



Prime Minister

LIVERPOOL CITY COUNCIL

When I wrote to you in July about Liverpool's budget settlement I indicated that the making of a balanced budget for 1984/85 was not the end of the story. The City had to take early and positive steps to increase efficiency and reduce expenditure. Most of the accounting devices used to balance this year's budget are only available once and without the introduction of vigorous policies to improve service efficiency, sell assets and so on, the City's problems would only be postponed until next year. It is now becoming apparent that the City Council, far from heeding this advice, are continuing to increase expenditure.

The latest monthly report by the City Treasurer forecasts a current expenditure deficit of £14.2m by the end of the financial year, the forecast of net expenditure having increased by £7.1m between September and October. The report indicates that the City Council has failed to come to grips with the problems of efficiency and overmanning. It is very difficult to predict the final outturn figures; theoretically it is still possible for the Council to retrieve the situation. The signs are however that a minimum budget for 1985/86 will have to be about £240m on present trends; this takes no account of any deficit to be carried forward from this year. Liverpool's



provisional target for next year is £222m; spending above that figure will incur penalties. A budget of the order of £240m (plus inflation) next year would require a rates increase of 100%. It is too soon to take any specific action against the Council (although I understand the auditor is considering the position). I have however already fired clear warning shots across their bows; you may be interested to see the / attached correspondence and press reports.

On the capital expenditure side, the City Council continue to increase spending. They have ignored my request for spending restraint this year, made to all local authorities in the summer. Of particular concern is the build-up of substantial commitments for next year and beyond. This year's capital programme is running at £101m (£66.8m on housing) and forecast commitments for 1985/86 already amount to £77m (£70m on housing) and are still rising. I have not yet set the capital allocations for 1985/86 but it is already clear that the City Council will have some difficulty in meeting these commitments.

At a recent routine meeting with my officials to discuss next year's housing investment programme leading City Councillors claimed they had been promised a capital allocation for next year of £130m, most of which they want to spend on new house building. There is no foundation whatever for this claim, and indeed the Councillors must know that there is no realistic hope of an allocation even approaching this amount. They have,

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however refused to carry on normal housing business with the Task Force unless their claim is conceded.

I raised these issues briefly with the Bishops on Tuesday, and they may want to touch on them at their meeting with you.

Atkinson
for
P J

14 November 1984

(approved by the Secretary of State
and signed in his absence)

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