

25 April 1984

MR TURNBULL

LIVERPOOL

No rate was set at today's meeting of Liverpool Council. Liberals and Conservatives voted down Labour's illegal proposal, but failed to agree on a lawful alternative. Given that there is no further meeting before the elections on 3 May, and that these elections are likely to yield an even more extreme Council, we are faced with the likelihood that Liverpool will eventually set an illegal rate.

The setting of such a rate will have two consequences, which need to be distinguished from one another:

1. The Council will default on its debt.
2. The Council's services will break down.

## DEFAULT

Patrick Jenkin and the Chancellor are right to oppose any Central Government underwriting of local authority debt.

Nor should we issue a 'reassuring statement' before Liverpool defaults. The issue of such statements before problems occur does more than anything else to undermine markets.

We should wait until default takes place, and should then follow the Chancellor's plan of telling the market that the problem is specific to Liverpool and that other action will be taken if services break down.

Markets will adjust relative ratings of local authority debt to reflect perceived risks of default. Surrey should be little affected; Lambeth will find life more difficult. Even if average rates rise by a couple of percentage points, the effect on public expenditure will be slight.

## BREAKDOWN OF SERVICES

If the Council sets an illegal rate, the responsible Councillors will be liable to surcharge and disqualification. These judicial processes should be

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be allowed to take their course.

Soon after the Council sets the illegal rate, it will find itself unable to pay either wages to its employees' or benefits to its citizens.

The Government need not - indeed should not - interfere immediately. It should wait until citizens and employees themselves ask for help; this will make it difficult for anyone to accuse us of playing 'big brother'.

← A writ of mandamus could then be issued in response to the requests. This would put the Councillors in contempt if they failed to carry out their duties. (The Law Officers should be asked to confirm whether this would work.)

It may at a later stage be necessary to put in Commissioners; and it is right that preparations for this contingency have already been made. But the present draft Commissioners Bill is politically inept. It gives Patrick Jenkin power to impose Commissioners not only in the case of Liverpool, but also generally. Like general rate-capping, this will raise a storm of protest from people who ought to be supporters. Echoes of big brother will resound, and would be even louder if the Bill were widened to allow Commissioners to be imposed in expectation of harm, as Patrick Jenkin recommends.

The draft should be ammended so that the Bill deals only with Liverpool. Since this would make it hybrid, the Government would have to pass a motion in the House, stating that the normal hybridity rules did not apply. The Labour Government set a precedent for this in their Aircraft and Shipbuilding Bill of 1976/7; and our backbenchers would no doubt be willing to accept such a move if it were presented as the alternative to a general Bill. (The performance would have to be repeated if any other Council set a similarly illegal budget; and this possibility would have to be clearly stated.)