

K01027

PRIME MINISTER

Liverpool City Council: Potential Budget Crisis
(MISC 109(84)3 and 4)

BACKGROUND

Recent developments are set out in Annex A of MISC 109(84)3. Our latest information is that the city's budget deficit for 1984/85 will probably be at least £18 million, and could be as high as £25-30 million. For 1985/86, the budget could be around £50 million above target, losing all the city's block grant. Deficit and budget together would require either a massive rate increase, in the range 150-220 per cent, or a substantial cut-back in services. Sizeable redundancies would be needed - about 70 per cent of costs are labour costs - although the financial effect would be lessened by the need to make substantial redundancy payments. The Council have already taken on capital commitments of £88 million, which is likely to be above their allocation, and Mr Jenkin is considering a moratorium. It is unlikely that either the present controlling group, or any other group, will be willing or able to take the necessary corrective action. The scope for the adoption of accounting devices of the type employed last year is now very limited. There is therefore a real prospect of financial collapse.

Proposals

- FLAG-A 2. MISC 109(84)3 deals with the handling of the situation prior to a collapse. Mr Jenkin proposes:
- a. to keep up pressure on councillors to act responsibly, eg. by stressing the implications of illegality;



- b. to make it clear that there will be no negotiations and no extra money;
- c. to allow events to take their course if and when the Council fail to make a proper rate for 1985/86, making it clear that the responsibility for events rests with the Council.

FLAGB 3. MISC 109(84)4 deals with the post-collapse situation. Mr Jenkin proposes:

- a. (assuming no group on the Council is prepared to restore the position,) the appointment of Commissioners;
- b. further work to identify potential Commissioners on a contingency basis.

MAIN ISSUES

4. The Group will already have adopted a general stance towards capped authorities in discussion of item 1 of the agenda. Although Liverpool is not a rate-capped authority, and there are differences in the situation, the Group will probably consider it sensible to adopt an approach to Liverpool which is as consistent as possible to their approach to capped authorities. It would be difficult, for example, to adopt a different approach to Rate Support Grant (RSG) payments to capped authorities from that towards Liverpool.

5. The main issues for decision are:

- i. what the Government's stance towards Liverpool should be prior to any collapse. The main alternatives are:



- to let events take their course;
 - to seek to provoke a crisis;
 - to compromise;
- ii. whether the Government's response to any collapse should be either:
- a. the introduction of Commissioners, as proposed by Mr Jenkin, or
 - b. some other response.

Pre-Collapse Strategy

6. Mr Jenkin's proposals are similar to the strategy adopted last year and to those he makes for capped authorities; namely that the Government should neither provoke or postpone a collapse, but let events take their course. In considering whether to adopt a strategy towards Liverpool consistent with the one adopted on capped authorities, the Group will need to take into account the fact that while Liverpool seems likely to collapse, it could be that very few or none of the capped authorities will push events that far. An early collapse by Liverpool could provoke a co-ordinated campaign of obstruction by authorities; on the other hand it might provide a salutary lesson.

Post-Collapse

7. Mr Jenkin identifies three possible options:
- a. to provide the existing Council with extra money;
 - b. to alter the Abolition Bill so that either Merseyside City Council or other Merseyside lower tier authorities took over Liverpool.



c. to appoint Commissioners.

8. The Group is likely to agree with Mr Jenkin's view that providing extra money would be too much of a volte-face to contemplate; nor would it solve any of Liverpool's long-term problems. Retaining Merseyside City Council to run Liverpool would undermine abolition policy. Dividing Liverpool between other district councils is impracticable in the time available. This leaves Commissioners, the legislation for which has already been drafted.

9. Appointing Commissioners would obviously be a last resort. Ministers took the view last year that it could only be done after there was evidence both of a breakdown of services and a desire for action by the Government. Their task would be very difficult without the provision of extra money. But there is no need to decide on this, or on precise timing now.

10. An important practical difficulty is likely to be identifying a sufficient number of suitable Commissioners. It is obviously desirable to avoid the Government's plans becoming public at too early a stage - some members of the Council may favour Commissioners as a way out which takes the pressure off them - but not to do further in-house work on this now would risk being unprepared later. The work being done by Department of the Environment officials to see if Commissioners can be made more acceptable is also relevant to Liverpool.

HANDLING

11. It will probably be convenient to divide discussion between the pre-collapse situation (MISC 109(84)3) and the handling of any collapse itself (MISC 109(84)4). You will wish the Secretary of State for the Environment to introduce both sections of the discussion. All members of the Group



are likely to wish to contribute to both parts. In particular as regards the pre-collapse situation, the Chancellor of the Exchequer will probably wish to discuss the effect on financial markets (unless discussion on this has been exhausted under item 1). Individual service Ministers might be asked to report the situation on their services in the event of a collapse. The Attorney General can advise on the legal aspects.

CONCLUSIONS

12. You will wish the Group to reach conclusions on the following:

- i. whether the Government's pre-collapse strategy should be either:
 - a. as proposed by Mr Jenkin, or
 - b. on some other basis;
- ii. whether the Government's response to a collapse should be either:
 - a. the introduction, at an appropriate stage to be decided, of Commissioners, or
 - b. some other response;
- iii. whether further work should be done to identify potential Commissioners.

C J S BREARLEY

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