experience in relation to Lothian Council suggests, however, that the market, perhaps after an initial flurry, can be expected to take the Liverpool "threat" in its stride. While the ability of other authorities to service their own debts would be unaffected by default itself, market confidence might be shaken with a consequent rise in interest rates and the market becoming more discriminating in its attitude to local authorities classed with Liverpool.

2. Short of sending in Commissioners, it appears that a Government response must be confined to statements stressing the uniqueness of Liverpool's predicament and the continuing soundness of other local authorities.

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ANNEX D

MAJOR ISSUES, INCLUDING GOVERNMENT DECISIONS, AFFECTING LIVERPOOL

MSC COMMUNITY PROGRAMME

1. In November, the MSC imposed a moratorium on community programme schemes because there was a serious risk that they would breach their cash limit. In Liverpool, only 200 of 650 agreed places on CP funded schemes had by then been filled. The City Council had been relying on the schemes to meet its political commitment to provide jobs.

2. The Secretary of State for the Environment wrote to the Secretary of State for Employment to see if the position in Liverpool could be eased. Subsequently, the Department of Employment have agreed to provide more money for the CP schemes, but it is not yet clear whether this will be sufficient to assist Liverpool.

EDUCATION: SECONDARY SCHOOL REORGANISATION

3. The Secretary of State for Education and Science will announce a decision in March/April on Liverpool City Council's plan to reorganise County Secondary Education schools. The Council's intention is to create "comprehensive neighbourhood community schools". While this plan would save money, it would run counter to the Government's policy on parental choice, preserving good schools and making provision for single sex education.

DISTRICT HEALTH AUTHORITY

4. DHSS Ministers are considering a new long-term strategy for Liverpool District Health Authority to deal with an over-provision of acute hospital facilities, poor community services and a degree of over-funding compared with other Health Districts in the Mersey region. The proposed strategy - which has been subject to public consultation - would involve closure of two hospitals, substantial investment elsewhere and a greater accent on community care. Liverpool City Council oppose the strategy outright and argue that it will impose considerable additional burdens on their social services department. If Ministers accept the strategy an announcement could be made very soon.

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INNER CITY PARTNERSHIP

5. The City Council have published major plans for using partnership resources in 17 priority areas, mainly comprising run-down council estates, and may be seeking to confront the Government over these. Much of the proposed expenditure, particularly to improve housing, may conflict with the purposes of partnership expenditure and the role of main programme housing expenditure. Proposals to support the voluntary sector are ill-defined and those for inner city businesses unclear. Officials are urgently seeking further information.

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Telephone:
051 - 722 - 2379

3rd February 1984.

Your Prime Minister

R6

I write to offer you my sincere thanks for the kindness with which you received Bishop Sheppard and myself on Wednesday morning. We were both very conscious of the heavy pressures on your time and are more than grateful for the opportunity you gave to us to represent to you some of our hopes and anxieties regarding Liverpool's future.

Yesterday's news about Free Port status has been received here exactly as we wished. The local press and radio have picked up Patrick Jenkin's point that it may be seen as an act of confidence by the Government and I hope that it will be an encouragement to Jim Fitzpatrick and the Mersey Docks and Harbour Company who have made such promising strides in the last few years.

Clearly we still have very many party-political problems to face here where the polarisation of opinion can be so acute. It was good to be able to lay some of our anxieties and suggestions before you and we really were most grateful for your time.

*Your very sincerely
+ Paul Worsell*

The Rt. Hon. Mrs Margaret Thatcher, M.P.,
Prime Minister's Office,
10 Downing Street,
London SW1.

SUBJECT

ce Marks



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10 DOWNING STREET

From the Private Secretary

1 February 1984

Dear John,

The Prime Minister met the Bishop and Archbishop of Liverpool today for a private discussion about Merseyside. Your Secretary of State and Mr. Michael Alison, the Prime Minister's Parliamentary Private Secretary, were also present.

The Bishop of Liverpool thanked the Prime Minister for making time to see them. He and the Archbishop felt deeply for the Merseyside community of which they were part. In the inner city parishes particularly, people felt that God had deserted them. They were alienated from the planning process, and no longer believed that attempts to consult them were genuine. Unemployment on Merseyside was long term, indeed indefinite, and efforts to reduce unemployment on a national scale would have little impact locally. There were streets and whole communities with no effective access to the job market. Part of the explanation, in his view, was "the mobility of the self-confident". It was rare to find Liverpool managers in charge of Liverpool firms, though there were many successful Liverpool managers elsewhere.

The Archbishop of Liverpool agreed that Merseyside people felt they had little part in determining their own destiny. Nevertheless, the past two years had seen improvements, especially in community policing which was helping to rebuild confidence. Against this background, the City Council's decision to take over the housing plans being developed on a self-help basis by cooperatives had been a major setback - not least because of the history of poor housing management by the Corporation.

The Prime Minister was very concerned that the Council should have acted in this way, essentially for doctrinaire reasons. A sense of involvement in one's own affairs, and a sense of personal achievement, were basic human needs.

In discussion of local government on Merseyside, your Secretary of State said that the current scene was overshadowed

/by uncertainty

uncertainty about what the City Council would do about rates. To balance the books would take a reduction of £7 or £8 million in expenditure, coupled with a rate increase of 30 per cent. It was unclear whether, given the historical divisions between the parties, a moderate majority could be found for such a policy.

The Archbishop said that the County Council was one of the few forces for unity in the area. Its officials were generally of a high calibre. Despite faults, the County Council's efforts had received widespread support - for example from the Chamber of Commerce. The Bishop added that people found it hard to understand why the Government was abolishing the one authority which had behaved sensibly in Merseyside. His experience with the London Docklands Joint Committee suggested that joint boards of district councils would find it hard to rise above sectional interests. It was essential that they should do so if they were to succeed in "selling" Merseyside to investors.

The Prime Minister responded that support for the County Council was in itself a measure of the failure of the City Council, which should by rights be the lead authority in the area. Your Secretary of State commented that it was clear from his discussions with the County Council that they saw themselves not so much as a provider of services as a tier of regional government. The fact was that they had failed to tackle the dereliction of the docklands effectively.

The Prime Minister asked what would be the effect on Merseyside if the Government were to establish a Freeport there. The Archbishop replied that the economic benefits of such a step were undoubted, and would be welcome. But the major impact would be on morale. Establishing a Freeport would be seen as a vote of confidence by the Government in Merseyside.

In discussion of industrial issues, the Prime Minister noted that although unemployment was very high the level of wages paid to those in work was above the national average. The Bishop responded that recent figures suggested that productivity in Merseyside was also above average - at Halewood production per man was 70 per cent higher than the average for car workers nationally. Firms moving to Merseyside arguably faced more "hassle" with their workforce, but they stood to be rewarded by a job well done. The mistake some employers had made had been to import managers and supervisors from other parts of the country.

The Bishop of Liverpool referred again to the scale and long-term nature of unemployment. Government schemes such as YTS and the Community Programme were dwarfed by the size of the problem. The Port of Liverpool, with its large concentration of unskilled labour, had been created to serve the nation's needs. Arguably, now that the market for Liverpool's services had moved on, it was for the nation to direct new investment there.

/The Prime Minister

The Prime Minister commented that the direction of investment to uneconomic areas could not be sustained if the market was not prepared to pay a higher price. Your Secretary of State said that there were many examples of new investment in Merseyside, although he conceded that not all were on the Liverpool side of the river, and that many small businesses would be needed to compensate for large-scale factory closures. The Prime Minister added that even if Merseyside had to live with unemployment for the foreseeable future, much could and should be done to improve the physical environment. It was encouraging to see the progress being made by the Development Corporation in this regard. Ways had to be found to help people adapt to change, both in a technological sense, and in terms of their mobility. But she did not underestimate the difficulty of rebuilding people's confidence to the point where they would be prepared to seek change rather than fight it.

The Prime Minister concluded by saying that she remained concerned to keep in touch with the problems of Merseyside, and the feelings of the people there. This was not always easy because of the barriers to communication deliberately erected by political extremists. But she would not be deterred.

Yours ever,

David

John Ballard, Esq.,
Department of the Environment.



10 DOWNING STREET

Prime Minister

In addition to the main brief below (which you have already seen) you may like to glance at the Policy Unit note opposite.

You could perhaps mention in confidence that you are hoping to visit Liverpool (mainly to see the International Garden Festival) on Friday 13 July.

✓ DMB
3/11

CONFIDENTIALcc Mr Redwood
Mr Letwin

1. MR BARCLAY
 2. MR TURNBULL
-

*Prime Minister**27/1*

PRIME MINISTER'S MEETING WITH THE
ARCHBISHOP AND BISHOP OF LIVERPOOL

We believe that the Archbishop and Bishop will wish to raise one central issue with the Prime Minister - the economic plight of Merseyside and/or Liverpool - and possibly the school situation in Liverpool itself.

Attached are two aides-memoire. The first is a distillation of the points which arose in discussions I had last week on Merseyside with the Manpower Services Commission, Merseyside Task Force and the Merseyside Development Corporation. The second is Oliver Letwin's summary of the schools problem.

R.J.

ROBERT YOUNG
27 January 1984

CONFIDENTIAL

LIVERPOOL AND MERSEYSIDE - THE ECONOMIC SITUATION

1. The Merseyside economy is too small to support its present population of 1.5 million. It cannot sustain more than about 1 million. A slow decline in population is going on anyway, and the key problem over the medium to long term for central and local government is how to manage the decline. The idea of halting or reversing the decline by special measures to create jobs in industry is a complete non-starter.
2. The general economic revival taking place in the UK as a whole will not help Merseyside employment much, if at all. The largest traditional employers - the port, the edible oil based food industries, and the commercial and distribution systems which clustered round them - will not revive to their former levels, even if they have not declined beyond revival. Merseyside is now correctly characterized as a "branch plant" industrial economy: some 75% of jobs are thought to be in branches of companies based elsewhere. Even the largest locally based employers - Littlewoods, Vernons, Bibbys, Unilever and a few others - have had to shake labour out to stay competitive.
3. Curiously, wage rates do not reflect the local unemployment level. (MSC maintain that building trade wage rates are the highest in the UK outside London). And all to whom I spoke stressed that Merseyside does deserve its reputation for bad industrial relations, sceptical though we should be about applying overblown generalizations to several hundred thousand people. The fact is that first the port and then the volume car industries have been breeding grounds for bolshiness and that very large numbers know no other way of behaving towards employers.
4. There is no visible pattern of new job creation in Merseyside, such as might assist in determining better or worse areas for Government "encouragement". Companies newly setting up are very small and the vast majority are unlikely to take permanent root. Relative to other regions, Merseyside is noticeably short of enterprises in the 500-600 employee category, and just as short of the self employed.
5. If Merseyside's problem of industrial unemployment is beyond the effective reach of reasonable people and finite funds,

/the rescue

the rescue of physical dereliction takes on particular importance. All those to whom I spoke took the view that, jobs or no jobs, patches of parkland are infinitely better than shattered buildings and streets. I agree. There was all round esteem in this context for the work of the Merseyside Development Corporation (MDC).

6. MDC's task is the rapid improvement of a limited area - 865 acres - of derelict dockland on the Liverpool side of the Mersey. It has its own funding, its own planning powers, a limited life, operates largely on business principles, and is charged with attracting private capital into the area. Private capital has barely started to appear yet, but we have to respect the vigorous start that team has made and its clear awareness of the marketing skills it needs to acquire (or buy in) and of the risks it is taking with its allocated funds. The International Garden Festival is the boldest of their endeavours. If it succeeds, MDC will have some 200 marketable acres of landscaped ground for housing developers to buy; at worst, we shall have 200 acres of greenery in lieu of dereliction.

7. The Merseyside Task Force (MTF) is seeing through projects initiated or identified by Michael Heseltine, and in effect is the DOE's special projects team working through Merseyside local authorities. MTF observe non-stop strife between the ultra left Liverpool City Council and virtually all other authorities which have an interest in the Merseyside problem. (Indeed, local reservations about the abolition of metropolitan county councils focus on the greater liberty which the city council will then enjoy.) MTF now enjoy £40m of "own resources" which they can spend only via local authorities. One senior MTF representative doubts whether the full allocation can be spent in the face of ideological opposition from the City Council.

8. Conclusions

- Do not hope for (or spend money on) large scale job creation on Merseyside.
- Accept that the Merseyside population is in structural decline.

- Spend modestly to relieve physical dereliction for the benefit of those who remain. |
- Attempt the relief of dereliction in limited chunks but to a high standard. In that way some private sector development will be attracted in. |
- Ensure that the idiocies of Liverpool City Council's behaviour are well publicized.

Rj.

ROBERT YOUNG
27 January 1984

LIVERPOOL AND MERSEYSIDE - PROBLEMS WITH SCHOOLS

1. The Bishops may well wish to discuss the state of Liverpool's schools. The Prime Minister will therefore want to be reminded of the situation; she should also be warned about a number of traps that may be set for her.
2. Liverpool has suffered both from the general in births and from "emigration" of young parents. As a result, its school rolls have fallen dramatically. In one notorious case - Paddington School, Toxteth - buildings designed for 12 forms of entry now contain only three forms of entry, leaving c. 1,500 surplus places. The results are predictable: gross diseconomies of scale, great discrepancies between pupils' requirements and teachers' qualifications, and disastrously low morale.
3. Some 50% of the City's schools are run by Liverpool City Council; a further 40% are voluntary aided Catholic schools; and the remaining 10% are Church of England. For many years, neither the Council nor the Catholics could agree on plans for reorganisation. In 1982, Archbishop Worlock at last put forward proposals for re-organising the Catholic schools. These were reluctantly accepted by Keith Joseph, and have begun to be implemented.
4. The Council has now put forward plans for its "County" schools. These plans are largely the work of Dominic Brady, the 23 year old, ex-caretaker, FE student who is the militant chairman of the Education Committee. The plans involve forcing every child to go to a mixed, comprehensive, neighbourhood school of the Council's choice. Unsurprisingly, the local Conservatives have strenuously objected to this restriction of parental freedom. It is highly unlikely that Keith Joseph will approve the proposal, but the PM should obviously avoid being drawn into any comment, since the matter is virtually sub judice. (Worlock and Shepherd may well attempt to raise the issue, since Worlock, in particular, is believed to oppose the Conservative alternative plans more strongly than Labour's scheme.)
5. No proposals have yet been brought forward by the Church of England for reorganising their schools. The Prime Minister might well take this opportunity to express the hope that they will come forward soon with a sensible plan.

6. The Bishops may also raise the case of the Liverpool Institutes. These are two traditional, quasi-selective schools, with a strong academic tradition. One of them is for boys, and the other for girls. Worlock, being a vigorous proponent of comprehensives, is known to dislike the Institutes. HMI have recently criticised the boys' Institute; and Worlock may use this as a reason for attempting to extract some adverse comment from the Prime Minister. He may, in addition, attempt to attack the excellent, independent, ex-direct-grant Blue Coat School, whose existence he has strenuously opposed for some time past. The Prime Minister may wish to parry these moves, given that these three schools - though undoubtedly imperfect in some respects - are the best hope for Liverpool children.

7. Because of the condition of the schools, the upheaval of the Catholic reorganisation, and the disputes over Labour's current plans for the "County" sector, education will undoubtedly be one of the main local issues, (perhaps the main issue), in the forthcoming Council elections.

Oliver Letwin.

OLIVER LETWIN
27 January 1984

E.R. by Merseyside Task Force.

BRIEF FOR MEETING BETWEEN THE PRIME MINISTER AND THE BISHOP OF LIVERPOOL AND THE ARCHBISHOP OF LIVERPOOL ON TUESDAY, 1 FEBRUARY

1. This meeting follows a brief discussion between the Prime Minister and the Bishop and Archbishop at the Archbishop of York's enthronement ceremony.
2. The Bishop and Archbishop may wish to discuss the general attitudes held by the people of Merseyside, local morale, whether the popular image of Merseyside is fair, the role of the Churches, and touch on specific issues.

Ecumenism

3. Liverpool did have a poor reputation, rightly, for destructive sectarian attitudes. In recent times this has not been a significant feature. The Bishop and Archbishop make considerable personal efforts to promote understanding between the Protestant and Catholic communities. The latest example of this is their joint visit this week to Belfast to promote Protestant/Catholic harmony. The visit of the Pope to Liverpool in May 1982 was a success.

Local Attitudes and the Image of Merseyside

4. The Bishop and Archbishop may refer to Merseyside's longstanding economic difficulties, and the feeling of hopelessness and despair that the apparently unremitting job losses engender. These trends fuel extreme local political attitudes and a destructive approach by trade unions. They may argue that the industrial relations image of the area is unfair and distorted by the substantial presence locally of industries which are strike-prone nationally: docks and car assembly. They may also refer to a report produced by the County Council claiming that labour productivity in certain industries on

Merseyside is higher than the national average.

5. There are many Merseyside companies where industrial relations and productivity are good, though certain technical criticisms can be made of the County's findings. In the last year or so there has been relative peace in the docks and the Mersey Docks and Harbour Company is currently trading profitably (after substantial aid has been given by Government). Great efforts still have to be made, however, before Merseyside overcomes its industrial relations image. During private discussions between Merseyside Task Force officials and local factory managers the latter have often said that a great deal of management time is taken up on industrial relations matters falling short of strike action. Over the last year there have been strikes at Fords and Cammell Laird which set back the image of the area. The remedy lies in the hands of those working locally - both management and unions.

Freeport

6. The case for the Freeport may be pressed. A bid has been submitted by the Mersey Docks and Harbour Company for a freeport adjoining the Company's container terminal at Seaforth. (Confidential: It is understood that the Chancellor of the Exchequer is holding a meeting with Ministerial colleagues on 31 January to decide where freeports are to be established. Liverpool is not on the shortlist).

/Manpower Services Commission:

Manpower Services Commission: Community Programme

7. The Bishop is Chairman of the MSC Area Board which advises the MSC on proposed projects. Because the MSC were in danger of breaching the cash limit on the Community Programme (CP) which funds temporary adult employment opportunities, a national moratorium was imposed in November. The Secretary of State for Employment secured additional funding for the CP programme this year - £15M - bringing total 1983/84 expenditure on CP to £394M. Following the additional funding, the moratorium was lifted and this eases the Area Board's problems. The Board, however, still have a difficult task in deciding which of the many worthwhile CP schemes submitted can be approved.

Archbishop of Canterbury's Commission on Urban Priorities

8. The Bishop is a member of this Commission which is examining inner city problems. It is understood that the Commission will be visiting Merseyside in Mid-February.

Toxteth

9. The Chief Constable's continuing community policing experiment (re-introduction of foot patrols and much improved liaison arrangements between the police and local community organisations) has done a great deal to improve relations between the police and the local black community. The scale of housing improvement in the area is considerable and better training schemes for local young people have been set up under YTS. The rate of unemployment remains high, particularly for younger people, and that represents an underlying and continuing cause for concern. There is no current evidence, however, that a further severe breakdown in law and order can be expected.

/ Local

Local Government

10. Reference may be made to the future of the County Council and the politically extreme Liverpool City Council. The Secretary of State for the Environment is meeting the County Council on Monday 30 January to discuss abolition of the Metropolitan Counties and the White Paper "Streamlining the Cities". There is considerable pressure locally (eg from the Chamber of Commerce) to retain the County. In private discussions, however, even one or two of the Labour Districts accept the case for rationalisation of metropolitan local government.

11. The pressure to retain the County derives from the view that Merseyside's longstanding economic problems mean that one body is required to speak for Merseyside and the County fulfils that role. Second, there is local concern about the approach of Liverpool City Council and whether the necessary co-operation would be achieved at District level given Liverpool's extreme political stance.

12. These arguments do not undermine the case for the County's abolition. There is duplication of functions under the present arrangements and streamlining of the existing structure could well achieve better value for money. Clearly difficulties will arise if Liverpool maintain their present stance but the Districts may well fall into line when the appropriate legislation is before Parliament.

/ Education

Education

13. The Secretary of State for Education and Science approved a major rationalisation of Roman Catholic secondary education on a comprehensive basis, after many years of local discussions. The reorganisation was implemented in September 1983. Statutory proposals for rationalising county secondary schools are now before the Secretary of State. These proposals would reduce the number of schools (most of which are comprehensive) from 27 to 17. The proposed schools would be 11-18 neighbourhood comprehensives. The proposals would secure significant revenue savings. There is considerable local controversy about these proposals on the grounds that good schools would not be preserved, parental choice would be limited, and that there would be no provision for single sex education. The Secretary of State is likely to make a decision in March/April.

Government Assistance to Merseyside

14. Substantial support is being given to the area to make it attractive to investors. Much effort is being devoted to the removal of eyesores, regenerating derelict land, refurbishment of buildings, and to encourage private investment. The attached Annex lists the main examples of financial support.

MERSEYSIDE TASK FORCE

27 January 1984.

MAIN EXAMPLES OF GOVERNMENT FINANCIAL ASSISTANCE TO HELP REGENERATE
MERSEYSIDE

1983/84 Estimated Spend

Urban Programme (including Liverpool Inner City Partnership)	£32M
Merseyside Task Force Special Projects	£40M
Upgrading Derelict Land	£12M
Housing Corporation support for Housing Associations	£53M
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Under the Ports (Financial Assistance) Act 1981 total financial assistance to the Mersey Docks and Harbour Company is £134M (e.g., capital debt write-off and to assist in severance payments).

Over the last three years Department of Trade and Industry assistance to companies within the Merseyside Special Development Area has been at an average of £110M each year.

Expected total MSC expenditure in Merseyside in 1983/84 is about £110M.



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434
My ref:

Your ref:

27 January 1984

Dear David

Attached is the brief for the
Prime Minister's meeting with the
Bishop and Archbishop of
Liverpool, about which we
spoke.

Yours

Alan Davis

David Barclay Esq

TO: PS/SOS ROOM N16/05

10F4

FROM: KEC SORENSON MTF

BRIEF FOR MEETING BETWEEN THE PRIME MINISTER AND THE BISHOP OF LIVERPOOL (DAVID SHEPPARD) AND THE ARCHBISHOP OF LIVERPOOL (DEREK WORLOCK): 1 FEBRUARY 1984

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3074

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MERSEYSIDE TASK FORCE

27 January 1984

4004 MANCHESTER

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13.7.84

10 DOWNING STREET

From the Private Secretary

26 January, 1984

The Prime Minister was grateful for your Minister's letter of 24 January about the possibility that she might visit a Community Programme Scheme. Mrs. Thatcher is attracted by this idea, and would like to fit in a visit in conjunction with an appropriate regional tour. The next occasion which might conceivably be suitable is Friday, 13 July when the Prime Minister plans to visit Liverpool and the surrounding area. Her main purpose is to see the International Garden Festival, and she is already committed to one other official engagement and one Party engagement.

The programme for the morning is being put together by the Department of the Environment. Since your Minister wrote personally to the Prime Minister, I have not sent copies of this correspondence to them. But if Mr. Morrison agrees, you may like to do so, so that the possibility of accommodating a visit to a Community Programme Scheme can be explored and proposals put to us.

If, in the event, it turns out not to be possible to include a visit to a Scheme in the Merseyside programme, we will, of course, keep the possibility in mind for a future occasion.

DAVID BARCLAY

Mark Howdle, Esq.,
Department of Employment



Minister of State

Department of Employment
Caxton House Tothill Street London SW1H 9NF
Telephone Direct Line 01-213..... 5949.....
Switchboard 01-213 3000

Prime Minister

Would you like to
do this?

If so, it will have
to be much later in the
year or next. 24 January 1984
ck

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
LONDON SW1

Yes - we can fit
it in with a loan
mt

Yes Prime Minister.

Much as I hesitate to add another burden to your already heavy diary, it occurred to me in the light of your very positive reaction to the Community Programme at a recent Cabinet Committee discussion that you might want to visit a scheme at some time.

If you thought it worthwhile combining this with another visit you were to be making I would be only too happy to arrange for you to see a good local scheme.

PETER MORRISON

NDPM

BT 11/1



Caxton House Tothill Street London SW1H 9NF
6400

Telephone Direct Line 01-213.....

Switchboard 01-213 3000

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
1-19 Victoria Street
LONDON SW1H 0ET

11 January 1984

Norman

METHOD OF DESIGNATING ASSISTED AREAS

Thank you for your letter of 20 December.

Following the review my Department is carrying out, Travel to Work Areas (TTWAs) will of course no longer be defined in terms of employment office areas as at present, and the reference to EOAs in the Industrial Development Act will no longer be relevant. I agree that the alternatives to amending legislation which you mention would be cumbersome, susceptible to errors and might possibly delay the introduction of the new Assisted Areas map. It therefore seems right that Section 1 of the Industrial Development Act should be amended to give you powers to designate Assisted Areas in the way you describe.

I am sending copies of this letter to recipients of yours.

2

Reg PO Inner cities P+k



11 JAN 1984



B. R.

MR. FLESHER

London Docklands

You asked me to look out a date for a possible Prime Ministerial visit. The diary is, as you know, very full. The only suggestion I have is Friday 13 April. She has a free morning and is due to leave Downing Street at 1500 for Finchley. She could go mid-morning to the docklands and stay on for lunch. But you must put this to her before taking it further. When submitting your advice you might like to mention that there are no alternative Fridays before July.

CP.

3 January 1984

PRIME MINISTER

26

At a meeting with the Environment Secretary just before Christmas the possibility was raised that you might visit London docklands to see something of the work of the London Docklands Development Corporation. The attached note from DOE returns to that suggestion and proposes that you should take it up some time in the spring. If you wished to do so it would require more or less a whole morning. Caroline tells me that the only Friday which is available before July is 13 April. On that day you have a free morning but are due to go to Finchley at 1500. You could therefore go to the docklands at about 1100, stay on for lunch and then depart for Finchley.

Do you wish to do so or shall we reserve this for some time in the summer recess?

TF

3 January 1984



JH 417

Secretary of State for Trade and Industry

CONFIDENTIAL

NBPM

AT 20/12

CE NTU

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422

GTN 215

(Switchboard) 215 7877

20 December 1983

The Rt Hon Tom King MP
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
London SW1

R. Tom.

METHOD OF DESIGNATING ASSISTED AREAS

The legislation which concerns the designation of assisted areas (Section 1 of the Industrial Development Act 1982) has a specific provision to permit description by reference to employment office areas of the Manpower Services Commission. Designation in this way is unlikely to be appropriate in order to implement our decisions following our review of the assisted area map, and I shall therefore need a power to designate by reference to local authority wards, or to any unit consisting of such wards, including future Travel-to-Work-Areas as defined by your Department or to any other unit prescribed by or under a statute. The only alternative would be to specify the areas in very great detail in the order, or by incorporating very detailed maps. Both these possibilities are cumbersome and liable to error, and by adding to the time needed to prepare the orders would delay the introduction of the new map and regional development grant scheme.

2 I propose, therefore, to include such a change in the Bill which I intend to introduce in January to change the Regional Development Grants Scheme (which is contained in the same Act). The change could be made to apply automatically to the designation of derelict land clearance areas, and I would propose to do this. My proposed new provision should not affect the timing of the introduction of the Bill.

3 I am copying this letter to the other Members of E(A) and to the Lord President, the Chief Whip, Sir Robert Armstrong and First Parliamentary Counsel.

g
Norman

NORMAN TEBBIT



Flecks

10 DOWNING STREET

From the Private Secretary

16 December 1983

LONDON DOCKLANDS

At a meeting this morning, at which your Secretary of State was present, it was suggested that the Prime Minister might like to take a look at some of the successful developments coming forward in the London docklands. The Prime Minister expressed interest in this possibility.

BE

I should be grateful for advice on whether it might be appropriate for the Prime Minister to visit the docklands area (presumably as the guest of the Development Corporation), and if so, what timing might be suitable.

DAVID BARCLAY

Alan Davis, Esq.,
Department of the Environment.

HL



10 DOWNING STREET

From the Private Secretary

15 December, 1983

LIVERPOOL

The Prime Minister held a meeting today to discuss the developing situation in Liverpool. Present were your Secretary of State, the Home Secretary, the Secretaries of State for Defence, Trade and Industry, Education and Science, Social Services, the Chief Secretary and the Solicitor General. Also present were Sir Robert Armstrong and Mr. Buckley (Cabinet Office).

Your Secretary of State set out the position as in his minute to the Prime Minister of 12 December. He no longer thought that it would be wise for the Government to volunteer a statement. Nevertheless, he was likely to face questions on the Government's attitude to events in Liverpool and how it was going to respond. He sought advice from colleagues on this. He was worried that there was an air of unreality among the participants in Liverpool who had not fully appreciated the serious consequences which could flow from their actions. He was also worried that the Government could be criticised for being aware of an impending crisis in Liverpool, with serious effects on the City Council's employees, creditors and citizens, yet taking no steps to avert the crisis.

In discussion, it was noted that the Liverpool City Council had made no formal statement about its budget and rates, though there were extensive press reports that it intended to declare a budget with a very high level of expenditure and rates which were insufficient to cover it. It would be wrong, however, for the Government to presume the Council would act illegally before it had in fact done so. It was noted that an insufficient rate was not itself illegal; it only became so when declared so in the courts. The danger was that Liverpool City Council was looking for confrontation and a statement of Government intentions could solidify rather than weaken support for the majority Labour group. The Council would like to provoke the Government into moving in so that the latter took the criticism for increasing rates and cutting services.

S E C R E T

- 2 -

It was argued that the right course for the Government should be to allow mounting pressures on the Councillors and officers to take its toll. Meanwhile, the Government should confine itself to saying that the duties and powers of councils and the sanctions applying to them were set out by Parliament and that the Council should take legal advice to ensure that its actions were consistent with them.

The meeting then discussed the manner in which the crisis could occur. One possibility was that the Council would have sufficient money early in the year to keep it going for a few months. It was thought more likely, however, that before the Council's cash was exhausted, its officers would be reluctant to sign contracts which they did not think could be met.

Another possibility was that as soon as the Council struck its rate and budget, suppliers and financial markets would spot the inconsistency. Supplies would be denied to the Council and serious problems could arise in the money and the bond markets where at present little distinction was made in the creditworthiness of different councils. The formal position was that the Government did not guarantee the debt of local authorities; this was secured as a first charge on rates. The difficulty was that this position might not be fully appreciated.

Summing up, the Prime Minister said that for the moment the Government should confine itself to the statement that the duties and powers of councils and the sanctions applying to them were set out by Parliament and that the Council should take legal advice on its course of action. External pressures should be allowed to exert themselves and the Government should avoid appearing to issue threats. Meanwhile, the Department of Environment, Treasury, and the Law Officers' Department should put in hand contingency work, identifying the manner and timing in which a crisis might arise, considering what the Government's response might be, what the implications for financial markets might be, and whether the Government could or should vary payment of RSG, if the Council struck a rate which was, or appeared likely to be, declared illegal.

In view of the sensitivity of this issue, I would be grateful if this letter, and other documents on this subject, could be circulated only to those with a strict need-to-know.

I am copying this letter to the Private Secretaries to those present and to Mr. Buckley (Cabinet Office).

(A. Turnbull)

J. Ballard, Esq.,
Department of the Environment

S E C R E T



10 DOWNING STREET

Andrew
Michael

Any comments,
particularly on the specification
of further work?

Andrew

15/12

Just a few pencilled suggestions.

I wondered whether to suggest
bringing in Service Dep^t (especially
DES), but on balance I think
you're right. Any Dep^t feeling
strongly enough can join in; but
if open invitations are issued,
they'll all want to come to
the party.

MSB

15/12



10 DOWNING STREET

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14 December 1983

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The Prime Minister held a meeting today to discuss the developing situation in Liverpool. Present were your Secretary of State, the Home Secretary, the Secretaries of State for Defence, Trade and Industry, Education and Science, Social Security, the Chief Secretary and the Solicitor General. Also present were Sir Robert Armstrong and Mr. Buckley (Cabinet Office).

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A. TURNBULL

John Ballard, Esq.,
Department of the Environment.

cf BU Lyon.



10 DOWNING STREET

MR BARCLAY

Do we require any special
briefing for this meeting?

CR.

14 December, 1983

Mrs Ryder *CR.*

I've already asked DoE
for a brief. See letter of
9 Dec below.

DMB
14/12



huc

EM

cc: JOE
RCAFFORD

10 DOWNING STREET

From the Private Secretary

14 December, 1983

Further to our conversation on the telephone yesterday, I am writing to confirm that the Prime Minister is looking forward to seeing the Bishop of Liverpool and the Archbishop of Liverpool for a meeting here at 10 Downing Street at 0900 hrs on Wednesday, 1 February, 1984. As I mentioned, the Secretary of State for the Environment Mr. Patrick Jenkin will also be attending the meeting.

(Caroline Ryder)

The Private Secretary
to the Bishop of Liverpool



CONFIDENTIAL

P.01178

PRIME MINISTER

Developments in Local Government:
Liverpool.

BACKGROUND

At last Thursday's Cabinet the Secretary of State for the Environment said that he was extremely concerned about developments in the London Borough of Brent and in the Metropolitan District of Liverpool. In your summing up you said that the Government should emphasise that the situation in Liverpool was the responsibility of the local council; and that you would arrange for a small group of Ministers under your chairmanship to consider how the situation might best be handled (CC(83)36th Conclusions, Minute 5). This group is to meet tomorrow, 14th December. In preparation, the Secretary of State for the Environment has circulated his minute of 12th December. In essence it recommends relying, at least at this stage, on the existing law; and seeking to dissuade Liverpool District Council from making an illegal rate (ie one clearly inadequate to defray budgetted expenditure) by ensuring that the consequences are widely known.

See Annex A

MAIN ISSUES

2. The main issues before the meeting are as follows.

(i) What action, if any, should the Government take under existing powers?

(ii) Should it take further powers?

(iii) What public stance should it adopt?



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Mr Jenkin will not be ready at tomorrow's meeting to pursue further the wider issues relating to local government malpractices, and the collection of information about such malpractices. He will be minuting you separately about those matters in the light of the discussion at last Thursday's Cabinet, in a few days.

Action under existing powers

3. Page 3 of Mr Jenkin's minute lists a number of challenges that could be mounted. The meeting will wish to consider two main aspects.

(a) Should any of the measures which can be taken by Ministers be put in hand now? In particular, is it now open to the Secretary of State to institute an extraordinary audit, or must he wait for more formal and overt action by the Council?

(b) Are there any other powers not listed in the minute? In particular, the Attorney General has advised the Ministerial Group on the Abolition of the Greater London Council and the Metropolitan County Councils (MISC 95) that he has ex officio certain powers which can be used if a local authority takes action which is unlawful or clearly contrary to the public interest: he can apply to the Court for an appropriate order. Would existing circumstances justify the use of such powers?

4. One general consideration that the meeting will wish to bear in mind is that even if it is legally possible for Ministers to intervene it may not be tactically wise to do so at this stage. It may be better to wait for formal confirmation of the Council's apparent intentions, or to allow local ratepayers to take the initiative. Otherwise

CONFIDENTIAL



CONFIDENTIAL

it might be more difficult to hold to the line that the problem is essentially local and that the central government does not intend to intervene unless it clearly has to do so because of an imminent collapse of local services.

Further powers

5. As you know, legislation is being drafted on a contingency basis to empower the Secretary of State, with the approval of Parliament, to put in Commissioners to take over a local authority which is trying to bankrupt itself or is otherwise seriously misbehaving. Ministers collectively have taken the view that such legislation should be held in reserve and introduced only if manifestly necessary. It is likely that the meeting will take the view that that point has not yet been reached. If legislation were presented, it would have to be as a free-standing Bill; and this would be a substantial and extremely controversial addition to the legislative programme. Should it become a live possibility you will wish to ensure that the Lord Privy Seal is brought into the discussions.

Public stance

6. It seems necessary to have an agreed response to the enquiries that will inevitably ensue if Liverpool District Council persist in their apparent course of action. The Secretary of State for the Environment recommends that the Government should remain relatively aloof and confine itself to pointing out the serious consequences, under the existing law, of making an illegal rate. He puts forward a draft statement on these lines, which he suggests should be made 'at an appropriate occasion in the near future'. The meeting will wish to consider:

- (a) the broad lines of the statement; and
- (b) when and how it should be made.



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The statement: content

7. The meeting is likely to endorse the general approach recommended by the Secretary of State for the Environment. But there are two aspects to which Ministers may wish to give particular attention.

8. First, is it wise to go into the details of what might happen in individual services, even for purposes of illustration? References to food for children in children's homes are undoubtedly telling; but they will equally undoubtedly be met by arguments to the effect that it is all the Government's fault for providing too little money from central funds. It might be better, at least at this stage, to confine the statement to the existing law and the formal consequences of breaking it.

9. Secondly, is it wise to refer to the possibility of legislation to empower the Government to take over the running of a council? It seems quite likely that that is just what Liverpool Council want; any suggestion that the Government might be contemplating it could encourage them.

The statement: timing

10. If a statement is to be made, it should probably be made quickly. But the meeting may wish to consider whether it should be volunteered, or made in response to enquiries from a third party. Again, considerations of how far the Government wishes to appear to be involving itself will be relevant.

HANDLING

11. You will wish to invite the Secretary of State for the Environment to update the account in his minute if necessary; to

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outline what action is open to Ministers under existing powers; and to suggest whether any action should be taken at this stage. The Solicitor General will be able to offer advice on the legal aspects. All the other Ministers present at the meeting are likely to wish to contribute either because of their departmental interest or from personal experience of the Liverpool and Merseyside area.

CONCLUSIONS

12. You will wish the meeting to reach conclusions on the following:

- (i) What action, if any, should Ministers take at this stage under existing statutory powers?
- (ii) Should the Government seek any new statutory powers?
- (iii) How should its views be presented publicly?

13. Subject to detailed conclusions on the above, you will no doubt wish to invite the Secretary of State for the Environment to keep you and the other members of the Group informed and to propose such action as may seem necessary as the situation develops.

P L GREGSON

13 December 1983

CONFIDENTIAL



cc NO
→ cc BI
SS/ATJ

PRIME MINISTER

LIVERPOOL

I briefly mentioned the developing situation in Liverpool at Thursday's Cabinet.

The current situation

So far, there have been no formal statements by Liverpool City Council about their rates and budgets for the coming year.

However, the widely publicised intention of the majority group is understood to be to increase council employment, to initiate a major municipal building programme, to reduce council rents by £2 a week, and not to increase rates to cover these additional costs. (They would calculate the rate on the basis of their own assumption about the amount of rate support grant they consider they "ought" to be receiving).

We can still only speculate whether, in the event, the majority group will hold to this decision. But they have inherited a situation in which unless they make large cuts they will in any event require a rate increase of 30-40% next year. Faced with a humiliating climb-down or a very large rate increase, it is quite conceivable that they would go ahead with the high expenditure/low rates policy in the hope that they could provoke the Government to move in, take over, and take on itself the odium of increasing rates and cutting services.

Possible scenarios

There are three possibilities:

- (a) the council sets a realistic rate and budget. This would be a difficult decision for them for the reasons



mentioned above. It is however by no means impossible if they can be brought to understand the grave consequences of the course they are proposing, that they will decide to stay within the bounds of legality and explain their position to their supporters as best they may;

(b) the council will set an unrealistically low rate, as they are proposing. This will automatically entail financial difficulties. With the ending of the supplementary rating provisions, there is no way an inadequate rate can be increased during the year. Legal challenge to the rate might result in a direction to the council to reduce their budget, but it would be unlikely that they would be able to achieve sufficient reductions at that relatively late stage to avoid running out of money.

(c) the council will fail to set a rate. In this case, they could be ordered by the court to fix a rate. They would then have to decide whether to set an adequate rate or to hold to their current proposals.

The situation is still fluid, and it is hard to predict which of the above outcomes is more likely. But with little evidence of support for the Liverpool majority group from other Labour councils and the national Labour Party, there is clearly a possibility that they could decide after all to set a legal rate.

Objectives

Following the recent discussion in MISC 95, we are beginning to prepare contingency legislation which will enable us to dismiss councillors and replace them with a Commission. Such legislation would, however, be highly controversial and difficult to enact. It may well be possible to avoid introducing it altogether. If it has to be introduced, it should be in a situation where the Government clearly has no realistic option but to do so.



Our objectives must therefore be, first, to seek to sap the confidence of the Liverpool majority group so that they do not take action which might make the appointment of commissioners inevitable; and second, if this is not practicable, so to order developments that the appointment of commissioners is seen clearly as an unavoidable response to action by the council, not as a pre-emptive movement by Government.

Proposed courses of action

There are too many uncertainties at this stage to be able to plan far ahead. We shall keep in close touch with developments, and judge an appropriate response accordingly. If necessary, there are several possible avenues of approach short of takeover that could be deployed in a graduated response. They include:

ratepayer challenge to the legality of the rate;

extraordinary audit, with the possibility of surcharge and disqualification of councillors;

specific default powers to deal with deficiencies in particular services;

requiring undertakings in return for permission to borrow (if the council, having initially embarked on a high expenditure/low rate policy decided that it could not after all tolerate the consequences).

The immediate aim must be to seek to dissuade the council from making an illegal rate next year by ensuring that the serious consequences - for themselves, for their ratepayers and for the people of Liverpool in general - are widely known



/ in the area. I enclose a note of the main points that need to be made, at an appropriate occasion in the near future. It makes it clear in particular that an illegal rate would lead to failure to pay the council's employees and a breakdown in the life of the community. The resulting mess could not easily or quickly be cleared up whatever central Government action might be taken. It also makes it clear that the difficulties with which the council would be faced arise from long-established law and practice in the local government field, and not from any action by the present Government.

We shall need to follow this up with further press briefing. There is an important case to get across, and we must ensure that it is widely understood.

I am sending copies of this letter to Willie Whitelaw, Keith Joseph, Michael Heseltine, Norman Fowler, ^{Norman Tebbit} ~~Tom King~~, Leon Brittan, and Michael Havers. I am at your disposal if you wish to discuss all this before I leave after Cabinet on Thursday.

meeting
Wednesday

PJ

P J

12 December 1983



DRAFT STATEMENT

I become increasingly concerned that the majority group on the Liverpool City Council do not seem to understand the consequences that would follow if, according to reports I have read, they were to vote for substantial additional expenditure, reduce council rents and then vote for a rate which would be inadequate to meet the resulting extra costs.

These consequences would be both practical and legal. They would flow not from any new legislation of this Government, but from rules embodied in existing local government legislation.

Every local authority is under a legal duty to levy a rate that is sufficient to meet its planned expenditure. If it does not do so, well established legal and audit procedures immediately come into operation. If the rate is unlawful and any costs are incurred as a consequence (for example if money had to be borrowed and interest paid) those costs would be chargeable to the councillors who voted for an illegal rate. Under the surcharge procedures, the councillors could have to pay back personal debts which could amount to thousands of pounds. If the financial losses were serious, they could well be liable to disqualification from office. I emphasise that all this could follow automatically, under existing legislation, from the fixing of a clearly inadequate rate.

There would be practical consequences. Councillors should ask themselves whether, after the making of an illegal rate, the Treasurer would be able to continue signing cheques. How would the wages and salaries of the staff be paid? How would the council pay its debts for instance to local firms for goods



and services supplied?

And what of the public which ~~the~~ ^{the council} council exists to serve? How will ~~they~~ pay to buy the food for children being looked after in the council's childrens' homes? How will they pay the staff to look after the elderly and the handicapped? How will they pay the bills to heat the schools and old peoples' homes?

I hope very much that the Liverpool City Councillors are taking the most careful legal advice from their officers and others qualified to advise them on the possible consequences of voting for an illegal rate.

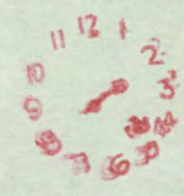
It may be that some councillors are prepared to face up even to all this in the hope that somehow the Government will come to the rescue. I must make it as clear as I possibly can that the Government has no power to take over the running of the council. Perhaps Parliament could be persuaded to give us this power, but I would guess that the legislation (which would be highly controversial) would take some time to enact.

The consequences of the city council making an illegal rate would be very grave for the City of Liverpool and for Merseyside as a whole. The problems faced by Merseyside are already serious. I do not believe that the people of Liverpool could ever forgive a council majority which deliberately and consciously set out to bring chaos to the affairs of the city.

I hope that Liverpool City Councillors will ponder very carefully indeed what I have said.

THE COMMONWEALTH OF AUSTRALIA

12 DEC 1983





Caroline

To fix meeting
please.

10 DOWNING STREET

DMS
12/12

~~M-H p-fo~~

This is a P.O.
subject. But is it
best if you get
re Bishops?

ER

12/12.

David Barclay

We spoke - and agreed that
it wd be right for you to
deal with this encounter
and for me to keep my
distance.

(pto)

David Sheppard (Bp of Liverpool)
'15051-7089480 —
has chaplain (\equiv Priv Sec)
being the Rev Bob Wilkes.

I do not have a
phone number for the
RCABp — but suggest
you deal only with
David Sheppard's office.

Robin Carfax



10 DOWNING STREET

Caroline

Could you please fix
this for Jan / Feb.

About $3/4$ hour:

Bishop of Liverpool

Archbishop of Liverpool

Patrick Jenkin

+ R Catford or me

DMS

12/12

Return to David for action.



da

10 DOWNING STREET

From the Private Secretary

9 December 1983

Thank you for your letter of 5 December about the request from the Bishop and Archbishop of Liverpool for a private meeting with the Prime Minister to discuss Merseyside.

The Prime Minister has agreed to such a meeting, to take place in the New Year, and I have written accordingly to the Bishop of Liverpool. The Prime Minister would be grateful if your Secretary of State could also attend the meeting, and we will be in touch shortly to fix a time.

In due course, perhaps you could also arrange for the preparation of a short brief.

David Barclay

A.H. Davis, Esq.,
Department of the Environment.



10 DOWNING STREET

From the Private Secretary

9 December 1983

PERSONAL

The Prime Minister has now had an opportunity to consider the letter of 21 November from yourself and the Archbishop of Liverpool, in which you sought a private meeting with her to discuss Merseyside.

The Prime Minister would be pleased to meet you and the Archbishop privately, and we will be in touch with both your offices to arrange a convenient time early in the New Year. The Prime Minister feels it would be helpful if Mr. Patrick Jenkin were also present, and we will be arranging accordingly.

David Barclay

The Right Reverend the Lord Bishop of Liverpool

PRIME MINISTER

Please see the attached letter from the Bishop and Archbishop of Liverpool. This follows up a brief conversation you had after the enthronement of the Archbishop of York.

Patrick Jenkin is inclined to favour a meeting. There are no particular timing constraints.

Agree we aim for a meeting in January?

Although the Bishops ask for a "private" meeting, you might like Patrick Jenkin to be present. He will be seeing them both on 15 December and hopes to get a clearer idea then of the specific points they are likely to raise with you.

Agree we also invite Patrick Jenkin?

Yes
ms

DMS

8 December 1983



DB 575

c.c. Robin Catford

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

5 December 1983

Dear David

Thank you for your letter of 29 November about the request that the Prime Minister has received for a meeting with the Bishop and Archbishop of Liverpool.

As you know, both the Bishop and Archbishop take a close personal interest in the economic and social affairs of Liverpool. They make known publicly their concern about the local economy and the number of company closures. The Bishop is Chairman of the local MSC Area Board.

My Secretary of State considers that the Prime Minister might wish to see the Bishop and Archbishop. It might be helpful if no firm arrangements were made until after 15 December. My Secretary of State is having dinner with the Bishop and Archbishop on that day and it would be useful to take account of that discussion.

Yours ever
Alan Davis

A H DAVIS
Private Secretary

PS/Prime Minister



13/12. 089

Bishop of LIVERPOOL

10 DOWNING STREET

From the Private Secretary

29 November 1983

I enclose a copy of a letter which the Prime Minister has received from the Bishop and Archbishop of Liverpool in which they seek a private meeting to discuss the problems of Merseyside. This letter follows up a brief conversation between the Prime Minister and the Bishop of Liverpool when they met at the Enthronement of the Archbishop of York.

I should be most grateful for any advice your Secretary of State would care to offer before the Prime Minister decides whether to agree to the proposed meeting.

MR. D. BARCLAY

John Ballard, Esq.,
Department of the Environment.

089

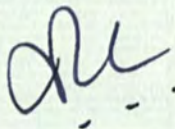
MR BARCLAY

You asked for advice on the attached approach to the Prime Minister from the Bishop of Liverpool and the Archbishop of Liverpool.

Both prelates are well known for their individual and joint concern over social conditions on Merseyside, and the Prime Minister had hoped to encounter both of them in the course of her visit to York on 18 November. In fact she met only the (Anglican) Bishop of Liverpool, this being at the Reception following the Enthronement service in the Minster. As his letter indicates, this meeting was brief and disjointed - and I think the Prime Minister found it disappointing if not positively irritating.

She did not meet the (Roman Catholic) Metropolitan Archbishop. He had played a small part in the service, and the Prime Minister asked me to try and get hold of him for a short word during the Reception. Unfortunately he had to return immediately to Liverpool without ever coming to the Assembly Rooms.

I daresay that the Prime Minister will now be willing to consider a private meeting with them, and in that event it would certainly be right for us to obtain briefing from DoE.



28 November 1983



10 DOWNING STREET

Mr Catford

Can you advise on
the background to
this?

And would it be alright
to ask DoE for a brief,
if the PM agrees to
a meeting?

DMB
23/11



do

10 DOWNING STREET

From the Private Secretary

23 November, 1983.

I write in the absence of the Prime Minister in India to thank you and the Archbishop of Liverpool for your letter of 21 November.

Your letter is receiving attention, and a reply will be sent to you as soon as possible.

David Barclay

The Right Reverend the Lord Bishop of Liverpool

The Rev David Sheppard

051 708 9480

PRIVATE AND CONFIDENTIAL

21st November, 1983

RJB

The Rt. Hon. Mrs. Margaret Thatcher,
10 Downing Street,
LONDON S.W.1.

GR

Ack (receiving atten)
please & return to
me for action.

Dear Prime Minister.

We write following the brief conversation at York. Your immediate interest in Merseyside was greatly appreciated, though there was a natural frustration at being asked far-reaching questions, when there was only going to be two or three minutes to answer them.

D
23/11

We well understand how many demands are made on your time, but recent developments here, which have caused us great concern, make us feel that it is our duty to ask if we may lay certain considerations in front of you. We would greatly appreciate it, if we could come privately to see you.

Yours sincerely,

David Sheppard

BISHOP OF LIVERPOOL.

+1 David Nalick

ARCHBISHOP OF LIVERPOOL.

CONFIDENTIAL

R/S 811



10 DOWNING STREET

From the Private Secretary

25 October, 1983

Education on Merseyside

The Prime Minister was grateful for, and has noted your Secretary of State's minute of 20 October about education on Merseyside.

DAVID BARCLAY

Miss C. E. Hodkinson,
Department of Education and Science

CONFIDENTIAL

Sty

of no (2)

PRIME MINISTER

*MS*Prime Minister

EDUCATION ON MERSEYSIDE

Patrick Jenkin minuted you on 14 September about the work of the Merseyside Task Force and proposed that parallel reports should be circulated on the activities of Government Departments in relation to Merseyside.

The attached paper by officials here concerns the five education authorities on Merseyside: Knowsley, Liverpool, St Helens, Sefton and the Wirral. Its main focus is on the first two and especially Liverpool where the region's population decline is most marked and where the number of educational institutions is inefficiently and expensively out of line with reduced demand.

Since May 1982 when, with Michael Heseltine, I met the leaders of all parties in the then hung Liverpool City Council, I have had regular discussions with Liverpool and other politicians on Merseyside so as to bring home to them the educational and financial disadvantages of the current degree of over-provision. I have approved important reorganisations in the Wirral, in Knowsley and for Roman Catholic secondary school provision in Liverpool. Action is also in hand to rationalise further and higher education in the region. When I met leaders of Liverpool's new Labour administration in August I was pleased to find that, despite our very different philosophies, there was a fair amount of common ground on the need for substantial and early action. I expect to receive Liverpool's proposals for the reorganisation of their county secondary schools later this month. They will cause us difficulty, but I must wait to see them (and even more so local reaction to them) before I can form a view on my response.

My efforts to get the institutional framework right have been accompanied by initiatives and action to raise the quality of the education on offer. Since their report in March 1982 on provision in Toxteth, HM Inspectorate of Schools have continued to focus attention on Liverpool. Through the normal programmes of inspection visits to schools and colleges in Liverpool and the publication of inspection reports (most recently that on Liverpool Institute High School, published in July) the Inspectorate and the Department are seeking to obtain necessary improvement in Liverpool's educational practice. HMI has also worked with the authority to devise a group of educational projects intended to raise educational standards in inner city schools, further education and some aspects of the Youth Service. These projects are not yet in place because despite our efforts backed by the Task Force, it has not yet been possible to persuade the City Council to include them within their proposals for Inner City Partnership Funding. This is an example of the prevailing malaise within the authority and the leadership of its education department which is reflected in the general sense of drift and decline in the city's education service.

In order to stress my concern at standards of education on Merseyside I shall be visiting Knowsley for two days in December. I intend to see at first hand their problems and practice. A similar visit to Sefton is planned for 1984. But the main focus will remain on Liverpool and in the light of developments on school reorganisation, I intend to review how best I and my colleagues can maintain the pressure to see that Liverpool's institutions are effectively managed, carefully monitored, and provide a good education.

Copies to Cabinet colleagues
and RTA.

14.
20 OCTOBER 1983

GOVERNMENT ACTIVITY ON MERSEYSIDE: EDUCATION

SCHOOLS

1. The Merseyside local education authorities, like most such authorities in England, have been beset by the problems caused by the dramatic decline over recent years in pupil numbers.

Progress on Merseyside depends upon these authorities acting decisively to ensure that their educational resources are not spread too thinly over too many schools. Policies to cope with falling rolls must be the cornerstone of any strategy to raise the quality and morale of the education service in the schools. Well-conceived and sensitively implemented policies on falling rolls provide an opportunity not only to deploy scarce resources to give a better educational return but also to extend or launch initiatives in various fields such as the curriculum; staff redeployment, training and induction; and the parental and community involvement with the schools.

2. The Merseyside authorities have risen to this challenge in varying degrees, putting forward for the Secretary of State's approval a number of statutory proposals to take surplus capacity out of use. The Wirral took 4,000 school places out of use in Birkenhead and Wallasey by reverting from a three tier middle school system to a two tier one with a break at 11+. the Secretary of State approved these proposals in April 1982. But there is still a long way to go particularly in Knowsley and Liverpool.

3. The imperatives of falling rolls are nowhere more compelling than in Knowsley. Having secured a positive statement of the authority's policy to raise teaching quality in the institutions concerned, the Secretary of State has recently approved the authority's proposals to replace seven 11-18 comprehensive schools and a college of further education with five 11-16

schools and a new tertiary college. With just over 400 pupils in the sixth forms of the existing seven schools (most being non-A level pupils) this rationalisation not only brings capacity better into line with falling numbers but also offers the potential of a stronger and richer variety of opportunities for 16-19 year olds in the area. There is also a very strong Roman Catholic presence in Knowsley: their schools too are in need of urgent rationalisation. In May 1983, when he approved the amalgamation of two secondary schools, the Secretary of State urged the Archbishop of Liverpool to cooperate closely with Knowsley in reducing the excess capacity. If nothing is done, there will by 1988 be more than three secondary places for every single Roman Catholic 11 year old in Knowsley. Discussions are underway between the LEA and the RC authorities.

4. In Liverpool political deadlock has conspired against the development of any coherent policy to cope with the pressures caused by the City's decline in population from three-quarters to half a million over the years 1961 to 1981. In October, the new majority administration is to present the Secretary of State with proposals to reorganise the City's county secondary schools: these will reflect the local Labour Party's commitment to providing each community with its own 11-18 school. A judgement on the scheme's educational acceptability must be deferred not least until an assessment can be made of local parental reaction.

5. Some rationalisation has already taken place. In August 1982 the Secretary of State approved the proposals of the Archdiocese of Liverpool and the authority to reorganise the City's Roman Catholic secondary schools. The net effect was to reduce the number of schools from 41 to 15 and the number of places from 19,500 to 12,600. As for county secondary schools, in June 1982 the Secretary of State approved the closure of three declining and decrepit inner city secondary schools thereby taking out of

use 1,500 places. He has also resisted the authority's attempts to unravel their original proposals to close Croxteth School which, following a sit-in by parents, is now receiving temporary financial assistance from the authority in support of its operation as an independent school. In the primary sector, where excess capacity is at its greatest, just five schools have been closed since January 1981. It seems likely that proposals to rationalise primary schools will be deferred until the fate of the authority's secondary proposals is known. In the meantime, the authority have announced their plans to use spare capacity to expand nursery provision.

6. Against this background, HM Inspectorate has continued to support the LEAs concerned through a continuing programme of visits. Inspection reports have been issued or (since January 1983) published on a number of primary and secondary schools. Following the Toxteth Report published in March 1982 HMI agreed to work with the Liverpool LEA in the development and implementation of a programme of projects to be funded through the Inner City Partnership (ICP) and which gave some promise of being replicable in other areas. The largest project involves helping 4 inner city secondary schools mainly in the local Task Force areas to improve pupils' educational performance and strengthen relations with the community. Others, based on voluntary bodies, seek to improve the basic skills of unqualified school leavers in liaison with the MSC; to offer an improved education element in the scheme for giving residential shelter to homeless young blacks; and to see that educational opportunities are a strong feature of counselling for young people who visit an inner city drop-in centre. Although the necessary groundwork is complete, the new administration has frozen the projects while it completes its own review of the ICP.

FURTHER AND HIGHER EDUCATION

7. The five Merseyside authorities with their 18 further and

higher education institutions cater for over 30,000 full-time equivalent non-advanced further education (NAFE) students and over 7,000 full-time equivalent advanced further education (AFE) students. In these fields, the main focus of the Department's work has been in Liverpool with the aim of helping the authority restructure both its AFE and NAFE provision to enable it to respond more effectively to changing needs. This work continues with regular meetings between the Liverpool Education Authority, DES officials and HMI.

NAFE

8. In the county as a whole, some 30 per cent of NAFE provision is now funded by the Manpower Services Commission (MSC). Response to the demands of the Youth Training Scheme has been variable. In the Wirral, the LEA have taken an enterprising and integrated approach based on their single FE college and the training centre associated with it, and are developing good quality provision both under their own managing agency and on behalf of local employers; this provision is also to be integrated with TVEI. In the rest of Merseyside, provision is less satisfactory, with particular variations between the different Liverpool colleges according to the degree of enterprise of their principals and according to the possibilities of involvement in respect of different industrial sectors. In Liverpool and Knowsley in particular, HMI have expressed concern about the pressure on administrative and teaching staff and the problems of responding effectively to new demands, which have in some cases been made worse by poor communication between the LEAs and MSC.

9. To overcome these difficulties and deficiencies in Liverpool, the Department sees a need for the authority's NAFE provision to be substantially restructured: the aim would be to reorganise the existing colleges, which each offer a narrow range of specialist vocational courses many of them in areas of declining demand (eg construction and mechanical engineering), into more

broadly based colleges capable of responding to changing demands. Guidance on the appropriate form of the reorganisation envisaged should be offered by the results of a series of inspections which HMI have been undertaking of NAFE institutions in Liverpool.

AFE

10. In the context of the Secretary of State's November 1982 decisions on the rationalisation of initial teacher training, the Department has encouraged Liverpool Education Authority to amalgamate the City of Liverpool College of Higher Education with the City of Liverpool Polytechnic. That merger is now proceeding (though not without a good deal of effort on the part of the Department, and difficulty locally over its detailed implementation). It should result in the establishment of a strengthened centre of excellence in higher education in Merseyside, complementing the centrally situated university. (There is also a joint Church of England/Catholic institute of further education.)

11. The future shape of the enlarged Liverpool Polytechnic, and its associated funding, will be contingent on the outcome of the national planning exercise with respect to 1984-85 on which the Secretary of State's National Advisory Body for Local Authority Higher Education (NAB) is currently engaged. But some steps have already been taken to concentrate provision in the North West (eg in advanced engineering and in nautical studies) at the polytechnic, and such measures to consolidate provision in higher education are likely to be a general feature of the NAB plan as finally approved by the Secretary of State. To enable the polytechnic to respond constructively to the expected future demands upon it the Department has, in consultation with the Merseyside Task Force, been seeking to assist the Liverpool Authority in concentrating the polytechnic's provision in and around the city centre.

TECHNICAL AND VOCATIONAL EDUCATION INITIATIVE (TVEI)

12. Liverpool and the Wirral were the only Merseyside authorities to bid for inclusion in the first stage of the TVEI starting in September 1983; and the Wirral was one of the 13 English authorities selected. The Wirral scheme is based on four schools (in the Bebington and Wallasey areas) and an FE college. From September 1984 the authority plans to replicate the initiative at its own expense in two other areas. Bids are now being invited for an extension to the Initiative starting in September 1984 and it is hoped that bids from other Merseyside authorities will be made and accepted.

Reg. Pol
Index Cities
#4

20 OCT 1983





JF4572

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

C.No

20 October 1983

CONFIDENTIAL

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

Prime Minister (2)
To note together with
with NT's sceptical
comment / AT 21/10
Noted
ms

D. Patrick.

MERSEYSIDE

Your minute of 14 September to the Prime Minister, enclosing a report on the work of the Merseyside Task Force (MTF), suggested that this report could be followed by short papers from colleagues in charge of other Departments on their own work in the Merseyside area.

2 I do not think it necessary for me to circulate a separate report. Officials from the Department of Trade and Industry have been working on secondment to the Task Force, and the English Industrial Estates (EIE) has worked very closely with DTI and DoE officials there. The EIE has been diversifying its activities since 1979 and nowhere is this more evident than on Merseyside: this year, indeed, some 25% of EIE's total capital expenditure of £27m will be spent there. EIE has a large stock of vacant medium to large factories on Merseyside and is not undertaking new developments which will add to this vacant stock. It is concentrating on building smaller factory units and workshops, which it offers on easy-in/easy-out terms to small businessmen. There is still some demand for these premises; but they do not let as well on Merseyside as similar units which EIE has built elsewhere in the Assisted Areas.

3 The following case perhaps illustrate some of the innovative projects being undertaken on Merseyside:

/(a) Tate ...



(a) Tate & Lyle refinery site

The Corporation has acquired this 50 acre site from Tate & Lyle and is clearing and preparing it for a mixture of amenity, housing and industrial development. The Corporation set up a competition to provide outline plans for the redevelopment of this site and this was won by the Liverpool City Architect's Department. This is the first major derelict inner city site where EIC has taken control of clearance and further development. It set a precedent for the type of operation which EIE is now undertaking at Chatham and in the West Midlands.

(b) Exchange Hotel

The Corporation is redeveloping the old Exchange Station Hotel in central Liverpool, which had lain derelict for several years blighting surrounding development. EIE will build a high class modern office complex behind the existing facade, which can be made available as suites of offices for smaller businesses. Behind the development EIE will provide a new city square on the site of the old station platforms. This amenity should stimulate new development and refurbishment on adjacent sites, and there is already some evidence that this process is under way. This is the first major service sector development undertaken by EIE, but in future we do not expect EIE to become a major office developer. They will probably restrict themselves to providing small suites of offices on their industrial sites, where these enhance the overall attraction of the site for businessmen.

(c) Wavertree Technology Park

In December 1982 Michael Heseltine (then Secretary of State for the Environment) announced that Plessey's would help sponsor a technology park on some 60 acres of land adjacent to their Edge Lane factory, which they partly owned with British Rail. EIE is taking an active part in the planning and development of this site, in co-operation with Plessey, the local authorities and the Merseyside Task Force. This is a pioneering partnership venture between all local and central Government and private business.



4572.1

4 A further initiative by my Department has been the creation of a Merseyside Office. As you know, on 23 September Cecil Parkinson announced the strengthening of our presence on Merseyside. The new Merseyside Office will handle as far as possible all industrial promotion, regional selective assistance, Export initiative work and Technology aid promotion work on Merseyside. This will provide a more accessible and locally responsive contact point for industry and should increase the effectiveness of our industrial policies on Merseyside. The Office will be headed by Mr Brian Lodge who, of course, has been a member of MTF almost since its inception. It is our intention that the Office will be fully operational at much the same time as your own expanded presence and that it will form close links, to cement the co-ordination between our Departments which has proved so effective in MTF to-date. Our input to MTF should in no way be diminished and, indeed, should be better focussed through the local presence.

5 Finally, a small but encouraging point is that to meet increased demand my Department's Small Firm Centre in Liverpool moved to larger premises last Spring and the Centre now has a larger complement of counsellors and officials.

6 I am copying this letter to the Prime Minister and the other recipients of your minute.

I have not attempted to assess whether all this activity and expenditure might have given a more positive effect to the economy had it been spent in, say, the West Midlands than Merseyside.

J
Norman

Reginald
Lover
S. Hines
R-4



27 OCT 1983

Reg Post
Inner Cities
(with FT)

CONFIDENTIAL

C9/NO



Prime Minister ④

BT 17/10

FROM: CHIEF SECRETARY
DATE: 13 October 1983

PRIME MINISTER

W

MERSEYSIDE

Under cover of his minute of 14 September Patrick Jenkin sent you a copy of a report drawn up by the Task Force on the lessons that could be drawn from its activities.

The report provided a useful summary of the Task Force's remit, its activities and the lessons that can be drawn from them. In particular it highlighted the importance of and scope for involving the private sector in the regeneration of urban areas and its view that the Task Force model could not be replicated in other areas. I am sure that the report is right to conclude that it is not so much the level of Government resources that is important as the flair and imagination that are used to harness the involvement of the community and the resources of the private sector.

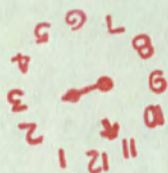
Our approach to inner city problems in future must give greater emphasis to encouraging the people who live in such areas to seek solutions to their problems from the private sector and from their own efforts rather than fostering the attitude that the solution lies in greater provision of resources by the public sector. This is likely both to be more cost effective and to have a better chance of durable success. By attracting more private sector money with a small public sector contribution we can increase the resources going to the inner cities while reducing the level of public expenditure on the urban programme.

I am copying this minute to Patrick Jenkin and to other Cabinet colleagues and to Sir Robert Armstrong.

pk

PETER REES

REG POL: Inner Cities: Pt 4.



19 OCT 1983

COMMUNICATIONS
LONDON



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

11 October 1983

Dear David

PROPOSED ATHLETICS CENTRE IN DOCKLANDS

We have heard that Lord Selson may approach the Prime Minister at the Party Conference to complain about delays over funding for a new athletics centre in Docklands. I therefore enclose a short briefing note on the matter which you may wish to send to the Prime Minister.

Yours sincerely

Roger Bright

ROGER BRIGHT
Private Secretary

GR

Have passed the gist of this to Blackpool, but don't propose to send the paper at this eleventh hour.

D
Mw

David Barclay Esq

ATHLETICS CENTRE IN DOCKLANDS - NOTE FOR THE PRIME MINISTER

We have heard from several sources that Lord Selsdon might soon be meeting the Prime Minister - possibly at the Party Conference - and will complain about delays by the Department of the Environment in meeting his requests for financial assistance (£3.5m) towards the costs (£6.5m) of converting a large warehouse (the Olsen Shed) into an athletics training centre in London's docklands.

DOE Ministers favour the project in principle but, despite two years of negotiations with the London Docklands Development Corporation at official level, a method and level of funding, acceptable to the Government, has not yet emerged.

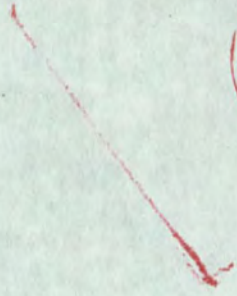
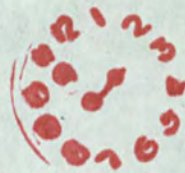
The present LDDC proposals involve DOE making funds available for investment in a trust fund. The interest from this would guarantee a capital sum of £6.5m to be provided by City financial institutions. DOE Ministers are prepared to make a contribution to the costs of converting the warehouse but cannot agree to the trust fund proposal; this method of financing is contrary to Government practice. As an alternative Lord Selsdon and the LDDC have been asked to explore ways of raising genuine risk capital in the private sector.

DOE and LDDC officials are to discuss the matter again on Wednesday 12 October and Mr Macfarlane and Sir George Young have agreed to meet Lord Selsdon soon after that.

If Lord Selsdon does raise the matter with the Prime Minister it is suggested that he be advised to await the outcome of these further discussions.



1 OCT 1963





DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

CC NO
NBPM
AT 30/9

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON SW1P 3EB

29 September 1983

De Patrick

In your minute to the Prime Minister of 14 September you suggested that other Departments with an interest in Merseyside could usefully prepare short papers on their activities in the area. I fully support this suggestion and I have instructed my officials to prepare a paper on the work of my Department.

I am copying this letter to the recipients of your minute.

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1/2

TOM KING

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Cities

PK 21



30 SEP 1983

PRIME MINISTER

MERSEYSIDE

Prime Minister (2) 23 September 1983
Policy Unit
You saw this report last week.
MCS 23/4

Patrick's report is well-meaning and copious, but it dodges the hard issues. The Task Force, despite your warnings, looks like becoming institutionalised - a permanent branch of the DoE with its own funding (£15 million last year, £40 million this year) as well as access to DoE schemes. This is exactly what we feared last summer.

The Task

After 2 years, we have surely now gone beyond merely demonstrating Ministerial concern, although this continues to be important.

Large sums of public money have been thrown at stubborn inner-city problems and many new types of solution attempted, particularly in partnership between public and private sector. These are listed in Annex B.

What we want to know now is: do these new solutions work? How many new jobs are they producing? How much extra private money is coming in? Paragraph 12 is wilfully vague.

The Next Step

The DoE want to initiate another round of projects with an even bigger budget. They also invite Ministers to follow the Merseyside approach in other inner cities.

1. Before committing any more money, we must have a detailed assessment of the schemes so far.
2. This assessment of Merseyside could be the first stage in a full-scale assessment of the Urban Programme as a whole, naturally without prejudging the Treasury's efforts in the bilaterals to reduce the level of spending on the Urban Programme.
3. Meanwhile, there should be no further steps towards institutionalising the Task Force until we know precisely what schemes we want to pursue.

FERDINAND MOUNT



✓ NO
Prime Minister (4)

To note.

MS 15/9

PRIME MINISTER

MERSEYSIDE

In his minute to you of 15 July, Peter Rees expressed a wish to see a report on the lessons that could be drawn from the activities of the Task Force and the impact of Government policies on Merseyside. ms

Michael Heseltine gave a fairly full account of what had been done since the Toxteth riots of 1981 when he wrote to you on 21 December 1982 enclosing the text of the speech he had made which covered a full review of the initiatives with which he had been associated during his year as Minister with special responsibilities for Merseyside. Copies were sent to interested colleagues, including the Chief Secretary. In your reply of 23 December (copy enclosed) you expressed satisfaction with what had been achieved and looked forward to further advances in 1983.

I now enclose a paper prepared by the Merseyside Task Force, which describes the main features of its work to date, and discusses some of the lessons that have been learnt and their possible relevance to other inner city areas.

As you know, following our discussion on 6 July 1983, I announced proposals for building on the work of the MTF, including the reinforcement of the MTF as a more permanent presence on Merseyside. The special characteristics of the MTF will be continued and strengthened, and in addition, it is taking over responsibility for some of my Department's main programmes on Merseyside which have, until now, been handled by the DOE Regional Office in Manchester. I understand

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that Cecil Parkinson is considering the future of his Department's presence on Merseyside and it is essential that our two Departments should continue to work very closely in this area.

I suggest that it would also be helpful if colleagues in charge of Departments with interests in Merseyside could follow my report - which necessarily concentrates on the particular work which is primarily the responsibility of my Department as undertaken by the Task Force - with short papers on the related activities of their Departments. This would help us to put together a more complete picture of Government policies on Merseyside and I know that colleagues share our concern.

I am copying this letter and report to Peter Rees and to other Cabinet colleagues and to Sir Robert Armstrong.

PJ

PJ

14 September 1983

MERSEYSIDEREPORT BY THE MERSEYSIDE TASK FORCEBACKGROUND

1. Governments have long recognised the economic problems of Merseyside. Major examples of steps taken to encourage economic regeneration have been its designation as a special development area, a substantial advance factory building programme, and major investment in motorway and trunk-road building. In addition, the inner area of Liverpool is one of seven inner city Partnership areas in England and the local authority has received substantial support through the urban programme. Other Merseyside local authorities have also received additional support. The setting up of the Merseyside Development Corporation has directed further capital investment resources into the central area of disused docklands. There is an Enterprise Zone.

2. In spite of the efforts of recent years, however, Merseyside has over the last decade lost about 10,000 jobs net each year. The economic prospects for the sub region remain bleak. Present trends indicate that:

- the manufacturing sector on Merseyside will continue to contract;
- service sector employment will, at best, stabilise;
- the Port's long term future will be a considerably smaller operation than it is now;
- the number of firms being created in the conurbation is small, and comes nowhere near to replacing the

employment projected to be lost from existing activities being reduced in scale;

- there is some potential for expansion of tourism and leisure-related businesses on Merseyside but its impact overall cannot be very substantial.

3. A similar summary analysis can be offered to explain the difficulties faced by other conurbations or sub-regions in the Country. For Merseyside, however, the decline is not recent but has occurred over decades. For thirty years the unemployment rate has been running at roughly twice the national average (except for the last few years). The structure of Merseyside's industrial and commercial base is such that local companies overall are less likely to respond, in terms of additional employment likely to be offered, to a national economic upturn. New technology industries are under-represented. The poor industrial relations image and the general impression conveyed by the scale of physical dereliction are disincentives to investors. Manchester as the regional centre provides strong competition for Liverpool in attracting white collar service employment. Liverpool City Council as the major local authority has suffered from nearly a decade (until May 1983) of no single Party control. This has led to inefficiency and far too many changes in decisions.

4. These factors are likely to reinforce the pattern of population loss that has continued since the war, including a disproportionate element of fit, active and skilled workers

and those with entrepreneurial flair. In the absence of special measures the decline in business confidence and the scale of physical dereliction would be likely to increase.

5. This is the background to the activities of The Merseyside Task Force since the Autumn of 1981.

THE WORK OF THE TASK FORCE

6. After the riots of July 1981, and an intensive period of Ministerial activity on Merseyside, it was decided that the Secretary of State for the Environment would be given a remit to take a special interest in Merseyside. To support him, the Merseyside Task Force was set up.

7. The special features of the MTF compared with a traditional regional office are:

- Ministerial leadership and involvement;
- joint working between the Department of Environment, Department of Trade and Industry, and the MSC and appropriate links with other relevant Departments;
- secondments from the private sector;
- an initiating and catalytic rather than a regulatory role for civil servants;
- availability of special financial resources to pump prime exemplary projects.

The MTF was given no special powers and is not an agency.

It works with a wide variety of local companies, with Government agencies - such as English Industrial Estates and the Housing Corporation - which have direct executive responsibilities, with local authorities and with voluntary organisations.

8. The MTF's role is to encourage, and where appropriate offer financial and other support, to local organisations to carry out projects which:

- enlist the resources of the private sector;
- bring vacant land and buildings into use;
- help to revive local business confidence;
- directly improve living conditions;
- encourage new ways for local organisations, public and private, to work together and involve the local community.

9. This approach was and is needed to show what can be done to tackle at least some of the many difficult problems of this area and to begin to revive confidence. The emphasis has not been on producing further studies of Merseyside's problems but on positive action geared to producing results on the ground and stimulating other initiatives. Much can and has been achieved by more effective use of the resources available, public and private.

SUMMARY OF PROJECTS

10. The selection of projects is governed by the objectives set out above. Whether a scheme proceeds necessarily depends on its acceptability to the body, whether public or private, which has executive powers. Where appropriate, public sector financial support is offered - particularly in those cases where private sector investment can be attracted. The degree of MTF involvement varies: where an agency has specific responsibilities such as English Industrial Estates, the Merseyside Development Corporation, or the Housing Corporation

it would be wrong for the MTF to intervene. Where, however, novel ways of packaging private sector and public sector funds from various sources can usefully be applied there is considerable MTF involvement, as there is in cases where financial resources are made available on a case by case basis such as through the derelict land or urban programmes.

11. In 1982/83, the MTF had available a special allocation of £15M. These resources were used as a supplement to the main programme and urban programme resources available to local authorities. The special allocation for 1983/84 is £40M. There has been a deliberate and heavy concentration of public sector funding on schemes which bring major and significant physical improvement to the area. Over a quarter of the budget will go to infrastructure, land reclamation, industrial units, improvement of industrial estates, and various refurbishment projects. Nearly a quarter will go to support housing schemes. There has been a very heavy concentration on capital projects and it is estimated that over 90% of MTF special allocation expenditure in 1983/84 will go to capital projects. A more detailed analysis of expenditure is at Annex A.

12. The gearing of private sector financing is difficult to estimate at this stage largely because it will take several years for many of the major projects to be completed. For example, many of the housing projects are directly related to increasing private sector housing provision and widening housing choice. Nor is it yet possible to estimate in terms of private sector investment what is the impact of improved advice to local businesses and measures to tackle the physical

dereliction in the area.

13. A summary of representative projects is at Annex B.

TOXTETH

14. The geographical remit of MTF covers the Merseyside County Council area and that part of the special development area which lies outside the County Council area. Therefore activities have not been confined to the Toxteth area of Liverpool within which the riots took place in July 1981. Nevertheless, a number of schemes have been set in hand to improve conditions in the area and since that time the two anniversaries of the riots have passed relatively peacefully. Both the police and the local authority have taken particular steps to improve relations between them and the local black community. Her Majesty's Inspectorate of Schools published in early 1982 a report on education provision in Toxteth. Following this, DES, HMI and MTF are initiating a number of projects to improve relationships between schools and the community. The degree of HMI involvement is unprecedented.

15. Unemployment remains high on a residential basis particularly among the younger age groups. That is also the case, however, in many other parts of Merseyside. The local black community consider that black people have particular difficulties in obtaining employment and resent it. If high rates of unemployment and such resentment are potential catalysts for civil disturbance, then they are still present in parts of Toxteth. The effective measures taken by the police however are a factor in favour of stability.

16. A list of representative projects in the Toxteth area is at Annex C.

LESSONS

17. In terms of its distinctive character, organisation and methods of working, the main lessons of the Task Force may be summarised as follows:

MINISTERIAL INVOLVEMENT

This has been essential in enabling the MTF to seize quickly major opportunities and has been of considerable help in bringing in the private sector. For example, without Ministerial involvement the Stockbridge Village Trust, the architect/developer competition for the Anglican Cathedral Precinct site, and the Wavertree Technology Park schemes would not have happened.

Ministerial presence demonstrates commitment and has encouraged local private sector and public sector agencies to be ready to produce and implement new initiatives.

JOINT WORKING BETWEEN GOVERNMENT DEPARTMENTS

This has concentrated on working together on specific projects. It has brought expertise and contacts from a wider range of Government services than is normally the case. It has facilitated the packaging of available programmes in relevant ways. Good examples are the training initiatives, the community refurbishment scheme, and upgrading of local authority industrial estates.

RESOURCES

The availability to the MTF of uncommitted resources

has been a valuable instrument in persuading local authorities and other bodies to embark on innovative schemes. Even though local authorities have made substantial contributions from their main programmes the additionality of main funding has been crucial in encouraging them to think more widely. By using urban programme resources in a selective and targeted way initiatives have been launched which would otherwise not have happened.

LOCAL KNOWLEDGE

The knowledge of local conditions and opportunities has greatly assisted the operation of MTF and has enabled it to negotiate new initiatives. Its special character has enabled it to adopt a radical approach which cuts across conventional local authority activities. For example, the failure of housing management and maintenance in the local authorities has had a demoralising effect on the local communities. MTF pressure has already forced through positive action on the worst estates.

PRIVATE SECTOR SECONDEES

The secondees have provided vital contacts in the local business communities. They have helped to change attitudes. The combination of their very different skills with civil servants' knowledge of the availability and range of Government programmes has greatly improved the capacity of the MTF to operate imaginatively.

INNOVATION AND EXPERIMENT

As this note shows, many experiments have been launched which could have wider significance and might be adopted elsewhere. Many of these particularly in the housing field (such as community refurbishment schemes, inner city housing for sale, Stockbridge Village Trust) have encouraged private sector investment.

18. Probably the most significant lesson and the one to which successive Secretaries of State have attached most importance has been the fact that private sector resources and local community interest can be enlisted in the task of economic and physical regeneration - given sufficiently strong political leadership, personal commitment on the part of Ministers and officials, and the persistence needed to make progress. The value of this approach involves more than the individual projects that are set in train: the interest and stimulus generated through local effort and enterprise can be both repercussive and cumulative. If it is to be an effective counterweight to long running economic decline, this effort will have to be maintained over a longer period and with adequate resources devoted to it.

19. There has to be one word of warning. Reference was made earlier (at the end of paragraph 3) to the Liverpool City Council and the absence of overall control until May 1983. In that month a Labour majority was elected and the far left is now in control of the Council. It quickly became evident that a quite different attitude would prevail in

the city hall and this has begun to be apparent in decisions announced or pending. There is to be quite a different attitude towards participation in partnership ventures with the private sector. The municipalisation of a private housing estate being built by Wimpeys in Toxteth just at the point when individual owners were beginning to put down deposits to buy new houses in the heart of the Toxteth area may be a harbinger of things to come. Plans have been published for the expenditure of substantial sums on job creation - spending which seems bound if carried out to push the council into RSG penalty. It is clear that collaboration with the new council is going to be very much more difficult than hitherto, though it has to be said that there has been no open clash yet. Perhaps the real test will come when the budgets are published and the rate support grant settlement indicates the likely consequences for Liverpool.

FUTURE ARRANGEMENTS

20. The problems of Merseyside run deep. The process of decay has been in train for so long that no early reversal is likely. Following the Prime Minister's meeting on 6 July the Secretary of State's announcement on 8 July of his proposal to build on the early work of the MTF and to establish a more permanent presence on Merseyside has been widely welcomed. The MTF will now take on much of the work for Merseyside which is currently the responsibility of the DOE office in Manchester. This strengthens its role with the local authorities, as it will now have responsibility for housing, the urban programme and derelict land. But the special characteristic of the Task Force to initiate and co-ordinate action on special projects will continue and be strengthened.

CONCLUSION

21. It would hardly be practicable or necessary for central Government to replicate the MTF in other major urban areas in England. None suffers from the range and intensity of problems seen in Merseyside, and none perhaps has been afflicted by a similar lack of effective local government. In this respect, Merseyside must remain unique. But there are lessons for other areas where a concentrated and co-ordinated approach is needed if severe inner city problems are to be solved. DOE has taken the lead in encouraging the setting up of very small Area Task Forces by local authorities in Sandwell (Smethwick) and in Lambeth. The Sandwell Task Force is a good example - it comprises a secondee from DOE, an officer of the local authority, and a secondee from the private sector (Halifax Building Society). In its first 6 months it has been instrumental in putting together the first year's programme of work for Ministerial approval, following the designation earlier this year of Sandwell as a programme authority under the Urban Programme. In terms of innovatory work going beyond organisation, the most important lesson of the Merseyside Task Force has been the demonstration of the scope for enlisting private sector resources and local community initiative in practical projects designed to regenerate the local economy and physical environment. If it can work on Merseyside it can work in other inner cities: but it requires political leadership and some financial and manpower resources if it is to succeed.

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ANNEX A

MERSEYSIDE TASK FORCE EXPENDITURE

<u>Category</u>	<u>1982/3 £M</u>	<u>1983/4 £M</u>	<u>Expenditure Programme</u>
Upgrading industrial estates; reclaiming and servicing industrial sites	4.8	14.3	Derelict Land (DL) Urban Programme (UP)
Housing	1.1	11.3	DL/UP/Housing Corporation/Historic Buildings grant
Environmental projects	1.6	3.5	DL/UP
Tourist and leisure projects	3.0	9.0	DL/UP
Training	0.7	0.7	UP
Sport and Community projects	1.3	1.2	Sports Council/UP
CAV (1)	0.3	-	
	<hr/>	<hr/>	
	12.8	40.0 (2)	

Notes

- (1) DOE's Central Administration Vote for MTF and FIG group support costs for 1982/83 only. Included in DOE's mainstream CAV for 1983/84.
- (2) Expenditure of £40M in 1983/84 is included in the following cash blocks:
- | | | |
|--|------|---|
| DOE/LA1 | £32M | for DL and UP expenditure |
| DOE/HC1 | £ 5M | for special Housing Corporation initiatives in Merseyside. |
| Class VIII, 4 - Royal Palaces, Historic Buildings etc. | £ 2M | to grant aid additional conservation work in Liverpool. |
| Class VIII, 2 - Central Environmental services | £ 1M | for an enhanced programme of sports facilities grant aided by the Sports Council. |

£40M

PROJECTS ON MERSEYSIDETRAINING

Information Technology Centres: The Country's first ITEC opened in Wallasey in April 1982. There are now 7 ITECs open on Merseyside with 4 more due to start by January 1984. They provide high quality training for unemployed young people in word processing, micro computing robotics, and related electronic skills. A total of 150 centres are planned nationally. Particular emphasis has been given on Merseyside to using redundant buildings, improving them as necessary, as ITECs, to obtaining sponsorship from the private sector (Marconi, Plessey, Tandy), and to establishing the programme as quickly as possible.

Commercial Business Training Centres: These training centres, unique to Merseyside, provide training in basic business and commercial techniques for unemployed young people. 3 centres are now open with one more to follow shortly. Again, emphasis has been given to using redundant buildings, attracting sponsorship from the private sector (building societies and clearing banks) and speed in setting up the projects.

Small Firms Training Workshops: These projects will provide in ~~one~~ centre both a training workshop in manual and office skills for unemployed young people, and opportunities for new entrepreneurs who wish to be assisted in starting their businesses. 3 Workshops have now started training and some new businesses are being helped. It is hoped to attract more. Unilever are sponsoring 1 workshop, Pilkingtons are closely involved with another, Merseyside County Council sponsor a third similar scheme.

Training Centre in Petrochemical Operations: Foster Wheeler are considering using part of the redundant Burmah Oil Refinery in Ellesmere Port as a private training centre. They are proposing to move their present training centre from Italy either to the U.K. or U.S.A. Discussions have been held with MTF and the local authority (which is proposing to acquire the refinery site and assist its redevelopment and reuse using derelict land resources). This proposal is still in its early stages and has not been given any publicity.

Sandwich Students and Support for Small Firms: A pilot project has started this year for business studies students from Liverpool Polytechnic to spend a year helping selected small firms and also meeting their course requirements on practical training and experience. The Polytechnic approached the MTF because they were having difficulty in finding places for their students. MTF obtained constructive support from Giro Bank and the Post Office to help fund this project.

BUSINESS DEVELOPMENT

Enterprise Newsletter: It became clear that, in particular, small firms found great difficulty in locating appropriate forms of advice and financial assistance. There appeared to be gaps in the marketing of assistance schemes and too many businesses appeared to be ignorant of what was on offer. To help get across the wide range of assistance available and to give examples of the way local businesses were being supported the MTF produced two editions of a newsletter. Over 3000 copies of each issue were distributed through the Chamber of Commerce and the clearing banks. Evidence of the newsletter demand is provided by the fact that reprinting of the first edition was required.

Contact with Major Employers: MTF has approached most large Merseyside companies both to inform them of its activities and to establish a network of personal contacts to develop entry points when seeking practical help for sponsorship of training projects, sponsoring of enterprise agencies, setting up the local purchasing exhibition, etc. MTF worked closely with the DTI Regional Office in the process. MTF with DTI has also been involved in following up closures and redundancies in selected cases. Care has been taken not to challenge the commercial decision of the individual companies. Rather has the aim been to ensure that companies were fully aware of the range of assistance available and to consider the scope for alternative use of surplus land and buildings.

Import Substitution and Local Purchasing: A private sector manager seconded to MTF arranged with CBI North West a "Can you Make It" exhibition whereby larger companies demonstrated what equipment they bought to encourage local firms to enter the market. Clearly the potential market for local firms depends on whether such firms are capable of producing the equipment but an important spinoff from the exhibition was that smaller firms were introduced to larger ones. It is the MTF experience that too many small firms seem to have difficulty in trying to enter new markets because of imperfections in small firms/large firms contacts.

Merseyside Innovation Centre: The purpose of this centre is to facilitate the commercial exploitation of research work carried out by Liverpool University and Polytechnic, and also to provide technologically based advice to small firms throughout Merseyside. An MTF/DTI official has been responsible for developing this centre together with other sponsors and obtaining private sector support notably from Dista and Plessey. DTI and DOE have contributed towards setting up and running costs. There are now good prospects that the first companies will soon start through the work of the centre.

Knowsley Industrial Park: This is an industrial estate which comprises a very varied mix of companies large and small. Total employment is about 14,000. The estate was run down and Liverpool Council as absentee landlords (the estate is

in Knowsley Council area) were reluctant to take effective steps to improve the estate and help to revive business confidence. The estate has now been sold to Knowsley by Liverpool and a programme to improve the road network, clear redundant buildings, and upgrade the estate generally is well under way. The companies themselves have set up an industrialists association which plays a direct and effective part in improving facilities and providing a measure of self help through the private sector. A private sector manager seconded to MTF was instrumental in developing constructive links between the public and private sectors. A number of similar though smaller, schemes to improve the industrial infrastructure are also underway.

Wavertree Technology Park: Adjoining the Plessey factory in the centre of Liverpool is a large 60 acre derelict site. This is now being prepared and serviced so that it can be developed for us by high technology industry. Plessey's together with the local authorities and English Industrial Estates have formed a company, chaired by Plessey, to oversee the development of this site with EIE providing factories and with Plessey playing an important role to support the technological orientation of the proposed development. MTF/DTI are closely involved both in the derelict land aspects and in developing the concept.

Enterprise Agencies: As part of the national programme to encourage private sector companies to support the enterprise agency concept there are now 5 such agencies operating on Merseyside. These provide support for small businesses, particularly those starting up, and have the advantage that they can discuss business problems with entrepreneurs in their own terms. Some agencies are also able to make available space for small enterprises which are then able to share the cost of common services.

KEY SITES

Merseyside has a large number of vacant sites, large and small, a considerable proportion of which are registered on the Land Registers and where therefore specific action is taken to try and bring them into more productive use. Some sites are located in prominent positions and particular attention has been given to these. For example:

a. Anglican Cathedral Precinct: This 20 acre site adjoining the Anglican Cathedral in Liverpool has been vacant for many years and the local authority were unable to decide to what use to put it. The site has now been acquired by the Housing Corporation, an Architect Developer competition has been held in order to achieve a standard of development befitting this prominent site, and planning permission has been granted to the developer subject to conditions. It is hoped that development will start well before the end of this calendar year.

b. The site of the disused Tate and Lyle Sugar Refinery has been acquired by English Industrial Estates who

are now responsible for clearing the site and for overseeing its development. Because the site was heavily over-developed clearance work will not be completed for some months. Part of the site is being brought into use again through the adaptation of a warehouse as a sports centre aided by the urban programme.

c. In the heart of Liverpool commercial business sector is the disused Exchange Station Hotel together with 7 acres of backland. EIE have acquired this site for commercial redevelopment and will thus bring into use what is at present an eyesore.

SPORT AND TOURISM

£ for £ Scheme: The Government made available for 1982/83 £1M on condition that it was matched by £1M from non-public sector sources, to help finance a wide variety of projects to upgrade sports and leisure facilities. The Sports Council were closely involved in running this scheme and a large number of sports facilities have been improved including many run by the voluntary sector. In 1983/84 the Sports Council are promoting additional projects through their normal grant-aided programme.

The Merseyside Development Corporation are sponsoring the International Garden Festival to be held in 1984 on a large derelict site adjoining the disused South Docks in Liverpool. Preparations for the Festival are well under way and to support it a number of other projects to encourage tourism in the area are also under way. These include:

a. The Maritime Museum which is sponsored by the Merseyside County Council. The Secretary of State for the Environment has recently announced that over £5M of Urban Programme resources are being made available to the County Council to enlarge the museum, in particular by taking over part of the historic Albert Dock complex (the largest grade 1 listed building in the country).

b. Lime Street Station is in urgent need of improvement and this work is now in hand aided by urban programme resources. A private sector company will refurbish the adjoining Lime Street Chambers for use as shops offices and flats. The County Council are improving the road network and car parking associated with the station. The nearby Adelphi Hotel has been bought by a private company from British Rail and that company's investment to upgrade the hotel is being supported by a grant through the Urban Development Grant programme.

c. In Ellesmere Port there is a large canal basin which was surrounded by derelict land. This area is being upgraded with the assistance of derelict land and urban programme resources to provide a good quality waterways museum and a tourist attraction.

d. The Mersey Estuary has an unenviable reputation as one of the filthiest waterways in Europe. Its present condition inhibits the development of a wide range of leisure and tourist activities. A long term programme has now been set in hand to improve the water quality of the estuary and to support this additional investment by the North West Water Authority has been authorised.

HOUSING

Community Refurbishment Schemes: Too much of local housing on Merseyside is in poor condition. The MTF therefore invited local authorities to bring forward a proposal under which groups of about 500 dwellings would be improved.

Six schemes are under way with more to follow. The schemes are financed by the MSC, the local authority and the urban programme. Tenants are closely involved in the improvement schemes. Temporary labour is recruited where possible from those who are unemployed living on the estates concerned and financed under the MSC CP scheme. Local authorities set up local management organisations.

Stockbridge Village: Cantril Farm, now renamed Stockbridge Village, is a very large local authority housing estate of 3,500 dwellings owned by Knowsley Council. The estate was very unpopular, was poorly managed and deteriorating fast even though it was only built some 15 years ago. The estate has now been acquired by a Trust financed by the Abbey National Building Society, Barclays Bank and Knowsley Council. The Trust's main objectives are to upgrade the estate and attract private sector housing development. It is the only example known so far of a disposal of a modern council estate. The development programme will continue to require a mix of public and private sector financial resources.

Upgrading of other local authority housing estates: The MTF is encouraging local authorities to upgrade other housing estates and where possible to involve private housebuilders. A variant of the shared ownership programme is being promoted. If private house builders consider that the local housing market will not support housing development for sale outright, then arrangements are made with local housing associations to enter into shared ownership, with the builders having responsibility to market the dwellings and find those who are willing to enter into shared ownership arrangements and who have the appropriate financial status.

PROJECTS IN TOXTETH

The MTF has been involved in a range of projects to improve the local economy and living conditions in the Toxteth area. As with all the projects the degree of involvement has varied.

TRAINING

Information Technology Centre: The Charles Wootton Technology Centre sponsored by Littlewoods and the Charles Wootton Centre (a further education centre run by the local black community and funded by Liverpool Council and the MSC) opened in September 1982. Most of the staff and trainees are from the local black community. The Centre has also recently reached agreement with MSC to provide evening training for local unemployed adults.

Adult Commercial Business Training Centre: run by Sight and Sound, and opened in September 1982. The centre provides a six months training in basic office and commercial techniques for local unemployed adults, many from the ethnic minorities.

Housing Management Training Courses: Funded by MSC through the TOPS scheme, this project organised by a group of housing associations will provide training in housing management particularly for those from the Toxteth area. It is hoped that the project will get under way in September 1983.

Access Courses: These courses organised by Liverpool Council and Liverpool University began in Spring 1983 and are offered to those from the ethnic minorities who are over 21 and who are judged suitable to go on to further education courses at Liverpool University or Liverpool Polytechnic. The courses are designed to encourage those with the necessary aptitude to undertake in due course more rigorous vocational training.

Careers Office: Liverpool City Council are to open a new Careers Office in the heart of the Liverpool 8 area. This is designed to encourage young people to avail themselves of possible opportunities.

Toxteth Job Centre: Though not strictly related just to training, the MSC have opened a Job Centre in the heart of Toxteth and closed one nearby. The Job Centre which opened in January 1983 includes four staff from ethnic minority groups.

BUSINESS DEVELOPMENT

Business Development Officer, National Westminster Bank: The Bank have appointed a senior official from their Liverpool Area Office to work in the Toxteth area and give practical help and advice on the spot to those wishing to set up or expand their own businesses. In the last 18 months about a dozen small businesses have been started with his support, many in the consumer services field.

Shipping Frontages Improvement Scheme: Throughout Liverpool there are run-down shopping streets hit by a decline in trade as the local population have moved out, affected by planning blight, operating from premises badly in need of repair and improvement. Grants and loans are available from the Council to shopkeepers to encourage them to rehabilitate their properties. Rehabilitation work has begun in Lodge Lane and Granby Street in the heart of Liverpool 8. It is not clear to what extent the Council elected in May 1983 will continue to support this programme.

A person seconded from the private sector to MTF spends a large part of her time in the Liverpool 8 area providing basic advice for those wishing to set up in business.

HOUSING

Princes Boulevard: This is the major thoroughfare through Liverpool 8. Restoration of this largely residential area is underway mainly through the activities of housing associations. The Boulevard has been declared a Housing Action Area and the association have been able to bring forward improvement work on properties they own. Other houses which are incapable of economic improvement will be demolished and the site redeveloped. Landscaping work has already been carried out along the central reservation of the Boulevard.

Minister Court: Myrtle Gardens was a derelict tenement block built in the 1930s which Liverpool Council had decided to demolish. Barratts bought the block in 1982 and have refurbished the flats. So far 170 firm offers have been received for the improved flats and of these about $\frac{1}{2}$ are already occupied by their purchasers, many of whom are first-time buyers. Most of the funding for this scheme, now renamed Minister Court, was through private sector risk capital with a small amount of Derelict Land grant.

Intensive Management Projects: Too much of the local authority housing stock in Liverpool has suffered from years of inadequate management and maintenance. In the Toxteth area two local authority estates - Englefield Green and Chatsworth - are being improved to reverse the decline in their quality and popularity with tenants. Additional funding has been provided through the local authority's housing programme and through the urban programme.

Canning Street Conservation Scheme: Part of Toxteth comprises fine Georgian terraces and a particular effort is being made in the Canning Street area to encourage owners to take up grants offered through the Historic Buildings Council. Wimpeys and local housing associations are acting as managing agents

supported by a secondee from the Abbey National Building Society.

EDUCATION

Parent Support Unit, St Saviours School St Saviour's school hit the headlines in the summer of 1982 when there was an apparent breakdown in discipline in this Toxteth primary school. Since then the local authority has made some attempt to stabilise staffing turnover. Through the support unit parents have become more closely involved in the school and a variety of courses are now offered using the schools premises and funded through the urban programme. This is one of a number of such projects.

POLICING AND RACE RELATIONS

Community Policing Experiment After public consultation, beat policing was introduced in part of the Toxteth area. This is supported by constables from the community liaison section who make particular efforts to contact youth clubs, local schools and residents associations. It is widely acknowledged that these efforts by the police have greatly improved police/community relations.

New arrangements recently introduced by the Home Office allowing more flexible use of grants to local authorities under S11 of the Local Government Act 1966 now enable Liverpool Council to give further support to the ethnic population. Liverpool Council have re-established their Race Relations Liaison Committee to provide a forum for discussions with the local community.

SPORT

Under the £ for £ scheme in the Toxteth area a full size synthetic football pitch was opened in February 1983, and a smaller outdoor games area is also being provided. In addition, a sports hall will be built funded by the urban programme, and the local authority are upgrading sport and leisure facilities aided by the urban programme.

VOLUNTARY SECTOR

For some years Liverpool Council have supported a wide range of voluntary projects, particularly youth clubs and community centres, in the Toxteth area. Funding has been provided both through the urban programme and through the rate fund. It is not yet clear to what extent and under what criteria the council elected in May 1983 will develop an effective partnership with the voluntary sector.

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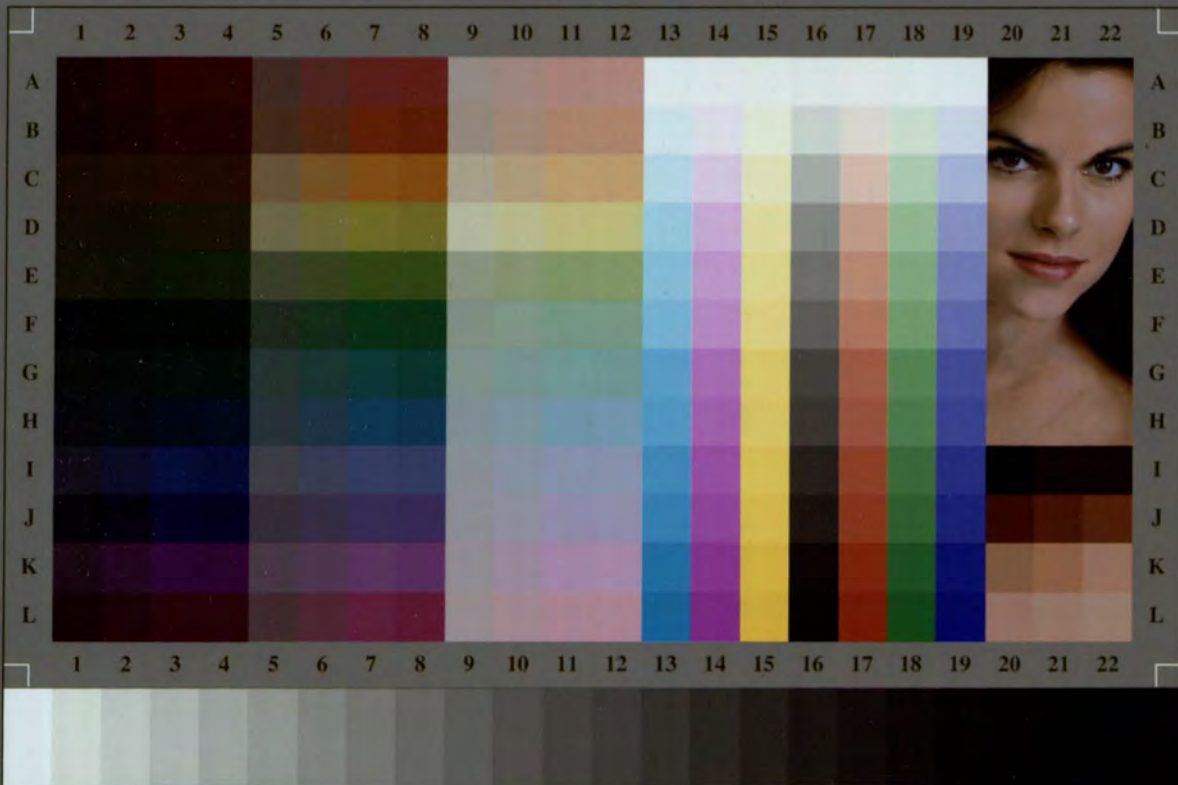
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