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Reference No E079

PRIME MINISTER

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LIVERPOOL

BACKGROUND

You are holding a meeting of Ministers tomorrow, 27 June, at 9:30am to discuss the current situation in Liverpool. The minute of 22 June from the Secretary of State for the Environment sets out the latest developments.

2. Mr Jenkin's assessment is more optimistic than before. He thinks that the Liverpool City Council are genuinely anxious to strike a legal rate at their meeting on 11 July. He does not suggest that it will be necessary for the Government to offer significantly more financial assistance in 1984-85 than what has already been agreed. However, it appears that the Council are anxious to reduce the rate call by capitalizing certain items of revenue expenditure. This would use up capital receipts; and the Council would not be willing to embark on what might be regarded as an imprudent financial policy unless they receive assurances of additional resources in 1985-86, particularly for housing and the urban programme.

3. Mr Jenkin therefore proposes to write to the Council giving an assurance that, within public expenditure constraints, he will do his 'very best' to ensure that allocations to Liverpool next year 'will be more closely commensurate with the severity of the City's needs'.



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A draft letter is attached to his minute.

MAIN ISSUES

4. The meeting will probably wish to concentrate on the following.

(i) How confident is Mr Jenkin that the Liverpool City Council genuinely wish to make a legal rate and budget for 1984-85?

(ii) Are the assurances which Mr Jenkin proposes to give, particularly for 1985-86, acceptable as to

- substance;
- drafting?

Current assessment

5. The apparent change of attitude among the Liverpool councillors is a little surprising. There must still be some risk that, whether by accident or design, the Council will fail to make a legal rate and budget on 11 July. The Government would then face a series of difficult decisions, which could eventually lead to the recall of Parliament, during the few weeks remaining before the Summer Recess. However, it seems that the recent letter from the District Auditor, warning councillors of the financial and other penalties (including disqualification of office) if they should continue to fail to make a rate, has had a profound effect. In any event, at their last meeting Ministers were not disposed to favour any overt action by the Government to put more pressure on the councillors before the crucial meeting on 11 July; and Mr Jenkin's recent exchanges with the Council suggest no grounds on which that view should be changed.



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Assurances for 1985-86

6. What Mr Jenkin proposes to offer for 1984-85 is broadly in line with what Ministers have already agreed.

(a) The £2 million of 'time expired' schemes mentioned in paragraph 3 of the draft letter have been agreed for some time, and have been incorporated in all figures which have been the subject of recent Ministerial discussions.

(b) The £2½ million additional resources within the urban programme have also been agreed, on condition that the Council make a legal rate and budget.

(c) I understand that Treasury officials see no problem over the small additional items mentioned in the (incomplete) paragraphs 4 and 5 of Mr Jenkin's draft letter.

7. The proposals for 1985-86 may give more difficulty: I understand that Mr Jenkin and the Chief Secretary, Treasury are meeting later today to try to reach agreement. There seem to be two main aspects.

8. The first aspect is internal to Government. Paragraph 7 of Mr Jenkin's minute says that he 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'. Taken literally, more for Liverpool without disadvantage to other authorities seems to mean an increase in the size



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of the programmes involved. The Chief Secretary is most unlikely to be willing to give any assurances of this sort at the present stage of the public expenditure survey.

9. The second and more immediate aspect is what is to be said to Liverpool City Council. Paragraphs 6 to 9 of the draft letter proposed by Mr Jenkin are, in fact, fairly non-committal and may well be broadly acceptable to Mr Rees and other Ministers. (Indeed, they are so hedged about with cautionary phrases that there must be a risk that they will not be acceptable to the Council). There is, however, one drafting point which you may wish to raise. Paragraph 9, line 6, of the draft says that allocations in 1985-86 will be 'more closely commensurate with the severity of the City's needs'. This seems to imply both that existing allocations are not 'commensurate' with needs, and that even allocations in 1985-86 may well fall short of being 'commensurate'. One possibility would be to omit the words 'more closely'; but that may be too definite. Alternatively, and perhaps preferably, a different phrase altogether could be used, such as 'will take full account of the severity of the City's needs'.

#### Rate Support Grant

10. Paragraph 8 of Mr Jenkin's minute sets out the present position on payment of RSG. At the moment, payments to Liverpool assume that the Council will spend £216 million in 1984-85: in other words, it is assumed that the Council will spend no more than their expenditure target, so that their grant will not be reduced by holdback. This seems virtually certain to be an over-generous assumption. It is for Mr Jenkin and his



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Accounting Officer to satisfy themselves that this is both prudent (and, in particular, does not run an indefensible risk of paying the Council more than its eventual entitlement for 1984-85 after holdback) and equitable in relation to other local authorities. Certainly there seems to be no case for any payments higher than the current level.

HANDLING

11. You will wish to invite the Secretary of State for the Environment to open the meeting by giving an account of his latest exchanges with Liverpool City Council and his current assessment of prospects. Subject to any comments or questions from other Ministers, the meeting might then move on to consider the draft letter attached to the Secretary of State's minute of 22 June. The Chief Secretary, Treasury is most likely to have amendments to propose.

CONCLUSIONS

12. You will wish the meeting to decide whether the Secretary of State for the Environment should be invited to write to the Liverpool City Council on the lines he has proposed, subject to any amendments that may be agreed.

13. It will no doubt be desirable to arrange a further meeting of Ministers soon after 11 July. By then it should be clear whether or not the Council will fix a legal rate and budget for 1984-85.

*M.S.B.*

M S BUCKLEY  
Cabinet Office.

26 June, 1984

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