

SUBJECT

a matter

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bc ok
cc Buckley

CONFIDENTIAL CMO



10 DOWNING STREET

From the Private Secretary

18 June 1984

LIVERPOOL

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

The meeting had before it your Secretary of State's minute of 13 June. Your Secretary of State said he was meeting the Liverpool City Council to discuss the paper which had been prepared jointly by officials in the Council and in his Department. This had identified a number of savings which, with a large but not impossible rate increase, could enable a balanced budget to be produced. Since then, however, the Council had announced that, despite being urged by the District Auditor to set a rate by 20 June, they intended to delay a vote until 11 July and would be seeking a budget even larger than originally proposed - £270 million against £261 million. It was not clear whether a majority in favour of this budget would be secured; it was possible that the Council could continue with no rate.

If this were the case, Ministers would need to consider whether they should bring matters to a head and whether Parliament could be allowed to go into Recess while there was no rate in Liverpool and no powers to introduce Commissioners. The Government could be subject to criticism if it had not taken adequate preparatory measures. Liverpool was receiving money from a number of sources, e.g. rents, repayments of the loan from Knowsley, RSG, and borrowings from the PWLB, but these could well run out during August producing a sudden collapse of services. If no Bill had been introduced, it might be necessary to recall Parliament (or possibly delay the start of the current Session by two or three days).

/ In discussion

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In discussion it was argued that it would be better not to introduce a Bill before the Recess. Such a Bill would be contentious and its passage would be eased if there was clear evidence of an emergency. If it were introduced before these conditions appeared, it would be strongly opposed and could delay other parts of the Government's legislative programme in both Houses, including the Paving Bill.

It was argued that financial markets were working on the assumption that, before long, there would either be a legal rate or legislation for Commissioners. A prolonged period without either could create uncertainty and, to counter this, it might be necessary to indicate before the House rose that the Government would be prepared to recall Parliament.

In discussion, it was noted that there would be no advantage in passing a general Bill before the Recess as Parliament would still need to be recalled to pass the Order, and once recalled would undoubtedly seek to take other business. In these circumstances it might be preferable for the Bill to be specific to Liverpool, accompanied by a motion setting aside the objection of hybridity.

Your Secretary of State said that RSG was currently being paid on the assumption that a reasonable budget would eventually be introduced. If a larger budget were introduced, the amount of RSG to which Liverpool would be entitled would be smaller and this figure might have been reached by mid-August. Ending RSG payments could be the event which triggered a financial collapse. It was important for the Government to consider the conditions under which RSG payments could legitimately continue to be made.

Smaller considerations arose with lending from the PWLB. At present PWLB Commissioners were continuing to lend on the assumption that a legal budget would be made eventually. They would probably grant a loan of £15 million in the following week but thereafter it would be increasingly difficult for Commissioners to continue to act on this basis, particularly if action in the courts, whether initiated by the District Auditor, a Councillor or by the Attorney General, had secured a declaration that the Council was acting illegally.

The Attorney General said action by the District Auditor would take some time to reach a conclusion. Councillors could appeal and, with the courts also in recess, it could be October or November before the process of disqualification was completed.

/ Your Secretary

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Your Secretary of State said a list of possible Commissioners had been compiled and he sought the advice of Colleagues on whether he should begin to sound out possible candidates. In discussion, it was agreed that this would be premature, though further work on refining the list should continue. A number of names were mentioned which I will record in a separate letter to you.

Summing up the discussion, the Prime Minister said that in his discussions with the Liverpool City Council your Secretary of State should continue to emphasise that it was their responsibility to produce a legal budget and a legal rate. The Rates Bill was being amended to provide that a new rate could be substituted should the first rate be declared illegal. Though the situation could change, it did not at present look favourable for a Bill to be introduced on a contingency basis. It was recognised that this might require the recall of Parliament during the Recess. No decisions could be taken at this stage on whether the Bill should be general or specific. Your Secretary of State should examine the conditions under which RSG could continue to be paid. No approach should be made to possible Commissioners though work on a list should continue. If Ministers had suggestions to make, they should refer these to the Secretary of State for the Environment.

I am copying this letter to Janet Lewis-Jones (Lord President's Office), David Peretz (HM Treasury), Hugh Taylor (Home Office), Elizabeth Hodgkinson (Department of Education and Science), Richard Mottram (Ministry of Defence), Callum McCarthy (Department of Trade and Industry), John Gieve (Chief Secretary's Office), Henry Steel (Law Officers' Department), Stephen Alcock (DHSS) and Richard Hatfield (Cabinet Office).

(ANDREW TURNBULL)

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