



10 DOWNING STREET

From the Private Secretary

11 April 1984

Dear John

LIVERPOOL

The Prime Minister held a meeting today to discuss developments in Liverpool. Present were the Home Secretary, the Lord Privy Seal, the Secretaries of State for the Environment, Education, Defence, Trade and Industry, the Chief Secretary, the Solicitor General, and the Minister of Health, DHSS. Also present were Sir Robert Armstrong and Mr. Buckley.

Your Secretary of State said that underlying the crisis over Liverpool's finances there was an atmosphere of growing violence which was exacerbated by the violence of language in local politics. This should be taken seriously if there was to be no repetition of the riots of 1981.

He had seen a delegation of Labour MPs the previous week and was shortly to see delegations from Liberal and Labour groups on the Liverpool City Council. His objective remained to secure the adoption of a legal rate. It was highly desirable to do this before the local government election on 3 May. The next opportunity would be the Council meeting of 25 April. A legal rate could be achieved if the Conservative group put forward a budget and a rate and were supported by the Liberals, with the six moderate Labour Councillors abstaining. Once an adequate rate had been established, it would be easier to use the Courts to prevent a more militant Labour council from overturning it after the elections. The difficulty was that the Liberals feared they would lose votes if they were associated with the unpopular budget which was necessary.

The Labour group had written to him and the Prime Minister suggesting an urgent discussion. While there was no question of intervention by the Prime Minister, he would have to respond to the Labour group when he saw them. He would continue to stress the need for them to act responsibly and he would again indicate that he had no latitude for action which gave Liverpool more favourable treatment than other local authorities.

At the last meeting with the Labour group, it was noted that not enough was known about Liverpool's financial predicament. To establish the facts, an inquiry had been proposed comprising a small group of former local government officials. Your Secretary of State felt that in an ideal world this proposal would have much

/ to commend

to commend it. If conducted independently, with full disclosure of the facts, it might demonstrate that a reasonable standard of services could be achieved without excessive rate increases. In practice, however, it was unlikely that the Labour group would cooperate if they did not control the procedures of the inquiry and the information put to it.

In discussion, it was argued that the Government should do everything in its power to avoid being forced to introduce Commissioners. If accepting an inquiry helped to secure a legal rate and helped to demonstrate the reasonableness of the Government's position, this should not be ruled out. Against this, it was argued that such an inquiry would inevitably turn into a claim for more resources for Liverpool.

The Chief Secretary, while doubting the wisdom of such an inquiry, endorsed the need for a clearer view of Liverpool's assets and liabilities. He suggested this could be achieved by securing a Special Audit under the auspices of the Audit Commission. Officials should examine whether the provisions of the Local Government Act 1972 could be used to institute such an audit.

The Chief Secretary said there was growing concern in local authority finance circles about the implications of a default by Liverpool. The City had debts of £700 million of which £130 million had to be rolled over by June. There were doubts about whether this could be refinanced. While it was possible that the reaction of financial markets could be confined to Liverpool there was a danger that disruption could spread more widely. He thought more work was needed.

Your Secretary of State noted that the future of Cammell Laird was closely connected with the problem of Liverpool. He welcomed the decision to postpone the announcement of redundancies. The Secretary of State for Defence was anxious to secure an early decision on where the next two Type 22 frigates were to be built. Three BS yards had tendered, with Cammell Laird the lowest. These tenders had now been withdrawn by BS and the Ministry of Defence were awaiting new tenders. While it might suit the objective of privatising BS for the work to go to other yards, the political consequences of this would be serious. The Secretary of State for Trade and Industry said the Cammell Laird bid had been based on the assumption that the yard would win the contract for the Sun Oil platform but this had been lost. The economics of the Cammell Laird tender had to be re-assessed. Any decision to have the frigates built other than by the lowest bidder should only be taken after full discussion between Ministers.

The Secretary of State for Education and Science said he had received Liverpool's proposals for closure of schools. Excess capacity in the school system was an important factor in Liverpool's financial plight. While the willingness to undertake closures was welcome, the proposals themselves were unsatisfactory from an educational standpoint. He would need to consider carefully the timing of his decisions.

/ Summing up,

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Summing up, the Prime Minister said the Government's objective should remain the achievement of a legal rate before the local government elections. On balance, the group thought the dangers of an inquiry into Liverpool's financial predicament were too great but the possibilities of securing a Special Audit should be investigated by the Secretary of State for the Environment and the Chief Secretary. They should also, in conjunction with the Bank of England, investigate further the dangers of a financial default by Liverpool and the implications for financial markets. The tenders for the Type 22 frigates should be expedited and the issue should come to the relevant committee of Ministers as soon as possible. The Secretary of State for the Environment should pursue his ideas for the establishment of a group, on which the No. 10 Policy Unit could be represented, to consider the political options in Liverpool.

I am copying this to Hugh Taylor (Home Office), David Heyhoe (Lord Privy Seal's Office), Richard Mottram (Ministry of Defence), Elizabeth Hodgkinson (Department of Education and Science), Callum McCarthy (Department of Trade and Industry), John Gieve (Chief Secretary's Office), Henry Steel (Law Officers' Department), Steve Godber (DHSS) and Richard Hatfield (Cabinet Office).

Yours sincerely

Andrew Turner

John Ballard, Esq.,
Department of the Environment.

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PRIME MINISTER

Liverpool

BACKGROUND

The minute of 11 April from the Secretary of State for the Environment reports recent developments in Liverpool. You will be holding a meeting of Ministers to discuss it after Cabinet tomorrow.

2. As you know, the meeting of the Liverpool City Council on 29 March took no decisions on either the rate or the budget for 1984-85. A further meeting on these matters is to be held on 25 April.

3. The Secretary of State for the Environment has received, or is due to receive, a number of delegations.

(a) A delegation of Merseyside Labour MPs, led by Mr Eric Heffer, saw him on 5 April. They asked for further financial assistance for Liverpool and suggested that there should be an inquiry 'to establish publicly the facts of Liverpool's financial position'.

(b) There is to be a deputation of Liberal councillors on 12 April 'to explore the grounds on which they might agree upon a legal rate with the Conservatives'.



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(c) A further deputation from Liverpool, apparently led by the Leader of the Council, is expected to see the Secretary of State on 13 April to discuss the City's problems.

4. Mr Jenkin suggests that there is little likelihood that the courts would agree to intervene before the Council meeting on 25 April. In effect, that means before the local elections on 3 May. He does not propose any change in the Government's stance: that there should be no financial concessions to Liverpool; and that the problems in Liverpool are a local responsibility. He does, however, imply that there may be merit in the proposed inquiry (paragraph 3(a) above). He also promises to report on Liverpool's creditworthiness and its possible repercussions on local authorities generally.

MAIN ISSUES

5. The main issues before tomorrow's meeting are as follows.

(i) What is the current assessment of the chances of a legal rate and budget being agreed on 25 April?

(ii) What, if anything, can the Government do to improve the chances?

(iii) In particular, is there any merit in the proposed inquiry? If so, what would be its scope and constitution?

(iv) What line should be taken at the meetings with the deputations from Liverpool on 12 and 13 April?



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(v) Creditworthiness.

Current assessment

6. It is clear that there is no prospect of a legal rate being agreed unless the Conservative and Liberal Councillors agree. (And unless the Labour moderates at least abstain - but that seems pretty likely). It also seems probable that 25 April will be the last opportunity, since the local elections on 3 May are thought likely to increase the Labour majority. You will wish to check that all that is possible is being done, through both Party and Governmental channels, to encourage agreement.

Government action

7. Apart from this, there seems to be little that the Government can do. But the meeting may wish to ask the Attorney General whether he agrees with Mr Jenkin's judgement that there would be little point in an approach to the courts at this stage.

An inquiry

8. The proposal that there should be an inquiry 'to establish the facts' has apparently gained some currency among Liverpool councillors. I understand from Environment officials that such an inquiry, if it were to be set up, would be undertaken by two or three distinguished former local authority treasurers or chief executives, with perhaps someone from a financial institution in the City of London. Its aim would be partly to go into the history of Liverpool's finances during recent years, but more importantly to demonstrate that it would be possible to provide a reasonable standard of services without excessive



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rate increases. There is no precedent for such an inquiry; and there are no relevant statutory provisions (though that is no bar to setting up an inquiry).

9. If successful, such an inquiry could strengthen the hands of both the Government and the moderate councillors in Liverpool. In particular, it should demonstrate that the Labour majority are wrong in saying that the choice is between drastic cuts in services and drastic increases in rates.

10. However, Ministers will wish to consider the following points.

(a) It seems likely that the Council would refuse to cooperate with an inquiry, and would direct its employees to withhold cooperation. If so, the inquiry could probably not get very far. It is not certain that the Council would be universally condemned for unreasonable behaviour in this event: even some moderate local government opinion, for example, might suspect that an inquiry was a first move towards greater Government scrutiny of the affairs of individual local authorities.

(b) The existence of an inquiry might reduce the pressure on moderate councillors to set a legal rate and budget before 3 May. It might well be argued that 'no decisions should be taken before the inquiry reports'.



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(c) It will not be easy to find people to undertake the inquiry who could be relied on to come up with acceptable recommendations but would not be criticised as partial.

(d) However carefully the members may be picked, enquiries seldom reach conclusions wholly in favour of one side. There must be a risk that some aspects of the findings of the inquiry would drag the Government further into the affairs of Liverpool than it would necessarily want to go.

(e) To the extent that an inquiry went into the stewardship of previous councils, it might be unwelcome to Liberal and Conservative opinion in Liverpool.

11. If Ministers see attractions in an inquiry, you will no doubt wish to invite the Secretary of State for the Environment to put forward more detailed recommendations on composition, terms of reference, and timing. There could be advantage in informally sounding out the two deputations on 12 and 13 April.

Handling of deputations

12. The discussion of the previous issues will give Mr Jenkin guidance on the handling of the two deputations. He may, however, have particular tactical points to raise.

Creditworthiness

13. I understand that Liverpool is due to repay debt of about £130 million at the end of May and that there



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is some doubt about the Council's ability to re-finance this money. Discussions are proceeding between the Department of the Environment, the Treasury and the Bank of England: they have not reached a conclusion. You may wish to invite the Secretary of State for the Environment and the Chief Secretary, Treasury to report as soon as they can.

HANDLING

14. You will wish to invite the Secretary of State for the Environment to open the discussion. Thereafter any of your colleagues may wish to contribute.

CONCLUSIONS

15. You will wish the meeting to reach conclusions on the following.

(i) What action, if any, the Government can take to improve the chances of a legal rate and budget being set by the Liverpool City Council at its meeting on 25 April.

(ii) Whether there are, in principle, attractions in an inquiry into the facts of Liverpool's financial position. (If there are, you will wish to invite the Secretary of State for the Environment to bring forward detailed proposals on composition, terms of reference, and timing).

(iii) What line should be taken in discussions with the deputations from Liverpool which the Secretary of State for the Environment is meeting on 12 and 13 April.

(iv) Further work on creditworthiness.

M.S.B.



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LONDON

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).

PJ

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11 April 1984

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