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PRIME MINISTER

Secretary of State for the Environment's Report
on Merseyside etc.

Purpose of Meeting

You no doubt intend this meeting to take the form of a Second Reading debate on the Secretary of State for the Environment's report. More work will need to be done by officials before Ministers can be asked to take specific decisions. But in order to focus this work properly, Departments will need a political steer on some basic issues.

Nature of the Problem

2. You may wish to begin by defining more clearly the nature of the problem which the Government is trying to solve, in particular:

- (a) How far is it a problem of economic decline in certain areas, and how far a problem of law and order, and race relations?
- (b) Are we concentrating on improving the situation in Merseyside, or trying to develop a new policy for inner cities?

3. On (a), Ministers may well conclude that on the evidence so far there are two overlapping problems. Some places, such as Merseyside, have both problems; some places (e.g. Glasgow so far) suffer from economic decline but have not had riots; some places (e.g. Southall) are not, relative to the country as a whole, suffering from severe economic decline but have had riots. The main emphasis of the report is on the problem of economic decline, although there are comments about the police and race relations on pages 4 and 13 - 15. The relative weight to be attached to these two problems is very much a matter of political judgment. Lord Scarman's report which the Home Secretary expects in mid to late October could have a bearing on that judgment. Given that some action is probably required on both fronts, Ministers will

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nevertheless wish to consider what the balance should be between action related to economic decline and action on law and order and race relations, and whether more work needs to be done on these latter aspects.

4. On (b), the geographical dimension, there is a fundamental difficulty. The Secretary of State's visit was to Merseyside only and the factual material in the report, apart from the unemployment figures for other conurbations in Annex A, is confined to Merseyside. Ministers have also had a CPRS report on that area. But the report's main recommendations are of a general nature. Merseyside has some special characteristics (e.g. the nature of the ethnic minority, the composition of the workforce, the decline of the port, the location of regional headquarters in Manchester, the odd political situation in the City of Liverpool). It would seem risky to base major general policy changes on this report. On the other hand, new help cannot be given to Merseyside without considering the implications for other areas - perhaps not just the conurbations but other inner cities (some of whom have also suffered disturbances and already receive grants under the Urban Programme), and other parts of the United Kingdom (see the Secretary of State for Scotland's minute of 31st August).

5. It may therefore help clarity in discussion to consider first what can and should be done for Merseyside over the next few months, bearing in mind the expectations aroused by the visit and report. The general policy issues will need to be considered over a longer timescale. The remainder of this brief comments on the report's main recommendations under the following headings:

- (a) Resources
- (b) Machinery of central Government
- (c) Local government
- (d) Involvement of the private sector
- (e) Regional industrial policy

Resources

6. There are three related recommendations on resources: we should "secure maximum value for money from present programmes" (page 7); we should put more resources "into Merseyside and the other conurbations at the

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expense of other parts of the country through bending the distribution of the main existing capital programmes" (page 18); we should spend extra money "next year and the year after on Merseyside (and the other conurbations) in alleviating conditions and getting people off the unemployment register in ways which secure long-term benefits" i. e. perhaps "a net £100 million a year, after allowing for savings in unemployment benefits" (page 19). (NB. We understand that this figure relates to Merseyside alone.)

7. No-one is likely to disagree with the attempt to secure maximum value from existing expenditure. Arguably the Government should not commit extra resources without first getting a better return from existing resources or at least understanding why a better return cannot be secured. There may however be some obstacles to change which are difficult to remove, e. g. existing local government structures (see below) and genuine conflicts of priority with national policies such as regional industrial policy (see also below). This problem needs further analysis, both in Merseyside and more generally.

8. The idea of redeploying resources from existing capital programmes in favour of the inner cities is also attractive. But the report does not attempt to estimate what the scope for this might be even within the DOE's own programmes on Merseyside, let alone within other Departmental programmes and in the conurbations more generally. Further work needs to be done to identify what might be feasible.

9. The proposal for extra money is difficult to assess even in the narrower context of Merseyside. The figure of £100 million net is based on the assumption that this might create 20,000 extra jobs and a political judgment that this is the scale of resources to deploy. However it is not clear what strategy for Merseyside underlies this. How viable economically do we believe Merseyside to be in the longer term? What can we realistically expect to achieve over the next two years? Are there in fact worthwhile ways of spending money on this scale which will reduce unemployment? How many of the extra jobs would be temporary and confined to the construction industry? Would the law and order and racial problems be eased? If Ministers believe that extra resources for

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Merseyside might be justified, they may nevertheless consider that the bid should be built up from specific proposals related to clear and realistic objectives, and considered against other competing claims on the national economy. Further work is again required.

10. So far as other conurbations are concerned, we are even further away from judging what extra resources might be justified. On the other hand it would be difficult to announce substantial extra resources for Merseyside without arousing resentment or expectations elsewhere. If the conclusion for Merseyside is that no extra resources or only marginal extra resources should be provided, there is no serious problem. Otherwise the further work on Merseyside will have to be paralleled by some urgent study of the need for extra resources in other conurbations or inner cities.

Central Government Machinery

11. Changes in Government machinery can be justified not only to promote operational efficiency but also for psychological and presentational purposes. But this can be counterproductive either at the outset, if the changes appear purely presentational, or subsequently, if expectations are aroused which cannot be fulfilled. Considerations of the machinery proposals will therefore turn partly on how far extra resources are to be made available.

12. So far as Merseyside is concerned, there are two proposals - that the Secretary of State for the Environment's remit should be extended for, say, one year, and that there should be a single regional office in Liverpool (pages 7 and 8). It is not clear whether the single office is meant to be an attempt to move from Manchester and bring together in one location the substantial number of regional officials concerned with Merseyside, or merely to have in Liverpool a small multi-departmental "project team" and whether a new separate unified office is meant or merely the co-location and co-ordination of officials from existing Departments. Any major organisational upheaval would need strong justification. However the provision of a small multi-departmental project team under a co-ordinating official in Liverpool for a year or so could be organised quickly and without great cost. This might also be an appropriate organisational response even if the task was confined to getting maximum value out of existing expenditure and redeploying existing programmes.



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13. It is however proposed to appoint Ministers with special responsibilities for other conurbations and also (page 19) that extra money should not be "added automatically to main programmes in the usual way" but that the new Ministers should have "considerable discretion in deciding how it should be spent". Presumably there would also be single local offices in support of these other Ministers. There are some obvious difficulties in these proposals. Since we do not know what if any extra resources might be justified in other conurbations, there is a serious risk of unfulfilled expectations. There is the problem of inner cities outside the conurbations. There would also be considerable confusion if the "conurbation" Ministers were to have financial responsibility for additional expenditure in their areas, thus cutting across the responsibility of functional Ministers - as opposed to acting merely as local stimulators and co-ordinators. There is too the question of how the new territorial Ministers would relate to the police in their areas and to the Home Secretary. Reconciling the activities of the territorial and functional Ministers would in any event require new Cabinet Committee machinery both at Ministerial and at official level.

14. Ministers may conclude that, even if the Secretary of State for the Environment's Merseyside remit is extended, much further study is needed before the same recipe is adopted elsewhere or before any radical innovations in financial responsibility are attempted. Other options which might be worth considering are: one Minister with special responsibility for all English inner cities; a special programme of visits to the conurbations by Ministers with functional inner city responsibilities; the appointment of multi-departmental project teams or task forces in other conurbations without public Ministerial involvement.

Local Government

15. Based on his Merseyside experience, the Secretary of State has made two radical proposals for local government reform - the abolition of the metropolitan counties and the GLC, and possibly of annual elections of parts of district councils. The Home Secretary will have views on these politically very sensitive issues. But it is, in any case, for consideration how far the



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Merseyside experience can be generalised. The main question is whether action on this front would help or hinder in the solution of the inner cities problem. It is unlikely that any change could take effect in the life of this Parliament and in the meantime co-operation with key local authorities would be made more difficult.

16. If Ministers decide on a policy of devoting more resources to the inner cities and particularly if there are radical changes in central Government machinery, care will be needed to reconcile this with local government policy more generally (the new block grant, holdback, etc.), and to avoid the appearance of seeking to take responsibility for local issues out of the hands of local authorities.

Private Sector Involvement

17. The report stresses the desirability of involving the private sector more closely in the solution of inner city problems and there is much obvious merit in this. The role of the 30 young managers seconded by the financial institutions (page 9) is not however clear. It looks as if they are primarily engaged in some kind of general study. But it is important that this scarce resource should not be wasted in duplicating findings which have already appeared in the Wilson Report or in published material about the USA and West Germany. It is also unclear how far their activities are intended to be concentrated on Merseyside rather than more general issues of urban development. The Secretary of State might be asked to spell out more precisely what useful work will be assigned to them and what concrete results are expected.

Regional Industrial Policy

18. The report argues that regional assistance has not been well suited to the needs of Merseyside (page 2) and, more generally, that regional industrial policy "should reflect a greater emphasis on areas facing both high unemployment and grave social stress" (page 10). It draws attention particularly to the fact that expenditure on Regional Development Grants (RDGs) is automatic and slanted towards manufacturing industry and that much of the selective assistance goes to the fringes of the Merseyside conurbation rather than the inner

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area. The proposals are therefore for more use of selective assistance, more focus on the worst hit parts of the conurbations, and more help for service industries. The CPRS made some similar points in its Merseyside Report and will be preparing a paper on regional policy for MISC 14.

19. The Secretary of State for Industry may point out that the Government is committed not to interfering with RDGs in the life of this Parliament. He may argue that there is little further scope for using selective assistance to distort private sector decisions about industrial location in favour of the inner city areas, bearing in mind that in Merseyside there is already an Enterprise Zone, and Urban Development Corporation, and a readiness by the English Industrial Estates Corporation to provide small factory units in the inner city area if sites can be found. He may however agree that more help could be given to service industries under the existing scheme if extra resources were available and that it would be helpful to get more public sector office jobs to Merseyside. He may also welcome the CPRS study of regional policy even though major changes may have to be deferred until the next Parliament.

Points for Decision

20. You may wish to try and reach conclusions on the following main points:

- (a) What the balance of emphasis should be between action concerned with economic decline and action concerned with law and order and race relations, and whether more work is needed on the latter.
- (b) Whether the immediate priority should be to settle what can be done for Merseyside in the short term, leaving the more general policy issues for consideration over a longer timescale.
- (c) Whether further work on resources for Merseyside should be on the basis of:-
 - (i) no extra resources (i.e. how to get maximum value from existing resources, and possibly also shifting resources in favour of Merseyside/inner cities within existing programmes);
 - or

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- (ii) some extra resources, if specific proposals with clear and realistic objectives can be justified; or
- (iii) the assumption that £100 million net of extra resources for Merseyside is politically desirable.
- (d) Whether central Government machinery changes should be confined for the time being to an extension of the special Ministerial remit for Merseyside, possibly supported by a small project team in Liverpool.
- (e) Whether and, if so how, the proposals for local government reform should be further pursued.
- (f) Whether the proposals for private sector involvement should be further clarified and developed.
- (g) Whether, in addition to the CPRS study of regional policy, there should be a remit to officials to report to Ministers on the general policy issues affecting inner cities with special reference to those identified in the Secretary of State for the Environment's report, but possibly also (depending on (a) above) giving more emphasis to law and order and race relations issues.

Further Work

21. The nature and extent of future work depends on the conclusions reached. It is however likely to go well beyond the responsibilities of the DOE. Some Ministers might welcome an official group under Cabinet Office chairmanship, both to supervise the short-term work relating to Merseyside and to look at inner cities policy generally. You may wish to discuss this with Sir Robert Armstrong, and also the arrangements for further Ministerial consideration of the Secretary of State for the Environment's report (circulated to all members of the Cabinet) and the policy issues raised in it.

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