

CC MASTER

SUBJECT



FILE

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10 DOWNING STREET

From the Private Secretary

13 March, 1984

Dear John,

The Prime Minister held a meeting today to discuss developments in Liverpool. Present were your Secretary of State, the Home Secretary, the Secretaries of State for Education, Defence, Trade and Industry and Social Services, the Chief Secretary to the Treasury and the Attorney General. Mr. Buckley from the Cabinet Office was also present. The meeting had before it your Secretary of State's minute of 9 March and the text of a Parliamentary Answer which the Attorney General might give setting out the duties of councillors and sanctions they faced if those duties were not fulfilled.

Your Secretary of State said that since the last meeting the situation had changed. Six Labour Councillors, to be joined perhaps by two more, had indicated that they would not vote for an inadequate, and hence illegal, rate. The calls for responsibility from the Government and the growing realisation of the consequences, perhaps reflecting advice from Liverpool's Chief Executive, were beginning to take effect. The Opposition front bench was giving the militants no support. Fears of a crisis in the local authority finance markets had subsided.

Although an illegal rate could not be ruled out, the more likely outcome was now that no rate would be made at all. This would create a messy position as it was not clear when matters would come to a head. The Council might be able to muddle through for a time, drawing on balances if it had any, on RSG payments, rents and possibly income from receipts from asset sales. On the other hand, failure to make a rate might produce a quick collapse, particularly if officers of the Council felt they were unable to meet contractual payments.

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It was still not clear how the difficulties in Liverpool would resolve themselves. One possibility was that the Labour Group could switch tack and set a very high rate, seeking to put the blame for this on the Government. The Conservative Group would be faced with a choice between opposing such a rate and perhaps producing no rate at all, or abstaining. Another possibility was a lower rate which in the end would prove inadequate but which it would be difficult to demonstrate as being inadequate at the start. This would allow the Labour Group to get through the election before the problems appeared.

The discussion then turned to the Attorney General's text on the duties of councillors. This had been drafted to deal with a situation in which an inadequate rate was likely. It did not address itself to the new situation in which no rate was the most likely outcome. It also did not make clear the position of a Conservative Group who voted against an extravagant rate and who thereby caused no rate to be made. Such a position could occur in Hounslow. The Attorney General agreed to look again at the text to ensure that it covered these contingencies. The issues of who should be asked to put down the question and when it was best answered were left aside until a new draft was available. Discussion then turned to the ways in which pressure for a proper rate to be made could be increased. It was argued that the two most powerful forces were the unions, if they came to fear for the livelihood of their members, and the national leadership of the Labour Party to whom this issue could be an embarrassment. The Government should continue, e.g. in the forthcoming Adjournment Debate, to maintain its existing line that the Liverpool Councillors should behave responsibly. Although work was continuing on legislation for the introduction of commissioners this remained the Government's last resort.

The Secretary of State for Social Services reported that he had minuted the Prime Minister on Liverpool's health strategy. The proposals were in line with national policy to cut back provision for acute beds and to devote the resources to community health care. He recommended that this be agreed as if it were not the District Health Authority who would have difficulty living within its budget and that this could create a further bone of contention between Liverpool and the Government.

Summing up the discussion, the Prime Minister asked the Attorney General to prepare a new draft answer to take account of the points made. The matter could be raised orally at Cabinet. The Group would in any case need to meet again to look at the situation as it developed.

I am sending a copy of this letter to Hugh Taylor (Home Office), Elizabeth Hodgkinson (Department of Education and Science), Richard Mottram (Ministry of Defence), Callum McCarthy (Department of Trade and Industry), Steve Godber (DHSS), John Gieve (HM Treasury), Henry Steel (Attorney General's Office) and to Richard Hatfield (Cabinet Office).

*Yours sincerely*  
*Andrew Turnbull*

J. Ballard, Esq.,  
Department of the Environment

(Andrew Turnbull)

cc B1



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Reference E023

PRIME MINISTER  
\_\_\_\_\_

Liverpool

BACKGROUND

You held an informal meeting of Ministers on 29 February to discuss developments in Liverpool. The main conclusions of the meeting were as follows.

(i) The Attorney General was invited to prepare the draft of a statement on the duties and obligations of local councillors regarding the making of a rate, and the penalties they faced if they failed to discharge their duties; it was envisaged that this statement might be made to Parliament by way of an arranged Question and Answer.

(ii) The Treasury and the Department of the Environment were asked to discuss with the Bank of England a draft statement on the credit-worthiness of local authorities; this statement was not to be volunteered, but might be made if market conditions deteriorated.

2. The meeting also authorised certain contingency work; it was agreed to hold a further meeting in about a fortnight's time.

3. That meeting is to take place tomorrow, 13 March. In preparation for it, the Law Officers' Department  
A \_\_\_\_\_ (letter of 5 March to Mr Turnbull) has circulated the



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draft of a statement which might be made by the Attorney General. The Secretary of State for the Environment has also sent you a minute dated 9 March describing current developments and suggesting a number of topics for discussion.

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MAIN ISSUES

4. The main aims of the meeting appear to be as follows.

(i) To hear the latest assessment of the situation.

(ii) To review contingency planning.

(iii) To consider the draft statement by the Attorney General.

(iv) To consider other publicity.

*Commissioner Legislation on which Mr Jenkin has just circulated a paper is best discussed at a separate meeting.*

*AT 12/3*

Current situation

5. Mr Jenkin's minute of 9 March reports a number of developments which make it unlikely that the Liverpool City Council will make an illegal rate for 1984-85. It is, however, still quite likely that the Council will fail to adopt a rate at all.

6. No doubt Mr Jenkin will be able to provide further details tomorrow: in particular, he is holding a private meeting with Mr Cunningham, the Opposition spokesman on environmental matters, today.

Contingency planning

7. Departments already have contingency planning in hand, and we are not aware of any particular problems. The Ministers concerned will be able to report if necessary.



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8. You may in particular wish to ask the Chief Secretary, Treasury whether there are any signs of a withdrawal of confidence by the money markets, whether from Liverpool or from local authorities more generally.

Statement by Attorney General

9. The draft statement by the Attorney General seems well-suited to its purpose: you will recall that the meeting on 29 February took the view that the statement should be of general application and not overtly directed against Liverpool.

10. Apart from the drafting, there are two points which Ministers will wish to consider.

(a) How should the statement be made?

If by an arranged Question and Answer, who should be invited to put the Question down?

(b) When should the statement be made?

In particular, when is it most likely to influence those members of the majority on the Liverpool Council who have misgivings about being party to the making of an illegal rate? Mr Jenkin suggests that it should be made as soon as possible.

Other publicity

11. Mr Jenkin suggests that no change is needed in Government publicity. But the meeting will wish to review the situation.

HANDLING

12. It will probably be convenient to take the meeting in separate parts corresponding to the main aims



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suggested in paragraph 4 above.

(i) Discussion of recent developments might be opened by the Secretary of State for the Environment; the Home Secretary may wish to inform his colleagues of any new information on the likelihood of public disorder in the area.

(ii) The review of contingency planning might again be opened by the Secretary of State for the Environment; other Ministers could then be invited to say whether there are any points they wish especially to draw to the attention of their colleagues. The Chief Secretary, Treasury could be asked to report on current sentiment in the money markets and progress with the drafting of the statement commissioned by the meeting on 29 February.

(iii) Discussion of the draft statement on legal obligations could be opened by the Attorney General. The Secretary of State for the Environment will no doubt wish to comment, particularly on the timing of the statement.

(iv) The discussion of other publicity could again be opened by the Secretary of State for the Environment.

#### CONCLUSIONS

13. You will wish the meeting to reach a decision on:



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(i) The draft statement by the Attorney General, including

- its terms;
- its timing;
- its form and (if it is to be by Question and Answer) which Member should be invited to table the Question.

Depending on the course of discussion it may also be appropriate to record conclusions relating to:

(ii) contingency planning;

(iii) any publicity or other measures which might increase the likelihood of the Liverpool City Council making a legal rate without undue delay.

*M.S.B.*

M S BUCKLEY  
Cabinet Office.  
12 March, 1984

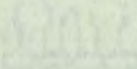


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LONDON

CONSOLE







cc B1  
 Prime Minister ②

This report plus the text of the Attorney General's answer provide the agenda for Tuesday's meeting of Ministers.

AT 9/3

Prime Minister

LIVERPOOL

1. We are meeting on 13th March to discuss Liverpool. This minute reports on events since we last met, and lists a number of topics which we might usefully consider.
2. On the political front there have been a number of developments since our last meeting:
  - a. The Liberal Group on the Council have publicly outlined budget proposals, which, they claim, would require a rate increase in single figures, and would, they say, require no redundancies and no rent increases. This has been attacked by the Labour leadership as a 'cruel deception' requiring compulsory redundancies and savage service cuts. The Conservative leader has also denounced it as an irresponsible sham, but has gone on to urge all-Party talks to secure a responsible budget and rate.
  - b. In contrast to NUPE and NUT, NALGO voted at a public meeting to support the strike called for 29th March; according to newspaper reports, that vote is likely to be confirmed in a ballot of NALGO members in Liverpool. Moreover individual NUPE branches in the city are reported to be about to challenge their executive's decision. The present indications are that there is still likely to be a significant display of support for the Council in the one-day strike on 29 March.
  - c. Six Labour Councillors have formally announced that they will not vote for an illegal rate, and they have since been joined by a seventh; if they stand firm on that, that ought to mean that an illegal rate will



not be made, since the overall majority is only 3 (51 Labour, 30 Liberal and 28 Conservative). But there is of course no guaranteed majority for an alternative budget proposal.

d. Messrs Kinnock and Cunningham are meeting Liverpool Labour MPs and Councillors in an attempt to persuade them to make a legal rate.

e. Jack Cunningham has asked to speak to me privately and I have arranged to see him on Monday morning. I will report on the outcome.

3. The press gave wide publicity to the statement by the six Labour rebels, and have not unreasonably concluded that an illegal rate now seems most unlikely. The position is still far from clear, but I think we should assume for the time being that the most likely outcome on 29 March is no longer an illegal rate, but rather a failure to rate at all. This affects our contingency planning.

4. I suggest that our discussion should cover the following main headings:

i. Councillor's duties: we have the draft answer to an inspired PQ circulated by the Attorney General's office on 5th March. I think it would be useful for the answer to be given as soon as possible.

ii. Creditworthiness: my officials have been discussing with the Treasury the preparation of a revised statement on creditworthiness. However, the latest indications are that the markets have already been considerably reassured by recent developments in Liverpool. Moreover, no statement



short of an announced decision to send in Commissioners could offer totally convincing reassurance to lenders on the security of their loans to Liverpool. For the time being, therefore my strong view is that we should not volunteer a statement on Liverpool's creditworthiness.

iii. Commissioners: I am circulating separately a paper on Commissioner legislation, and on Commissioner' accountability in particular.

iv. Party Publicity: Clearly the local Conservatives will not want to be seen to be supporting the Liberal budget proposals in the run-up to the elections on 3 May. They have, I believe, emphasised the need for a legal and viable budget, and offered the Conservative group's support for all Party talks which might lead to such a budget. I shall keep closely in touch with them.

v. Government Publicity: I suggest no change. My Department is briefing the national and local press as necessary. In a short debate in the House of Lords on 5 March, Lord Bellwin set out the Government's position and declined to intervene in, or make any exacerbating comment on, a local authority's decision. I do not think anything would be gained by a different approach now: the press seem to have got the message about right, and the national Labour Party leadership are helping too.

vi. Contingency Planning: my officials are continuing to discuss with other Departments the consequences of progressive breakdown of the City Council's services before a total financial collapse, and consequent irresistible

*In folder  
but best  
dealt with  
at a separate  
meeting.*



pressure for the installation of Commissioners. My Department is preparing an analysis of when central Government action might be needed in such circumstances. We are also pursuing separately the possibility of legislation allowing a second, higher, rate if the first rate is declared invalid.

5. I am sending copies of this minute to Michael Heseltine, Keith Joseph, Norman Tebbit, Norman Fowler, Leon Brittan, Peter Rees, Michael Havers and Sir Robert Armstrong.

PJ

P J

9 March 1984