



PRIME MINISTER

LIVERPOOL AND RATE LIMITATION

*ie MISC 109.*  
Although we are not now meeting on Tuesday, you may like to know where we stand with Liverpool. I attach a situation report. I should stress that we are finding it difficult to get reliable information, particularly on the credit front.

On rate limitation, you will know that Lambeth set a rate within their limit on 3 July - the last rate capped Council to do so. We will continue to monitor the performance of the selected authorities, keeping in touch with the Audit Commission, in particular to watch whether the deficits threatened by some do in fact materialise. Year 1 of rate limitation has highlighted the absence of a specific date by which authorities must fix their rates. I am writing separately to colleagues on E(LA) proposing that we legislate to fix such a date in the next Session.

I am copying this minute to members of MISC 109 and to Sir Robert Armstrong.

*J.H. Gallant*  
for P.J.

8 July 1985

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

## LIVERPOOL SITUATION REPORT

## I. AUDIT

1. The Auditor issued formal notices of surcharge on 27 June to 49 Labour Councillors in Liverpool. His initial estimate of loss is £106,103 as a result of delay in rate making. The Councillors have until 19 July to respond. If not persuaded to halt proceedings, the auditor will then issue certificates of surcharge. (Since the amount involved is over £2,000 the councillors will face automatic disqualification from public office for five years.) Surcharge and disqualification would have effect at the end of the 6 week appeal period, if no appeal is made, or when all appeal opportunities have been exhausted. Press reports suggest that Liverpool Councillors intend to fight the proceedings all the way. Disqualification and fresh elections are unlikely to take place before the end of the year.

2. Press reports also suggest that Labour Councillors are seeking Union support if the Auditor proceeds with surcharging them. However, representatives of NUPE (who are likely to hold a secret ballot) NALGO, NUT and NASUWT seem to be luke-warm about a strike. The Auditor meanwhile is now having difficulty gaining access to Council papers. He may need to go to Court to enforce his rights to such access.

## II. FINANCIAL POSITION AND CREDIT

3. It is understood that the City Treasurer will be making a report on the financial position of the Council in the week beginning 8 July. There is no hard evidence about whether Liverpool have managed to borrow in the market. The Treasurer has however approached the PWLB to see what he would have to do to enable the Council to borrow from them (The PWLB have already indicated that they would need a written assurance that the Council was acting lawfully.)

4. Following the laying of the Rate Support Grant Supplementary Report for 1985/86 on 4 July, implementing holdback, Liverpool City Council will receive no further grant payments after 7 August until February/March. Because their budget of £265m is 19% above target, they lose £88m of a potential £118m in block grant. Following legal advice, DOE, DHSS and Treasury began paying rate-related grants (rate rebates etc.) to Liverpool.

5. DOE has produced three cash flow charts based on projections of the City's revenue and capital payments. These are attached at Annex A. They are highly speculative but indicate how collapse could occur in August, September, or as late as February depending on the Council's ability to borrow.

#### Lending between Authorities

6. MISC 109 asked whether a sympathetic authority could lend to Liverpool to help it out of financial difficulty. Paragraph 13(1) of Schedule 13 of the Local Government Act 1972 provides that:

'A local authority.....may lend to another authority ...on such terms as may be agreed between them, such sums as that other authority may require for any purpose for which that other authority are authorised to borrow money.'

There is no requirement for the Secretary of State to give consent. The terms and conditions of any loan are thus entirely a matter for the authorities concerned, subject to the following two constraints:-

- The borrower must have power to borrow (Authorities may borrow temporarily for revenue purposes against revenue receivable within the same financial year, and for capital purposes with a limit roughly equal to their capital allocation.);

- The lender must comply with its fiduciary duty to its ratepayers and satisfy the auditor. There must be adequate security and no loss or deficiency must arise in the transactions.

There is one exception to the general power in the Local Government Act quoted above. Schedule 13(8) of the Local Government Planning and Land Act 1980 provides that the G.L.C. may not borrow for the purpose of on-lending unless provision is made in their Money Act.

### III RATE LIMITATION

7. Although selection criteria for rate limitation in 1986/87 have yet to be settled, it is likely that Liverpool will be caught. Their budget of £265m is 22% above their Grant Related Expenditure Assessment and 19% above their target. The list of selected authorities will be announced before the Summer Recess.

### IV CONTINGENCY PLANNING

8. The Department has now received new prints of both the general and Liverpool - only Commissioner Bills, and is studying them urgently.

### LAMBETH

9. Despite the fixing of a rate on July 3rd, surcharge proceedings will continue against the 32 Labour Councillors responsible for the delay in rate-fixing. The Labour Leader Mr Knight has indicated that he will fight the case, and the timetable is likely to be similar to that for Liverpool described above. It is assumed, though we have yet to see, that the Council's credit position will now be secured.

LIVERPOOL CASH FLOW

1. At table A below are three cash flow scenarios, all of which are based on the projections of revenue and capital payments shown in table B below. As the information about Liverpool City Council's cash flow is very limited, these scenarios and the underlying payments projections must be considered as highly speculative.

- (a) Scenario I assumes that for the first three months of the financial year Liverpool raised loans only to meet new capital payments and necessary refinancing of their loan debt, using their cash reserves to cover the monthly revenue cash shortfall. This scenario assumes that after June no new loans are raised.
- (b) Scenario II assumes that for the first three months of the financial year Liverpool, irrespective of the level of their cash reserves, raised loans to meet new capital payments, their monthly revenue cash shortfall and any necessary refinancing of their loan debt. It likewise assumes that thereafter no new loans are raised.
- (c) Scenario III assumes that throughout the financial year Liverpool are able to raise loans to the full extent permitted by their borrowing powers - ie loans of £49m for new capital payments, temporary revenue borrowing pending the receipt of revenues, and borrowing for refinancing the loan debt.

2. Under scenario I and II, both of which assume that from June onwards Liverpool have lost their creditworthiness and hence can no longer borrow, financial collapse is predicted around August or September. With scenario III, which unrealistically assumes that Liverpool maintain creditworthiness, collapse is predicted not to occur until February 1986.

3. Obviously, there are also a whole range of intermediate scenarios where after June Liverpool continue to find some "soft lenders", but not sufficient lenders to meet all their borrowing needs. Under these scenarios financial collapse would be predicted to occur sometime in this coming winter.

TABLE A

## CASH FLOW SCENARIOS FOR 1985-86

	April £M	May £M	June £M	July £M	August £M	September £M	October £M	November £M	December £M	January £M	February £M	March £M
<u>Scenario I</u>												
*Cash reserves at start of month	62	44	29	10	2							
New borrowing in month excluding refinancing transactions	9	9	10	-	-							
Loan repayments net of refinancing transactions	-	-	-	-	27?							
Monthly cash requirement (from Table B)	<u>27</u>	<u>24</u>	<u>29</u>	<u>8</u>	<u>13</u>							
Cash reserves at end of month	<u>44</u>	<u>29</u>	<u>10</u>	<u>2</u>	<u>(38)</u>							
<u>Scenario II</u>												
*Cash reserves at start of month	62	62	62	62	54	14						
New borrowing in month excluding refinancing transactions	27	24	29	-	-	-						
Loan repayment net of refinancing transactions	-	-	-	-	27?	?						
Monthly cash requirement (from Table B)	<u>27</u>	<u>24</u>	<u>29</u>	<u>8</u>	<u>13</u>	<u>24</u>						
Cash reserves at end of month	<u>62</u>	<u>62</u>	<u>62</u>	<u>54</u>	<u>14</u>	<u>(10)</u>						
<u>Scenario III</u>												
*Cash reserves at start of month	62	62	62	62	63	63	56	47	44	41	13	
New borrowing in month excluding refinancing transactions	27	24	29	9	13	17	8	4	15	-	-	
Loan repayments net of refinancing transactions	-	-	-	-	-	-	-	-	-	15	39	
Monthly cash requirement (from Table B)	<u>27</u>	<u>24</u>	<u>29</u>	<u>8</u>	<u>13</u>	<u>24</u>	<u>17</u>	<u>7</u>	<u>18</u>	<u>13</u>	<u>11</u>	
Cash reserves at end of month	<u>62</u>	<u>62</u>	<u>62</u>	<u>63</u>	<u>63</u>	<u>56</u>	<u>47</u>	<u>44</u>	<u>41</u>	<u>13</u>	<u>(37)</u>	

\* These cash reserves arise due to unused capital receipts.

TABLE B

## LIVERPOOL CASH FLOW PROJECTIONS 1985-86

	April	May	June	July	August	September	October	November	December	January	February	March
	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M
Monthly Revenue Cash Shortfall (see previous sheet)	18	15	19	(1)	3	15	8	4	15	11	7	14
Monthly Net Capital Payments	<u>9</u>	<u>9</u>	<u>10</u>	<u>9</u>	<u>10</u>	<u>9</u>	<u>9</u>	<u>3</u>	<u>3</u>	<u>2</u>	<u>4</u>	<u>4</u>
Monthly Cash Requirement (excluding refinancing transactions)	<u>27</u>	<u>24</u>	<u>29</u>	<u>8</u>	<u>13</u>	<u>24</u>	<u>17</u>	<u>7</u>	<u>18</u>	<u>13</u>	<u>11</u>	<u>18</u>

Notes

1. The revenue cash projections assume the City Council is spending at the "£265m" level specified in their budget approved on 14 June 1985. Except in respect of the following items, payments and receipts have been assumed to fall evenly throughout the year.
  - (a) rate support grant, including the advance further education pooling adjustments, are shown in the projections on the basis of known payment schedules, assuming the RSG Supplementary Report for 1985/86 is first actioned on 7 August 1985;
  - (b) housing benefit grant, other housing grants and subsidies, urban programme and UDG grants, and such rate related grants as payments in lieu of rates for crown properties have likewise been included on the basis of known payment schedules; in the case of housing subsidy, Ministers have agreed that Liverpool's entitlement (£9m) should be withheld pending the City Council providing adequate assurances about submitting their final claim for 1983-84; the projection assumes these assurances will be received in time to commence subsidy payments in August;
  - (c) rate income has been included on the assumption that 90% will be received by way of 10 equal monthly instalments commencing July 1985; obviously if the rate is quashed these instalments would cease increasing the revenue cash shortfall by over £11m per month.
2. It has been assumed that there is no revenue cash shortfall brought forward in respect of previous years. The 1984-85 expected deficit of £9m will not become a cash deficit until further RSG Supplementary Reports which increase Liverpool's grant holdback are actioned, thereby resulting in a repayment of grant. Rate income received in 1985-86 in respect of previous year has been assumed to have been used to repay temporary revenue borrowing which was financing that year's expenditure.

CWO

3. The capital payment projection assumes total gross payments of £87m - the figure referred to in the City Council's response to the Secretary of State when he was considering making a direction under section 78 of the Local Government Planning and Land Act restricting the Council's ability to incur capital expenditure. The projection assumes that  $\frac{3}{4}$  of the capital payments will be incurred in the summer months. The projection also assumes capital receipts received of £6m (a figure likewise contained in Liverpool's response to the proposed section 78 direction) evenly distributed throughout the year.



Revenue Cash Flow on a "£265m budget"

	TOTAL		April £M	May £M	June £M	July £M	August £M	September £M	October £M	November £M	December £M	January £M	February £M	March £M	86/87
	£M	£M													
City Council Gross Expenditure	505														
City Council Income Other than AFE pool reimbursement	<u>96</u>														
Net City Council Expenditure	409	34	34	34	34	34	34	34	34	34	34	34	34	35	-
Merseyside County Council Precept Rate and Grant Borne Expenditure	<u>47</u> 456	<u>4</u> 38	<u>4</u> 38	<u>4</u> 38	<u>4</u> 38	<u>4</u> 38	<u>4</u> 38	<u>4</u> 38	<u>4</u> 38	<u>4</u> 38	<u>4</u> 38	<u>4</u> 38	<u>4</u> 38	<u>3</u> 38	-
Rate Support Grant & AFE Pool reimbursement	50		13	10	10	10	-	-	-	-	-	3	2	2	-
Housing Benefit Grant (including disabled rate relief)	76		4	4	5	7	7	7	7	7	7	7	7	7	-
Housing Subsidy	9		-	-	-	-	3	1	1	1	1	1	1	-	-
Other Housing Grants	12		-	1	1	1	1	1	1	1	1	2	2	-	-
Urban Programme and UDG	20		-	5	-	-	5	-	-	5	-	-	5	-	-
Other Rate Related Grants	5		-	-	-	2	-	-	2	-	-	-	-	1	-
Other Grants	<u>36</u>		3	3	3	3	3	3	3	3	3	3	3	3	-
TOTAL GRANTS	208														
RATE INCOME (last payment in 1986-87)	<u>131</u>		=	=	=	<u>16</u>	<u>16</u>	<u>11</u>	<u>16</u>	<u>17</u>	<u>11</u>	<u>11</u>	<u>11</u>	<u>11</u>	(11)
SHORTFALL (cash)	<u>117</u>		18	15	19	(1)	3	15	8	4	15	11	7	14	(11)

CWO