

SUBJECT

cc MAHAER



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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.



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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



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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.

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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.

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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).

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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.

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27 February 1984

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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.

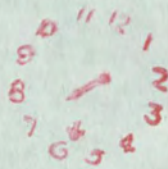
Over the last three years 1981/82 to 1983/84 capital expenditure by local authorities and other bodies on Merseyside, under the Department's main programmes has reached £650 million. This includes about £140 million for the City in these 3 years through the Urban Programme and the Merseyside Development 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
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27 JUN
1984



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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