



Prime Minister (2)

To note AT 29/7

MB

PRIME MINISTER

MISC 109: LIVERPOOL CITY COUNCIL SITUATION REPORT

I attach an updated situation report on the present position in Liverpool. There are no special points to which I need to draw attention. We will continue to keep you and colleagues in touch during the Recess if and when anything of significance occurs.

I am copying this minute to members of MISC 109, the Secretary of State for Scotland and Sir Robert Armstrong.

*W. J. Galloway*

P J

29 July 1985

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



## MISC 109: LIVERPOOL SITUATION REPORT

## I AUDIT - DELAY IN RATE FIXING

1. Last month, 49 Labour Councillors in Liverpool received formal notices of surcharge for £106,103. The date of 19 July was the deadline set by the Auditor for Councillors to respond to the notice, giving reasons why they should not be surcharged. However the Auditor may extend the deadline for a week or two because some Councillors refused initially to accept receipt of the notices. If the Auditor is not swayed by any representations, certificates of surcharge are now likely to be issued in the second half of August. Councillors are expected, as they may do so under the legislation, to appeal against the surcharge.

2. When I last made a situation report, the Auditors in Lambeth and Liverpool were having difficulty in gaining proper access to Council papers. In these circumstances my Department consulted the Attorney General on whether or not the relevant Accounting Officers should stop payments of mandatory or discretionary grants, or both, because there was no guarantee that the money would be properly used. Treasury Counsel's Opinion, endorsed by the Attorney General, made it clear that the Accounting Officer would not have grounds for stopping payment of mandatory grants (such as block grant, or rate-related grants) until the Audit Commission had exhausted all possible measures open to it to gain access, including Court action. On discretionary grants, the Accounting Officer should decide his position according to the circumstances of the particular case, but would have to have good grounds for withholding payment. The problem has receded for the moment, as the Auditors have once again gained access to Council property and papers. My Department will keep this situation under review.



## II FINANCIAL POSITION

## BUDGET

3. The City Treasurer presented a report to the Council's Finance and Strategy Committee on 10 July. He made it clear that with the present rate (a 9% increase) and budget (£265m) the Council would in due course be unable to meet its financial obligations. The position could be retrieved only if the Council is prepared to reduce the budget (the Treasurer has shown how £10m can be saved (which would attract a further £22m of RSG) and is looking at further options), or if the rate is quashed and a new one made. The likelihood of budget reductions being made is impossible to assess at present; the possibility of quashing the rate is slowly gaining currency in Liverpool but it remains pure speculation as to whether anyone will take it up.

4. The District Auditor made a formal report to the Council on the budget deficit on 19 July, setting out the options - financial collapse, major spending cuts, and/or the quashing of the original rate. As of 26 July, the Council had reached no decision on these issues.

## REFINANCING OF DEBT

5. Knowlsey Metropolitan Borough Council have decided to repay Liverpool £21m worth of debt owed on Council houses transferred to Knowlsey in 1974. Borrowing approval has been given to Knowlsey to pay off the debt by reborrowing at a more advantageous rate, on the condition that Liverpool gives an undertaking to use the money to redeem market debt. Knowlsey repaid Liverpool £15m of the debt last



year on the same conditions. The arrangement will give Liverpool an immediate cashflow benefit, and should enable it to cope with a major debt refinancing requirement which arises at the end of August.

#### CREDIT

6. Liverpool wrote to the PWLB to ask if there were any circumstances in which the PWLB would lend to them, short of the Chief Solicitor providing a certificate of legality. The Board have concluded that Liverpool's present assurances are unsatisfactory, and have decided not to lend. We have no information on whether Liverpool is trying, or able, to borrow in the market.

#### III MEETINGS

7. I met Labour MPs from Liverpool at their request on 15 July. I made it quite clear - and this has subsequently been confirmed in writing to the Council - that there can be no meetings with the Council to discuss its rate and budget, or to reopen decisions on Rate Support Grant and targets. I also made clear that one way forward would be for an interested party locally to challenge the Council's rate in the Courts. The MPs asked if I would be prepared to see Labour Front Bench Spokesmen on the issue; I indicated that I was prepared to do so without the Council present, and I have subsequently received a request from Dr Cunningham but he asked to be accompanied by Liverpool City Council leaders. I have replied that I would be happy to meet him, but not with Councillors. He is considering the position, but is likely to accept the offer of a personal talk.



#### IV RATE LIMITATION

8. The list of authorities selected for rate limitation was announced on Thursday 25 July. The criteria for selection for authorities not previously designated are that budgeted expenditure in 1985/86 should be more than 20% over GRE and 4% over target. On their present budget of £265m, Liverpool are 22% over GRE and 19% over target. They will thus be subject to rate limitation from 1 April 1986.

#### V CONTINGENCY PLANNING

9. My Department is looking at the latest prints of the general and Liverpool-only Commissioner Bills. Notes on Clauses are being prepared.

#### VI EDINBURGH

10. I understand that George Younger will be circulating a separate note to MISC 109 on Edinburgh, and on the handling issues that arise from Edinburgh's attitude to the proposed rate reduction. We need to ensure that the strategies in England and Scotland are being kept broadly in line. We may need to consider in due course whether Scotland should be covered by the draft general Commissioner Bill, against the possibility that Edinburgh might collapse. The drafting implications are being considered; it will be important that they should not significantly increase the complexity of the Bill.