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Policy Unit

PRIME MINISTER

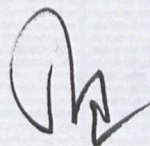
TOXTETH: RESPONSE TO THE PAPER "IT TOOK A RIOT"

You are discussing Michael Heseltine's paper with colleagues on Monday.

Your immediate concern will be to decide the upper limit on any money to be made available for Toxteth and similar problems; and Ministerial responsibility for tackling those problems.

The question of how to tackle those problems, so that we don't end up wasting taxpayers' money as has happened in the past, is less immediately urgent but just as important. Michael Heseltine asks - rightly in our view - for a fair degree of discretion. The attached paper contains some thoughts which may be helpful to Michael and his officials, but which we thought might also be of interest to other colleagues who will be discussing Michael's paper.

I am copying this minute and our paper to the Home Secretary, the Chancellor, the Secretaries of State for Industry and the Environment, to Robin Ibbs and Sir Robert Armstrong.



JOHN HOSKYNS

TOXTETH: RESPONSE TO THE MINUTE "IT TOOK A RIOT"

This minute is intended to supplement Michael Heseltine's paper of 13 August.

1. INTRODUCTION

1.1 I was asked to accompany Michael Heseltine on his visit to Liverpool, but was unable to do so. However, we had already sent Norman Strauss to spend a day with the Manchester Business School's working group on the inner city problem in late July at the suggestion of Professor Douglas Hague.

1.2 We distinguish two different (though overlapping) requirements: first, the Government must be seen to respond, in political terms, to a problem like Toxteth; second, there is a more complex, longer-term exercise in actual "problem-solving". This paper is concerned with the latter.

2. THE NATURE OF THE PROBLEM

2.1 It is a "systems" problem

2.1.1 The question is how Government gives the kiss of life to a dying sub-economy. It is not a simple task of the "gap-closing" kind, in which a road is built to meet a transportation need, or a sewer system is replaced because it's wearing out. We are not even talking about an administered system. It is more like stabilising an unstable ecological system, an immensely complex self-organising system which can never be totally understood and whose behaviour does not respond predictably to Government orders or subventions.

2.1.2 Indeed, one of the characteristics of a Toxteth is that if it is treated for long enough as an administered system, it loses the capacity for organic recovery. It is as if an Italian earthquake disaster area was still being administered by Government agencies supported by the Red Cross 20 years later. Life never returns to normal.

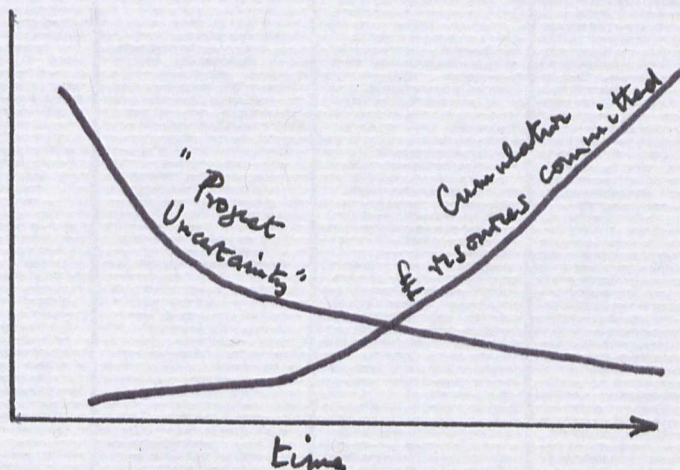
2.2 Lessons of past experience

- 2.2.1 The tendency of central Government, when faced with a problem it cannot understand and has no organisational experience or skills for solving, is to redefine the problem, to reduce it to an abstraction which can be set down on a piece of paper and tackled with the only real resource at Government's command - public money. The tendency of local government is to spend that money building things.
- 2.2.2 All we can say with any confidence is that Governments' record in the past in addressing <sup>such</sup> problems has been unsatisfactory. This may be because Governments have failed to develop an approach that works, or that such regional decline is sometimes irreversible unless a genuine economic change (eg North Sea oil industry in the North-East of Scotland) brings recovery. We probably do know some of the things we should not do (see Annex A, a paper by a research fellow at Manchester Business School).
- 2.2.3 We are therefore considering a research and development project leading to the building of a prototype. The only knowledge we have is that previous expensive prototypes have crashed.
- 2.2.4 There seem to be three different approaches to the problem:
- (1) Conventional Government injections of cash, which all experience suggests make the problem worse.
  - (2) A policy of "benign neglect" which is very difficult to sell politically but is probably less wasteful and damaging than (1) above, because it does not destroy an area's "immune responses" and thus its ability to recover of its own accord.
  - (3) Some new, as yet undeveloped and untested approach in which lda's (less developed areas) can, with the right input of skills, organisation and money from the Government, lift themselves up by their own bootstraps.

3. A POSSIBLE APPROACH

3.1 Think first, spend later

It is obvious, in any complex and innovative project, that thinking is cheaper than doing. Time spent thinking it through, at the outset, is seldom wasted:



3.2 Understand the problem

3.2.1 The first step would be to "map" the cause-effect decline process as thoroughly as possible. Annex B was prepared by a team on the Manchester Business School graduate course on Government-business relations in 1979. The decline process can be powerful enough to consume endless subventions from Government without a hiccup, with no discernible effects. Such a map cannot be precisely "correct", nor does it automatically crank out the solutions to the problem. What it does do (and the Department of Environment may have done similar work of much higher quality) is to suggest an all-at-once picture of a typical "can of worms" problem which seems to have no beginning and no end, where every effect turns out to be a cause, every cause itself an effect. All the important problems confronting Governments tend to be of this type.

3.2.2 Such a map can yield important insights into what is actually happening, why the problem gets worse (ie is self-reinforcing) and why past Government initiatives have been so ineffective. Of course the components of such a map may differ from one distressed region to another; but such a map can always be drawn.

3.2.3 It may be that a few key links in the causal chain of decline can be identified and broken by specific policy measures, cash injections, pieces of legislation or organisation change. Any successful strategy has to trigger the transformation of the system from the unstable to the stable state. Some of the preconditions for that might be:

- (1) Local political stability (Michael's paper mentions the problem of triennial elections as a destabilising factor).
- (2) Sufficient talent available to plan and manage the transformation process (is it still available on the spot or near at hand? Or does it have to be imported and, if so, for how long? Could the import of talent work?)
- (3) The freest possible market in labour, wage rates, housing, new building, land.
- (4) An adequate level of infrastructure (whatever that may turn out to mean on closer inspection) to permit private enterprise and private initiatives to start (eg cleaning the Mersey if that is a key to new investment which is not stopped by other obstacles; and if the cost is justified).

These preconditions are obvious enough. But the causal analysis may show that there are other key enabling measures, which are not obvious in normal commonsense terms, but without which the decline process simply cannot reverse. Similarly, some of the commonsense measures which people instinctively "know" must make sense, have perverse effects. (This was probably first recognised in the controversial - and by no means generally accepted - work of Professor Jay Forrester of MIT with his Urban Dynamics Model, in the Sixties, which suggested that state funds injected into decaying urban areas ended up, though a complex "ecological chain", destroying the housing they were meant to restore.)

### 3.3 Create the freest possible market in "solutions"

3.3.1 There is, as far as we can see, no institutionalised learning process within Government. Governments tend, through habit and accumulated experience, to tackle difficult problems in ways which

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have previously failed. Michael's paper is clearly trying to head off that danger. But the tendency ("What did we do last time?") will remain very powerful. We should continue, therefore, to encourage as much thinking as possible from potential problem-solvers on the ground: local businesses, business schools, universities, community leaders and social workers etc. Many different approaches will have to be evolved and tried by people motivated by pride of authorship and direct interest in the results. This is very much in line with the suggestions made at the bottom of page 16 and the top of page 17 of Michael's paper.

3.3.2 On page 17, under "urban programme", he suggests that grants might be paid to bodies other than local authorities. To what extent would it be possible to encourage "competitive bidding" for such grants? When Norman Strauss met the local social workers and Manchester Business School staff working on urban problems, he found two predictable things. First, many of the special interest groups represented were more concerned with political power than with finding solutions. They assumed that Government, not they, were the supplicants. In effect they tried to say "You, the Government, want to give us money. But we will lay down the conditions on which we're prepared to accept it". Norman stopped this drift by pointing out that they had got the whole situation the wrong way round. Second, these groups were clearly on the verge of political strife between themselves. This led us to two thoughts:

- (1) The Government might invite these and other groups (however defined) to make proposals for solving their own problems, much as an entrepreneur might make a proposal to a source of venture capital.
- (2) To the extent that competing interest groups can resolve their own differences first, and form consortia to make proposals, then their prospects of getting funds may be improved and the size of funds might be larger.

The aim is to motivate those with first-hand experience of the problem, enriched by other technical skills not available on the spot, to work up proposals for solving the problem rather than simply proposals for spending taxpayers' money. It also guards against political activism, as suggested at the top of page 6 in the Heseltine paper.

- 3.3.3 If this competitive bidding approach is practicable, it reduces the risk of Government finding itself in a familiar no-win situation; ie having given away large amounts of money for very superficially worked-out schemes, it is then blamed for under-funding, when those schemes fail. If competitive bidding is possible, the Government would end up like a banker with a portfolio of different projects. The richer the mixture, the greater the involvement of local knowledge and specialist talent, the better the chances that some of the projects in the portfolio succeed. However, some projects will fail, but that will not be seen as Government failure.
- 3.3.4 However, this "bottom up" approach does have implications for organisation and project management. The next section offers some thoughts on these.
- 3.4 Project management and organisation
- 3.4.1 The merging of the various Departments' regional offices, as suggested in the Heseltine paper, must make sense. However, we believe that the programme requires a central capability; an Urban Renewal Committee under one Cabinet Minister in London. We do not favour different Cabinet Ministers having responsibility for different geographical areas. This would reduce the amount of cross-project learning, inter-project comparison and competition; and perhaps even encourage a not-invented-here barrier reflecting the predilections of different Departments which were in the lead in different areas.
- 3.4.2 We require the best possible central capability, not in order to centralise, but because we want to de-centralise. Project proposals would come from the bottom up and we want the best possible project appraisal process, and the ability to monitor performance. This would require a small full-time team in London, including outsiders as well as officials (eg consultants or business economists, some operations research or systems analysis skills, someone from the Manchester Business School group relations team to work on the problem of getting vested interest groups to co-operate on the ground). This team would work to the Urban Renewal Committee.
- 3.4.3 This supporting team would have, in addition to project appraisal and monitoring, the task of collecting and diffusing ideas and

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knowledge. It could invite, through the URC, ideas, papers about the problem of urban renewal. Regular and public conferences could be held involving those working on projects and outside experts (including, for example, people with American experience). \* These conferences would serve the following purposes:

- (1) They would speed up the diffusion of ideas and knowledge, and thus produce a steeper learning curve.
- (2) They would expose as publicly as possible (for the conferences would be open to the media) those who were playing political power games rather than trying to solve problems.
- (3) They would go some way to dispelling the predictable view that the Government's whole approach to the urban problem was simply a public relations exercise. The acid test is whether the urban renewal programme would come to be seen as being outside party politics. To the extent that this happened, the present Government would of course win politically valuable common ground. But this would only happen if the Government's commitment to tackling the problem was genuine rather than cosmetic.

4. THE FIRST STEP

- 4.1 So far, the "management consultant approach" suggested in this paper is very closely in line with the Heseltine proposals, with perhaps greater emphasis on initial analysis of the decline process and some additional ideas (which may or may not prove practicable) for getting greater commitment and experimentation on the ground.
- 4.2 Our main concern is with what we would call "project set up". We are not sure what work is currently in hand, but our own experience (and especially my own "project-orientated" background) suggests that the greatest danger is of insufficient preparatory thinking and planning.
- 4.3 For example, some 50 managers have been offered by private sector companies - local business and City financial institutions.. How will they be organised? Do they include people with project management skills? If not, who is in charge of the project as a whole or the various sub-projects (it is most unlikely that any civil servants will have the right skills)? What will their induction training

\* Alan Walters recommends the Baltimore experience.



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consist of? It must obviously cover what is generally known about the problem of urban decay and the Liverpool problem in particular; but are we ready to explain to them the thinking behind this particular attempt to solve that problem; the project structure, review points, organisation, proposal-evaluation and monitoring, communications etc. All this may well be in hand and to the right level of professional competence. But it would be very sad if we brought too many people on board before the game-plan had really been thought through and documented, so that there was then a sense of confusion and loss of confidence, with media commentators no doubt waiting hungrily for the first symptoms of an impending fiasco.

- 4.4 We would therefore urge, unless it has already been done, that the first step is to put together a team of people (officials and outsiders, on the lines suggested in section 3.4.2 above) to prepare a proper project plan. Our experience is that such work almost always reveals major questions - whether of timing, manpower resources, money - which had been completely overlooked. Such a plan would not be perfect, and would inevitably have to be modified as it progressed. But it is very easy to find examples, in complex business projects, where, in one case, the "action" starts very early but the whole project is later aborted, and another, where it started more slowly after painstaking thinking and planning, but finished smoothly and ahead of schedule. The very first step, therefore, is to decide the composition of such a team. We would be very happy to help in that task.

5. CONCLUSION

The most important attribute for Government in an exercise like this is a degree of intellectual humility. We probably don't know just how little we know about how to solve problems like Merseyside - if indeed they are soluble at all. So we have to start from the assumption that Whitehall does not have a monopoly of wisdom, should not be permitted a monopoly of attempts to solve the problem, and that solutions, if they exist, will have to be painstakingly assembled from the different skills and varied experience of a lot of people, many of them outside Government.