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PRIME MINISTER

Liverpool

Your next meeting of Ministers on Liverpool is now to be held at 5 pm on Tuesday 8 May. It is hard to brief when the situation in Liverpool is so uncertain; but I imagine that you will wish to discuss the following.

(i) Prospects after yesterday's local elections.

(ii) Whether the election results suggest that there should be any change in the Government's strategy.

(iii) Whether any immediate action should be taken by the Government.

Prospects

2. Today's newspapers report that Labour made 7 gains, and that the composition of the new Liverpool City Council is as follows:

Labour:	58 —
Liberal:	28 —
Conservative:	13 —

This gives Labour an overall majority of 17. It seems unlikely that there will be enough dissidents to prevent the striking of an inadequate rate; but you will wish to hear the assessment of the Secretary of State for the Environment.

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Strategy

3. The Government's strategy, of course, has been to avoid any intervention, or appearance of intention to intervene, until there are clear signs of breakdown in services and a public demand for Ministers to step in. There is no obvious reason why yesterday's election results should change that approach. Treasury Ministers may again raise the argument that the market requires reassurance. But unless they have new facts and arguments to advance, most Ministers seem likely to maintain their previous views. It would be particularly difficult to change the Government's stance just now, since that would seem like a direct response to the election results. It could even be taken as acceptance of the argument that the new Council has some sort of valid mandate for illegal action.

True

4. I understand that there is a particular problem in that the Public Works Loans Board will expect guidance from Treasury officials on an application which Liverpool are expected to make shortly for rolling over some £17 million of debt. The meeting is likely to take the view that it would be best for the PWLB to defer a decision on such an application until after 15 May, when the Council is expected to set its rate for 1984-85. If that meeting results in an inadequate rate, it is likely to be ultra vires for the PWLB to lend any further money to Liverpool because the Council would be behaving illegally.

Further action

5. There does not seem to be much that the Government could do before the crucial meeting on 15 May, with the possible exception of seeking an injunction from the



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courts against the making of an inadequate rate.
Your last meeting did not favour this course; but you may wish to confirm that Ministers still take the same view in the light, for example, of any provocative statements or other developments over the holiday weekend.

Next meeting

6. It will presumably be necessary to fix a further meeting soon after 15 May.

M.S.B.

M S BUCKLEY
Cabinet Office.
4 May 1984

LONDON

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PRIME MINISTER

LIVERPOOL CITY COUNCIL

1. We are due to meet on Tuesday 8 May to discuss the position in Liverpool following the local elections. This report is to bring you and colleagues up-to-date.

LIVERPOOL ELECTION RESULTS

2. Liverpool City Council has changed as follows -

	May 1983	May 1984
Labour	51	58
Liberal	30	28
Conservative	18	13

The 7 Labour gains were 6 from Liberals, 1 from Conservatives, Liberals gained 4 from Conservatives. Turnout was very high - about 50%. It cannot be assumed, however, that this represents support for an invalid rate. The result is broadly consistent with past voting trends.

3. On immediate future developments the only certainty is that the Annual Meeting of the Council will be held on 15 May. This is a procedural meeting to establish Committees, but it is open to Councillors to add to the agenda a budget and rate resolution. That such a resolution will be debated will be confirmed when the relevant notice of motion is circulated within the next few days.

4. Even if the 5 remaining known Labour dissidents maintain their stance this election result strongly suggests that an



invalid rate resolution would be passed. New Labour Council candidates were specifically selected on the basis that they supported the hard line. At least 9 dissidents would have to vote against - not just abstain or stay away - to defeat such a resolution.

5. Sir Trevor Jones has indicated that he has had legal advice that Councillors may already been in default by reason of additional loan costs incurred by the failure to make a proper rate. The Liberals have in mind to institute legal proceedings with one of their Councillors who would be entitled to legal aid as applicant and respondent. I will report orally if there is any further development on this.

COMMISSIONERS

6. When we met on Thursday to discuss the composition of a Commission for Liverpool, you reaffirmed very strongly that we should only go down that road as the ultimate resort. I intend, therefore, to take no further new steps to set up a Commission and will not provide colleagues for the time being with a paper on the operation of a Commission. We will, however, continue with preparations already in hand (under conditions of maximum confidentiality) for briefing Commissioners should their appointment prove unavoidable. We are also in touch with your policy unit on the draft legislation itself. When broadcasting after the local election I took every opportunity to stress that the Government has no plans to introduce Commissioners; that the Government is not poised to act; and that we would only contemplate introducing legislation as a very last resort.

INTERIM STEPS

7. As background to our discussion on Wednesday you may find it helpful if I rehearse the steps we have considered to meet the Liverpool problem, short of appointing Commissioners.

Audit Commission Study: I proposed to Councillor Hamilton that the Council invite the Audit Commission to study the efficiency



effectiveness and economy of its services and that, if a legal rate was made, I would support such a move. Councillor Hamilton has not responded favourably and there seems little likelihood now of a legal rate being set.

Financial Assistance: We have rejected giving extra financial support to the Council - whether by direct grant or by increasing the number of disregards for rate support grant holdback - because this would yield to blackmail. We have considered allowing the Council to borrow to cover a revenue deficit, but we could not attach guaranteed enforceable conditions to the use of such borrowing; nor could we devise conditions which would be acceptable both to us and to the Labour City Council.

We are urgently considering a problem which will shortly arise on RSG payments to the Council. In brief, we are currently paying the City grant (about £10m a month) according to their target expenditure, as is normal when no budget figure is received in time. The Council's grant entitlement against the Labour expenditure proposal of £268m would be about £30m for the whole year which, at the present rate of payment, they will have received by the end of June. If a budget is made on 15 May, we will revise grant payments according to that. Otherwise we will need to make our own decision on the appropriate figure to use. I will report further on this.

Legal Action: We have considered whether the Attorney General should bring proceedings against the Council if it continues not to make a rate, or makes an inadequate one. At our 26 April meeting, we agreed that early action would be unwise. We cannot rule out the possibility that a ratepayer or creditor would take his own action against the Council but we would not intervene.

Audit Action: We have noted that the independent Auditor might act against Councillors if he has evidence of wilful misconduct leading to a financial loss or deficiency. Such action would take time to work through to surcharge and disqualification



if the Councillors concerned appealed. I should stress that the auditor could not, as suggested in the minute of our 26 April meeting, challenge the validity of a rate. His concern is with actual expenditure.

Service Default Powers: While numerous default powers exist in relation to local authority services, including education and social services, I have hitherto concluded that it would be very messy and uncertain to use them with the full Council otherwise in place!(the Clay Cross Housing Commission achieved nothing in such circumstances).

Civil Contingencies Unit: We have identified those City Council services where service breakdown before the appointment of Commissioners is likely to bring the greatest pressure for the Government to act on humanitarian grounds. These include, for instance, residential homes and services for the elderly, children in care, the handicapped etc. We have not so far included education, on the grounds that the closure of schools while highly inconvenient would bring home to the people of Liverpool the consequences of the Council's action while causing no permanent damage. Disruption could however coincide with the examination period. No doubt Keith Joseph has this in mind. We will be closely monitoring the position on services so we can decide if and when the Civil Contingencies Unit need be involved. We must acknowledge, however, that the useful role of the army or police would be limited and that the main burden would fall on the voluntary bodies.

My conclusion for this summary is that, unless we are prepared to reconsider any item, our only course is to continue to press the Council to make a proper budget and rate. If they make an inadequate rate on 15 May, we would allow matters to run on until financial problems place the City in a desperate position.



CREDITWORTHINESS

8. Neither Liverpool's failure to set a rate on 25 April nor the result of the local elections on 3 May yet appears to have affected the market for local authorities generally. We understand that Liverpool themselves raised a £7m one month loan in the market on 26 April.

9. We are agreed that problems may occur if Liverpool default, though there were different opinions when we met on 26 April about the extent of the likely damage to the market. The date of default, if any, may depend to some extent on whether the PWLB agrees to lend £17m on 15 May for which Liverpool have applied. The City Treasurer is not counting on the loan: without it and without a rate he would expect to get through to at least 23 May and possibly 29 May - the next two dates on which major outstanding debts have to be repaid. But he would almost certainly not be able to meet his obligations, including salary payments, at the end of the month.

10. The PWLB Commissioners meet next week to consider their attitude to Liverpool's request. Outright rejection of the £17m loan on 15 May would give the extremists additional debating material for the next Council meeting later the same day. I hope, therefore, that the Commissioners will be willing to defer a final decision until the outcome of the Council meeting is known. It seems clear that deferral would not itself trigger immediate default. Agreement to make the loan would mean that the City Council could probably continue to meet its obligations at least into early June.



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

J. H. Galloway

for P J

Approved by the Secretary of State and
signed in his absence.

4 May 1984



4 MAY 1994
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