CMO CONFIDENTIAL

COPY NO. 1 OF 14

Prime Minister

LIVERPOOL

1. We are due to meet again to discuss Liverpool on Wednesday 27 June. This minute reports the outcome of my meeting with the City Council leadership on 19 June.

2. The City Councillors were accompanied by Jack Cunningham, Jack Straw and Eric Heffer. Quite contrary to expectation, the meeting proved to be constructive. The Councillors said they intended to make their budget decision at the Council meeting on 11 July, and appeared genuinely willing to try to make a proper rate.

3. We discussed the joint official paper. The Councillors repeated their desire to maintain council jobs and services at their present level, and pressed their claim for additional help through -

a. the Housing Investment Programme;

b. extra expenditure disregards;

c. housing subsidy on demolished property; and

d. the urban programme.

(For what it is worth Jack Cunningham as opposition Front Bench spokesman, said that the Labour Party did not intend to use any extra assistance granted to Liverpool - which they consider a special case - as a springboard for demands on behalf of other authorities.) I was able to point out that the officials' paper showed how the Council could itself reduce expenditure from £261m to around £229m (requiring a total rate increase, including the county council precept of 45% without redundancies or changes in the level of service. I

emphasised that I had very limited room for manoeuvre in 1984/85. The main RSG settlement and HIP allocations were immutable, and I could hold out no prospect of extra disregards. While I was reviewing the position on housing subsidy in relation to demolished properties, the outcome, even if favourable, would have only a tiny impact on the Council's budget. I explained that such flexibility as we had lay within the urban programme, and indicated that - subject to a legal rate being made - we would expect the additional £2.5m resources we might provide in 1984/85 to be used to improve housing, in particular management and maintenance of the stock.

Ministers have agreed this.

4. While the Councillors welcomed this conditional offer and accepted my view of how such assistance might profitably be used, they clearly did not believe that it was enough towards bridging the gap between what they want to spend and an acceptable rate increase to persuade them and their colleagues to settle a legal rate. Attention, therefore, turned to 1985/86.

5. It is clear that whatever positive indication I am able to give to the Council about next year's decisions on HIP and urban programme allocations will have a crucial influence on how the Council acts this year, in particular in relation to capitalisation of expenditure currently charged to revenue. Councillor Byrne (Chairman of the Policy and Resources Committee) clearly considers such capitalisation, which would use up the Council's capital receipts but have a significant effect in reducing their immediate rate burden, as bad financial practice and would only be prepared to do it if there was an indication for next year of an offsetting increase in resources. I left them in no doubt that it was far too early for me to be specific about figures for next year. They accepted this, but said that it would be most useful, in the context of their attempt to agree a legal rate, if I were to write to them giving the best indication I could of the likely position on these key programmes next year. I agreed to write accordingly,

before 11 July. Meanwhile our officials remain in touch. I also agreed that, if necessary, I would meet the councillors again before 11 July.

6. Although the Council will have to move a very long distance from the Group's original expenditure proposals to reach a budget which would carry with it a rate increase which was both legal and acceptable to them, I was left by the meeting with a much stronger impression than previously that the Labour leadership wish to remain in office, and are prepared to tell their supporters that the benefits of doing so are longer term. What I say in my letter about 1985/86 may well prove a critical factor in helping them to swallow a rate increase this year considerably higher than they have so far contemplated. Certainly it gives us a fighting chance of achieving a settlement in Liverpool without the need for Commissioners, which is a course we must avoid if possible. I believe, therefore, that it would be right for the Government to offer a form of words about 1985/86 in my promised letter sufficient to justify the Council making substantial reductions in their original budget proposals for this year.

7. If I am not to run the risk of bad faith, however and avoid the real threat of Commissioners in 1985/86 if not in 1984/85, I must be able to write in the confident expectation of having a PES provision in 1985/86 for housing and the urban programme sufficient to allow me to give a measure of real help to Liverpool, particularly with housing, without disadvantaging other authorities. Such help could be fed through the urban programme via the Merseyside Task Force in ways that would minimise the risk of upsetting other authorities. This would also give us a much greater degree of control over how the money was spent than if we operated through the HIP system. Some points have still to be resolved but you will see from

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the attached draft the sort of letter I intend to send. You and colleagues will no doubt wish to discuss.

RATE SUPPORT GRANT

8. At our last meeting, I agreed to report on the RSG payment position. We are due to lay the RSG First Supplementary Report, which implements holdback for 1984/85, in Parliament in July and the figures had to be finalised today. In the absence of a budget figure for Liverpool, I propose to assume that the Council will spend at £216m. This will enable us to continue block grant payments on the present basis. When the Council have made a budget, we will lay a further report amending their grant entitlement in the light of that. We retain the option at any stage of suspending RSG payments should we judge that there is a danger of overpayment against the Council's full annual entitlement. I shall let you have further advice if no budget is made next month.

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

for P J

22 June 1984

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

DRAFT LETTER FOR THE SECRETARY OF STATE TO SEND COUNCILLOR HAMILTON, LEADER OF LIVERPOOL CITY COUNCIL

1. At our meeting on 19 June, I promised to write to you about the likely position on housing and urban programme resources for Liverpool in 1985/86. Your officials have subsequently written to mine about a number of 1984/85 issues, and I am taking this opportunity to reply to those points as well.

1984/85

2. When we met I emphasised the limited room for manoeuvre which I had in my expenditure programmes for 1984/85. The main RSG settlement and HIP allocations have been fixed. I explained that, although I would consider all the proposals you put to me, I could give no commitment that we would be able to allow the additional expenditure disregards which you sought. I am afraid that remains the case. The effects of any disregards would not be restricted to Liverpool alone. In deciding on representations I am bound to take account of the national consequences which would flow from slackening this element in the discipline of the RSG system.

3. One area, however, in which I have some marginal flexibility this year is the urban programme for which your own allocation has yet to be finally settled. In the information discussions which have taken place between your Council and my officers we have already been able exceptionally to accommodate within your allocation some £2m of schemes which would otherwise have become "time expired" in 1984/85 and which you would have had to finance through your main programme. This has the effect of reducing your expected rate call by £6m (or 9p in the £) after taking account of holdback. In addition, and subject to your making a proper rate, I am able to offer the Council a further £2½m of resources which I would expect to see devoted to the very necessary improvement of your housing and its environment. This would, I believe, make a substantial contribution in a major problem area. It could reduce your

expected rate call by nearly £7m (or 10p in the £).

4. When we met I explained that I was reviewing the question of whether loan charges on demolished property, and the costs of demolition itself, should be reckonable for housing subsidy. Any change here could, of course, affect all housing authorities in subsidy, but would have particular relevance to Liverpool. [I have now decided that.....]

[TO BE COMPLETED AFTER THE SECRETARY OF STATE HAS CONSIDERED HOUSING DIRECTORATE SUBMISSION]

5. Finally, on 1984/85, you ask about outstanding Exchequer contributions in relation to environmental works undertaken by your Council in Housing Action Areas and General Improvement Areas. [My officials have now discussed this with your officers and it is our provisional view that you may be due a payment of some [£0.5m].] Such a payment would, of course, depend on your Council making a claim which could subsequently be certified by the Auditor. [TO BE REVISED AND COMPLETED IN LIGHT OF DISCUSSION WITH CITY TREASURER.]

1985/86

6. We also discussed the significance of the capital resources that might be available to Liverpool in 1985/86. I well understand that a decision by your Council to allow capitalisation of expenditure previously charged to revenue, thereby easing revenue commitments in 1984/85, will be influenced by the effect this might have on your capital resources in future years.

7. I know you appreciate that the capital allocations to individual authorities will eventually be determined in the light of the Government's overall public expenditure plans and that decisions for 1985/86 have yet to be taken. You will also recognise that I must distribute resources between

authorities on an equitable basis.

8. There is no disagreement between us about the scale of the problems you face, especially in relation to your housing stock where we agree that improving the quality of management and maintenance is essential if better value is to be secured for the substantial sums of money spent. I also pressed you to use all available resources, not just those of the authority, in tackling Liverpool's undoubted problems. The private sector has much to offer; and the enthusiasm and resourcefulness of the housing associations and the local communities you serve are also there to be tapped. I urge you to make the fullest use of these opportunities. Our officials are continuing to discuss ways in which both housing and urban programme resources can best be applied to help in this, and I very much hope we can develop an effective and constructive partnership to tackle the needs of the people of Liverpool.

9. Against that background, and bearing in mind the constraints set out in paragraph 6 and 7 of this letter, I can give you an assurance that I will do my very best to ensure that allocations to Liverpool next year under the Housing Investment Programme and the Urban Programme, taken together, will be more closely commensurate with the severity of the City's needs whilst having regard to the scale of your capital commitments and the resources (including possible proceeds of sales of council dwellings and other freeholds) available to you.