



Prime Minister

LIVERPOOL

1. We are due to meet shortly to review the position in Liverpool.

2. Since the Group last met, the City Council has held its inconclusive budget debate on 29 March. A further Council meeting is scheduled for 11 April but the business for this is fixed and does not include the budget. An extraordinary meeting of the Council to discuss the budget has been requisitioned by the Conservatives and Liberals, and this has been set for April 25, in the week before the local elections. We understand that the Council's Treasurer has so arranged his affairs that the financial position of the authority should be secure until at least the local elections.

3. The two main issues which face us now are:
 - (a) what prospect is there for a legal rate being made on 25 April; and
 - (b) what happens after the elections on May 3rd.

PROSPECTS FOR APRIL 25

4. I think we can assume that, despite any discussions with Government (see paragraph 5 below), the majority Labour Group will not be willing to propose a legal rate before the local elections. The making of such a rate on April 25 will depend on co-operation between the Conservative and Liberal Parties; it is sufficient that the Labour moderates abstain for such a rate to be carried. Our own supporters are likely to wish to see a rate made and the critical issue, therefore, is

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how the Liberal Party will act. Sir Trevor Jones may be more attracted by the prospect of campaigning in the local elections against either an illegal rate made by the Labour Party, or no rating decision, rather than be party to making a legal rate before the elections involving a substantial rate increase. I am, however meeting a deputation from the Liberals on Thursday 12 April to explore the grounds on which they might agree upon a legal rate with the Conservatives.

5. Over the next two weeks, we are likely to come under considerable pressure to provide further financial assistance to Liverpool. A deputation of Merseyside Labour MPs led by Eric Heffer, which I saw last Thursday, pressed this and a new proposal emerged to which I will return. The Leader of the Council, Councillor Hamilton, has asked both you and me to visit Liverpool and discuss the problems. I have proceeded on the assumption that it would be more appropriate for me to meet a deputation in London in the first instance - this will take place on Friday 13 April.

Do E have been asked for advice on this letter which is enclosed

6. I should note that I have considered whether there is any case before the local elections for seeking an order of mandamus directing the Council to rate. I have concluded that there is not. With a further budget discussion on April 25, it is unlikely that a court would take such an application seriously. After April 25 if no rate is set there will be insufficient time to act before May 3rd.

7. I will report orally on Thursday on our latest judgements about Liverpool's creditworthiness and possible repercussions on local authorities generally.

AFTER MAY 3

8. Whatever the outcome of the elections on May 3rd, we are likely to face a problem. An increased Labour majority could

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maintain its proposals for an illegal rate or, if a legal rate has been made on April 25, remake the rate at a lower level. In these circumstances, the Auditors would no doubt act against offending Councillors. Illegal action could eventually lead to a collapse of services and the introduction of Commissioners. A moderate coalition might be able to make, or maintain, a legal rate but that could well be as a result of compromises which did not tackle the more fundamental expenditure and financial problems of the authority. On past experience in Liverpool it is doubtful that such a coalition would have the capacity or will, on its own initiative, to embark upon a programme of sufficient retrenchment. This would probably need two or three years of hard and vexatious effort to implement; it would no doubt mean redundancies in pursuit of lower costs and greater efficiency.

CONCLUSION

9. Despite the pressure to do so, I cannot recommend that we change our stance and make specific financial concessions to Liverpool. Although we have identified a number of ways to increase government subventions to the City within the existing local government finance framework, most of these are costly and all carry political risks. The mere offer of a concession would suggest that we had succumbed to blackmail by the Council, and admitted that Government policies had made Liverpool's position impossible. We could not offer concessions to a moderate coalition on the Council alone, and an extremist Council might use them simply to increase expenditure further within the context of a low, illegal rate. There would be demands from elsewhere for similar help.

10. The new suggestion at the meeting with Merseyside MPs was for an inquiry to establish publicly the fact of Liverpool's financial position. I understand this is now being considered



more widely by Councillors in the City. I gather that the Labour Party at national levels had earlier suggested an enquiry of some sort to the Labour majority group, but it ran into the sand because Cllr Byrne, the hard-line Chairman of the Finance and General Purposes Committee, was not prepared to let the City's officers discuss anything with outsiders otherwise than in his presence. We ourselves had also begun to think of some kind of inquiry as a possible way forward, but we may face similar intransigence. I will report further on Thursday.

11. In the meantime, I propose to continue to stress the responsibility of the City Council to make a legal rate for 1984/85, the scope which clearly exists for them to do so, and the consequences of failure. William Waldegrave will be speaking in these terms in tonight's Adjournment Debate.

12. I am sending copies of this minute to Michael Heseltine, Keith Joseph, Norman Tebbit, Norman Fowler, Leon Brittan, Peter Rees, Michael Havers, Sir Robert Armstrong and Mr Buckley (Cabinet Office).

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11 April 1984

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