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Prime Minister (2)

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PRIME MINISTER

LIVERPOOL

In my minute of 16 April, I promised to provide a speaking note which colleagues could use to bring home to Liverpool voters the message that the consequence of the City's setting an inadequate and illegal rate would be far more serious for local people than a higher, legal rate.

I now enclose such a note. I hope colleagues will draw on it in making speeches over the next couple of weeks or so and, wherever appropriate, will add a personal gloss by spelling out in some detail the implications for their own services of a breakdown in the City Council's affairs.

I ought also to emphasise that our objective in making public statements on the situation in Liverpool must be to encourage common sense to prevail so that the council makes a legal rate at its meeting on 25 April or, failing that, as soon as possible after the local elections on 3 May. In accordance with the normal convention, colleagues speaking in a Ministerial capacity must not appear to be trying to influence the outcome of the elections in any party political sense.

Copies go to those who received my earlier minute (Michael Heseltine, Keith Joseph, Norman Tebbit, Norman Fowler, Leon Brittan, Peter Rees, Michael Havers, Sir Robert Armstrong, and Mr Buckley), and in addition to Tom King and Nicholas Ridley who may also find a suitable opportunity to make use of the speaking note.

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19 April 1984

SPEAKING NOTE FOR MINISTERS

Labour Councillors in Liverpool want to bankrupt their City. As the local elections approach, they are telling Liverpudlians that they have no choice. Civic bankruptcy, they say, is the only way to solve the City's severe economic and social problems. What nonsense it is!

Look at the facts.

It is those Labour Councillors themselves who have created the financial mess in which the Council now finds itself. Yes, they did inherit a tight budget position from the Liberals in May 1983; but, with careful rearrangement and some savings, they could have maximised grant; they could have built a stable financial base for 1984/85. They chose to make things worse for themselves. They increased expenditure rather than reduce it. Over £1m went in a £16 decorations allowance to council tenants. Because the council overspent, their grant went down. The result of their failure to act responsibly in 1983/84 is a deficit of £34m to be met by the rates this year.

The Labour councillors now propose to spend this year over £50 million more than the Government's target - a target which itself takes account of the City's undoubted needs.

The Labour Group's reckless spending plans would require a staggering rate increase of 175%. Unable to face up to the consequences of such irresponsible behaviour, however, they

propose to compound their folly by deliberately fixing the rate at a level far below what is needed to balance the books.

They try to justify this by claiming that they want to keep down rates, protect services and save jobs. But, of course, by deliberately planning to run out of money they will achieve exactly the opposite! No-one will lend to a bankrupt council, so they will be unable to borrow;with inadequate rate income and no bank borrowship, they will quickly find themselves unable to pay their staff and unable to keep their services going.

Let us not mince words about what this really means for the people in Liverpool:

- Those who depend on the Council's social services - the elderly, the sick, the handicapped - will be cast adrift without support. The Council's schools will close. Rubbish will pile up in the streets. Council tenants will have to fend for themselves.

- In a city which urgently needs new jobs, existing jobs will be put at risk. It is not only council staff who will suffer. What businessmen will place orders or invest money in a City threatened with chaos?

- And in the end someone will have to pick up the shattered pieces. There is no fairy godmother. It will be the ratepayers of Liverpool who would eventually have to foot the bill for the Council's irresponsibility.

The Labour Group want people to believe there is no other way. This is simply untrue. It is possible for the Council to make a properly balanced budget and rate. The council can, if it has the will, put itself back on a sound financial footing. They do not have to agree to anything like the rate increase which the council has threatened; nor have they ever justified the figure for redundancies needed for a balanced budget.

They could achieve a balanced budget by increasing efficiency, by better financial management, and by cutting out increases in spending. The benefit to ratepayers would be substantial: every £5 million cut in spending earns the Council another £10 million in rate support grant - worth 20p in the £ off the rates.

For its part, the Government continues to provide the City with substantial sums of money to help rebuild its prosperity. We stand ready to work in partnership with any Council which has the interests of the City at heart.

We have suggested to the Council that they should seek the help of the Audit Commission in a study to improve their economy, efficiency and effectiveness; we would fully support this move provided they first set a legal rate. I very much hope they will respond constructively.

The Labour Group are looking to the electorate to support a policy which would break the law and plunge the City into turmoil. I hope the people of Liverpool will not be fooled. It is a policy which will lead, not to civic salvation but to civic suicide.

DEFENSIVE SPEAKING NOTE (IF RAISED)

£120m GRANT STOLEN FROM LIVERPOOL

The allegation that the Government has "stolen" £120m in grant from Liverpool is utterly misleading. The percentage of local government expenditure met by central government has been reduced across the board, for all authorities. There has been no discrimination against Liverpool. To increase the amount of grant now would be at the expense of the local authorities or the national taxpayer.

Liverpool's position has been made worse by the City's failure to meet the Government's spending targets.

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BACKGROUND NOTE

1. On 29 March the Liverpool City Council Labour Group proposed expenditure of £269 million for 1984/85 against the Government's target of £216.1 million. In 1984/85 the City Council also has to meet a deficit of £34 million carried over from 1983/84. A rate increase of 175% would be necessary to cover such outgoings, but the Labour group proposed only 9%. This proposal which would be illegal if agreed, was defeated by a combination of Liberals, Conservatives and Labour moderates. Although the City Council meets again to discuss its budget on 25 April, the Labour Group have said that they do not want to set a rate then, intending instead to campaign for the 3rd May local elections on the basis of their earlier proposal. There will then have to be another council meeting to discuss the budget after 3 May.

2. It is clearly possible to reduce the expenditure of the Council as proposed by the Labour Group by greater efficiency, cutting increases in expenditure (the Labour Group propose for instance a £8 million decorative allowance for Council tenants, a veiled method of reducing rents) and better financial management. For each £5 million that the City Council can reduce its expenditure it gains an extra £10 million in rate support grant, bringing a total benefit to rate payers of £15 million or a 20p rate. 35 major authorities faced tougher targets than Liverpool for 1984/85. Nearly two-thirds of these were able to set single figure rate increases, and none claims that anything like what Liverpool City Council propose is necessary.

3. The Secretary of State for the Environment has met the Labour Councillors twice to discuss their financial position but they showed no sign of moving their position.

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On 13 April he suggested that the Council seek a study by the Audit Commission to help improve their economy, efficiency and effectiveness, and said that he would support such a study against the background of a valid rate. The Councillors have not yet responded.

4. Over the past 3 years - 1981-82 to 1983-84 - capital expenditure on Merseyside under the Department of the Environment's main programme had reached £650 million. This includes £140 million specifically for Liverpool through urban programme and the Merseyside Development Corporation. 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 Mersey Dock and Harbour Company has received a total of £134 million in financial assistance. The Manpower Services Commission spent around £90 million in Merseyside last financial year. Merseyside is the only area of the country to which a special government task force is assigned.