

Prime Minister  
Policy Unit have investigated this further. They  
now recommend  
(1) that Mr Jenkin does issue his letter  
and (2) that PWLB issue a circular.

PRIME MINISTER

AT  
6/2

6 February 1985

### LIVERPOOL AND THE PWLB

If Liverpool exceeds its capital allocations, some action will have to be taken. But we do not want to give Liverpool an excuse for claiming that the Government has precipitated a financial crisis.

You therefore asked, last night, whether the Public Works Loans Board could be induced to take responsibility for cutting off funds if Liverpool exceeds its allocations.

#### The Status of the PWLB

The PWLB is a Government Department operating under the terms of the National Loans Act 1968. It has a Board composed of serving local authority officers, former local authority officials, public servants of other types and city financiers. The Board has a staff of 17.

The Board is responsible to the Chancellor of the Exchequer, and their legal adviser is the Treasury Solicitor.

Before lending to any authority, the Board is obliged to satisfy itself:

- a. that the loans will be repaid; and
- b. that the council in question has authority to borrow.

We are told by Treasury, DoE officials and lawyers that the PWLB would have no grounds for refusing to lend if Liverpool merely exceeds its allocation. This would not be either

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ultra vires or a reason for supposing that Liverpool would be unable to repay its debts.

We are told that the PWLB would have grounds for refusing to lend only if:

- i. Patrick Jenkin had issued a directive forbidding further capital spending by Liverpool; and
- ii. Liverpool had disobeyed that directive.

Under these circumstances, Liverpool's action would be clearly ultra vires, and the PWLB would have to refrain from lending.

What can be done?

Since the PWLB is nominally a Government Department, the Chancellor can easily ensure that it issues a statement. And such a statement would certainly be regarded by many people as a non-political (and perhaps even non-Governmental) item.

However, the statement clearly cannot threaten to withdraw funds if Liverpool merely exceeds its allocation, since such withdrawal would be improper.

We therefore recommend that the PWLB should issue a general circular in the very near future, describing the conditions for lending to any authority. This need not mention Liverpool by name. Nor need it refer explicitly to any Government policy. The circular could, however, be given high profile in press briefing and the Government could refer to it throughout the ensuing dispute.

But the issuing of such a circular would not solve the initial problem raised by Patrick Jenkin - ie, whether he

should issue a letter and a directive forbidding further capital spending by Liverpool. The arguments for issuing such a letter and directive are strong; but if Patrick Jenkin does act in this way, and if Liverpool defies him, the Government will almost certainly be blamed for precipitating the ensuing crisis, regardless of any circular issued by the PWLB.

On reflection, we recommend that the letter and directive should be issued despite these dangers: otherwise the Government's general policy on capital expenditure will come under severe threat from authorities who realise that we have no teeth. But it will be absolutely vital to accompany the letter and directive with effective Government rhetoric, stressing the revolutionary nature of Liverpool's activities, its massive wastefulness, and the fact that the council is intending to put the future of its area in hock by reckless borrowing. If public attention is directed away from capital spending and towards irresponsible borrowing, it may be possible to keep opinion on our side.

*Ol Letwin*

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