

**CONFIDENTIAL**COPY NO. Tlc.....

Prime Minister

LIVERPOOL CITY COUNCIL

1. We are due to meet again on Monday 18 June to discuss Liverpool. This report is to bring you and colleagues up to date with the latest developments.

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## DISCUSSIONS WITH LIVERPOOL'S OFFICERS

2. Over the past two weeks my officials have held intensive discussions with Liverpool's officers to clarify the options for achieving a balanced budget and rate in 1984/85, as agreed when I met Liverpool Councillors and Dr Cunningham on 17 May. A joint paper in as neutral terms as possible has been prepared recording the outcome of these discussions, and it was presented to both myself and councillors on Friday. I have sent a personal copy to John Cunningham. I have arranged to see Liverpool Councillors on 19 June to discuss the paper.

3. The Labour Group on the Council believe that the RSG system has substantially disadvantaged the City over the last ten years. Liverpool's officers have therefore identified a number of ways in which the City believe the Government are able to make concessions - extra disregards against current expenditure targets; increases in HIP allocations; increases in housing subsidy; and extra urban programme grant. Taken together these proposals would reduce the amount the Council would have to raise in rates by about £118m without cutting back on their expansionist policies. In order to balance their expenditure in these circumstances the Council would have to make a total rate increase (including the precept) of about 40%.

4. My officials have emphasised that it would not be reasonable



for Liverpool to assume that its grant should simply have been uprated to reflect inflation since 1979/80. Liverpool receives the fourth highest per head of all metropolitan districts in the assessment of its need to spend (GRE). My officials have stressed that there was no possibility of the Government assisting Liverpool in 1984/85 by modifying the RSG or Housing Investment Programme systems. We have been able to demonstrate in the discussions, based on figures provided by the Treasurer, how the Council could reduce its expenditure by its own actions. Labour's previously proposed budget of £261m could be cut to within the range £229m-£237m without redundancies and while maintaining services at their 1983/84 level. Up to a further £7m of savings - giving a minimum budget of £222m - could be found by rent increases, natural wastage and limiting overtime, and some improvements in the way services are provided. My officials have pointed out that if implementation of this programme of cuts - which involve stripping the Council's cupboard bare - was not to cause greater problems next year, councillors would have to embark on a programme of retrenchment and increased efficiency in the provision of services.

5. If all these expenditure reductions were made, and if we concede the additional £2.5m of urban programme resources which we earlier agreed that we might offer were a legal rate to be fixed, we could end up with a total rate increase (including the Merseyside County Council precept) of about 27%.

6. Although I had a useful discussion on housing when I visited Liverpool last Thursday, my initial assessment of the chances of a settlement based on the paper was pessimistic. This view has been reinforced by the announcement today by the Labour Group that they intend to fix an illegal rate increase of 9% on 11 July in relation to a budget of £270m (£9m more than the figure discussed in the officials' paper) which would properly require a rate increase of 180%. However it remains quite uncertain whether the full Council will be prepared to adopt this proposal.



7. Equally, Liverpool's officers believe that the majority of the Labour Group would not be prepared to accept the economies which, in the paper, DOE officials argue to be possible. They would be required to move too far away from their political commitments in return for a modest amount of additional help from the Government. There is a slight possibility that the options for economies set out in the paper could provide a rallying point for the minority parties and dissident Labour Councillors and I am ensuring that they are able to consider the paper even if the majority group does not itself circulate copies.

#### AUDIT COMMISSION

8. Having taken further legal advice, the auditor has now written indicating to councillors that if no rate is made by 20 June he will begin proceedings under Section 20 of the Local Government Finance Act 1982 that are likely to lead to surcharge and disqualification. A copy of the Auditor's warning letter is attached. It is possible to take a different legal view from the Auditor's and we believe the Council are almost certain to mount a challenge. This will reduce the impact of the Auditor's action as far as persuading the Council to rate immediately is concerned.

#### CREDIT

9. Liverpool's Treasurer has been able to raise some £30m of short-term money over recent days from sources other than the PWLB and with this expects to survive through June. The Council intend to accept Knowsley Borough Council's proposals to refinance some <sup>£36.5m</sup> ~~£30.5m~~ of housing debt which they administer, although discussion on terms continues. Liverpool is likely to succeed in raising a further £12m from the PWLB later this week. On this basis, the Treasurer would expect to survive through July also. The market's attitude to Liverpool - it



has been lending at a little above the rates for other borrowers - has been influenced by the knowledge that we have been having discussions with the Council's officers and that we are continuing to make RSG payments to the Council (£10m each month), but, the Auditor's action could affect the attitude of the market which suggests that there may be cash flow problems in the medium term. There will no doubt come a point if the Council do not settle this budget, when the PWLB will decide that they should cease lending and we must keep this position under review. <sup>We</sup> ~~He~~ understands that the City Treasurer is unlikely to make a major application for a further loan until around the end of this month.

#### LEGAL ACTION

10. When we last met we agreed that:

- if Sir Trevor Jones on behalf of a local Liberal approached the Attorney General to act as relator in an action against the Council for judicial review, this should be favourably considered.

- the Attorney General should take no direct action for the time being.

11. We now understand that it is likely that a Conservative Councillor will take legal action against the City Council though not before June 20th. As a Councillor, he would not require the Attorney General to act in a relator action.

12. There has been a further substantial development since our last meeting. At Report Stage in the Lords on 5 June we made an amendment to the Rates Bill which would allow the levying of a higher substitute rate by an authority when the original rate was declared invalid and quashed by a court on the basis that it was insufficient to meet their expenditure.

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This means that, subject to the discretion of a court, the remedy for a demonstrably inadequate rate will now lie with Liverpool Council if they choose to go down that road.

#### NEXT STEPS

13. We must recognise that whatever we might do, there is now a strong probability of a collapse of the administration in Liverpool taking place in the summer recess.

#### BEFORE COUNCIL'S NEXT BUDGET MEETING

14. In the run-up to the Council meeting of 20 June and the next one promised for early July, we should do everything to persuade the Council to settle on the basis of the joint official paper. I will press the Labour leadership to this end when I meet them on 19 June, and I intend to call together the Leaders of the minority parties and the dissident Labour members the same day to try once more to get them to act in unison. I will also be speaking to the Bishops who I hope can bring their influence to bear. The Auditor's letter, even if subject to challenge, will nevertheless bring a different sort of pressure to bear, but I think it important that we ourselves do nothing to provoke the Council in this period. We will want it to be clear that we have taken all reasonable steps to assist the Council to make a rate within the law.

#### AFTER NEXT BUDGET MEETING

15. If the Council fail to make a rate by early July, or - as threatened - make an inadequate rate, then I believe we should do all we can to bring the matter to a head through the courts, supplementing the pressure brought by the Auditor's action. Legal action would be directed towards forcing the Council to rate, or to quash any demonstrably inadequate rate that might be made. The case for action to quash a rate has



been considerably strengthened by the Rates Bill amendment to which I have already referred. We would need to consider whether it would be better to proceed by encouraging a Conservative Councillor to take action alone or by the Attorney General acting directly. I believe that the Attorney General should act if there is any indication that the Conservative Councillor's action is faltering; this legal pressure should proceed regardless of any parallel ~~when~~<sup>action</sup> we take on Commissioner legislation, which is discussed below.

#### THE SUMMER RECESS

16. We cannot be sure that any legal action will be resolved, or will have had the desired effect in making the Council rate properly, before the summer recess. At the same time it is unlikely that by then Council services will have collapsed to the extent that on our present strategy would justify the appointment of a Commission. However, we do not believe that the Council would be able to continue borrowing from any source if it failed to make a legal rate by early July, and it almost certainly does not have sufficient funds to meet all its obligations through July. If we withdrew RSG payments, this would probably lead directly to default, though it might not precipitate the immediate collapse of services. Unless the Council significantly reduces the proposed Labour budget of £261m we shall have to suspend payments of RSG by 14 August at the latest to avoid payment of grant (including Domestic Rate Relief Grant and AFE Pooling)

17. I think this leaves us with four options for dealing with the summer recess:

- (a) introduce the general Commissioner Bill as drafted on an emergency timetable before the recess. The actual appointment of Commissioners would be triggered by Affirmative Resolution Order and, if collapse did occur in the recess, Parliament would have to be recalled for a day to consider

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it. We could argue for the Bill on the grounds that it would be irresponsible for the Government to enter the recess without visible means of dealing adequately with a collapse of Liverpool and the knowledge that, after 4 months without a rate, such a collapse looked inevitable. This would mean abandoning our strategy that the Bill should only be introduced in response to clear evidence of collapse, and we could be signalling to Liverpool Councillors that the Government was prepared to step in;

(b) introduce a hybrid Liverpool-only Commissioner Bill, again before the recess, on the emergency timetable. This again could be implemented by Affirmative Resolution requiring the recall of Parliament for a day during the recess. The arguments for this approach are similar to those at (a) above, but a Bill confined to Liverpool would probably have an easier passage. Against this we would have the additional problem of suspending the Standing Orders relating to hybridity to allow for an emergency timetable;

(c) take no action before the recess but introduce a general/Liverpool only Commissioner Bill in a recalled Parliament during the recess if this proved necessary. This would maintain our current strategy that the Bill should only be introduced if there was a clear case for it. Depending on the attitude of the Opposition it might require Parliament to sit for up to a week during the recess. We would face harsh criticism for failing to take preparatory action before the holiday;

(d) take no action on Commissioner legislation before or during the recess, allowing the consequences of collapse (if it occurred) to become clearly evident in preparation for the introduction of a Commissioner Bill in October; and assisting through the regional emergency committee system any problems of health and safety. We could point out that the new provision in the Rates Bill allowing



authorities to raise a higher substitute rate if a court finds the original rate invalid leaves the City with a remedy for any collapse of services for which it alone is responsible. But there are serious risks. While the schools will be closed for a good part of the recess and we have past experience of dealing with the effect of strikes in such services as refuse collection, personal social services and burial, there will be the risk of civil disorder in a long summer period in an area with high unemployment and political groups ready to exploit the situation. There is also the risk of disturbance in the credit market for local authorities as a whole. Colleagues will obviously want the advice of the Home Secretary and Chancellor respectively on these matters.

18. While it is not yet certain what the Council will decide on June 20 or on 11 July, my own inclination is that, if there is no valid rate declared by the second of the meetings, we should introduce a Liverpool-only Bill before the end of July as described in paragraph 17 (b) above. I believe it would be seen as irresponsible to enter the recess with no rate made in Liverpool and no Commissioner Act on the Statute Book to deal with a collapse which by then would be probable - and which in retrospect, would be claimed by our critics to have been <sup>evit</sup>in~~evit~~evitable. The Business Managers will obviously have a view about the practicability of this approach.

19. To summarise I believe in the light of the present facts we should:

(a) before the Council's budget meeting on 20 June or in early July do all we can to persuade all members of the Council to make a proper rate on the basis of the joint official paper, but leaving it to the Auditor's action to bring stronger pressure to bear;





(b) if no rate is made, or a demonstrably inadequate one, by early July, we should ensure that legal action is taken to make the Council rate properly; and

(c) if no proper rate has been set by the end of July introduce a Liverpool only Commissioner Bill, with the appointment of Commissioners - if necessary - being made by an Affirmative Resolution Order for which Parliament would have to be recalled.

20. We have a longish list of possible Commissioner candidates and I think the time is right to start approaching individuals on a contingent basis if we are to be prepared before the summer recess. I would be grateful for your agreement to do this and to know the extent to which you will wish to be involved in the selection of candidates, in particular the Chairman.

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

*I. J. Galle*

for P J

13 June 1984

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

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COPY NO 1 .....

2 MARSHAM STREET  
LONDON SW1P 3EB

01-212 3434

My ref:

Your ref:

14 June 1984

Dear Andrew

I am writing to correct some typing errors which, I am afraid, crept into my Secretary of State's minute of 13 June to the Prime Minister on Liverpool City Council.

*with AT?*

They are as follows:-

- i) page 3, paragraph 9, line 5 - "£365m" should be "£36.5m";
- ii) page 4, paragraph 9, line 10 - "He understands" should be "we understand".
- iii) page 6, paragraph 15, line 8 - "when" should be "action";
- iv) page 8, paragraph 18, line 10 - "incurable" should be inevitable.

I do apologise for these errors.

I am copying this letter to all recipients of the original minute.

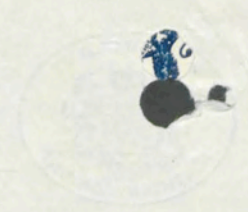
*Yours sincerely*

*John Ballard*

J F BALLARD  
Private Secretary

Andrew Turnbull Esq

THE NATIONAL ARCHIVES  
COLLECTIONS DEVELOPMENT  
DIVISION



14 JUN 1984



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## The District Audit Service

NORROY HOUSE, WATERGATE STREET, CHESTER CH1 2NB  
TELEPHONE: 0244 315571

FROM THE DISTRICT AUDITOR  
NO 5 AUDIT DISTRICT

### LIVERPOOL CITY COUNCIL - GENERAL RATE

I am writing to each member personally to draw attention to the serious consequences for them from the continued delay in making a rate sufficient for the council's requirements for the current financial year ending 31 March 1985.

I have today submitted a report to the council under s.15 Local Government Finance Act 1982 in which I have said:

"In my reports dated 19 March 1984 and 4 May 1984 I drew the council's attention to their duty to "make such rates as will be sufficient to provide for .... total estimated expenditure to be incurred by the authority during the period in respect of which the rate is made" (General Rate Act 1967) and to the consequences of failing to levy an adequate rate. I also referred to members being at risk if there was unreasonable delay in making a rate. Those points mentioned in my earlier reports remain valid, but I wish to draw your attention specifically to the following additional matters.

Although the General Rate Act 1967 does not specify a time limit for the making of a rate, the Act, as amended by the Local Government Planning and Land Act 1980, extends to certain ratepayers a right to pay their rates by 10 monthly instalments. I am advised by leading counsel that the effect of this is that if the council fail to levy a rate by 20 June ratepayers will be unable to take advantage of their statutory right to discharge their rate liability by 10 instalments in the financial year, and an irrecoverable and immediate loss will be incurred and will continue to be incurred.

If the council delays making a rate beyond 20 June it will not be possible to deliver to instalment payers a valid statement of instalments payable as required by the General Rate Act 1967 as amended. Where a defective statement is delivered the rate is not recoverable by normal rate recovery process and recovery of any unpaid rates from instalment payers cannot be commenced until the end of the financial year.

This will deny the council the use of up to £30m of rate instalment collections until recovery action succeeds in the following financial year.

Interest losses will clearly arise in these circumstances and I propose to commence action under s.20 Local Government Finance Act 1982 to recover such losses from the members responsible for incurring them by their failure to levy an adequate rate by 20 June. Where the amount certified due from individual members exceeds £2,000 disqualification from office will result.

I urge members to give careful consideration to the vital need to levy a valid rate. The time is now limited for them to perform their statutory duty."

The purpose of this letter is to reiterate the clear warnings set out in this and my earlier reports and to say that recovery action will be taken under s.20 Local Government Finance Act 1982. I re-emphasise the serious consequences for individual members if the making of a valid rate continues to be delayed.

Yours sincerely

L C STANFORD  
District Auditor



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PRIME MINISTER  

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Liverpool

## BACKGROUND

FLAG 1

The minute of 13 June from the Secretary of State for the Environment discusses the problem of Liverpool's rate and budget and sets out the latest situation.

You are holding a meeting of Ministers on Monday 18 June to discuss it.

2. The main points in the minute are as follows.

(a) The budget initially proposed by the majority Labour group amounted to £261 million. It has been discussed by Environment officials and officers of the Council. The Council's officers have proposed concessions from the Government which would reduce the increase in rates required to finance the budget by some £118 million; the increase in rates would be about 40 per cent. Environment officials have identified a maximum level of savings of £39 million. With the additional £2.5 million of resources from the Urban Programme which Ministers have already agreed might be offered if Liverpool were prepared to set an adequate rate, a total rate increase of about 27 per cent would then be needed. (The rate figures take account of the effects of the holdback system on Exchequer grant and therefore do not necessarily bear a linear relation to one another). Mr Jenkin is to meet Liverpool Councillors on 19 June to discuss these matters.



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(b) There are to be two further meetings of the Council, on 20 June and 11 July. The Labour majority group have declared that they intend to propose at the second of those meetings a budget of £270 million (£9 million more than before). To finance this would require a rate increase of 180 per cent. The Labour group intend to propose 9 per cent. It is unclear whether the full Council will approve these proposals.

(c) There is no immediate problem about Liverpool's creditworthiness.

(d) It is thought likely that a Conservative councillor will take action against the Council if it fails to set a legal budget and rate on 20 June. The Attorney General would not need to be a party to such an action. But Mr Jenkin suggests that if the Conservative councillor's action falters, the Attorney General should take action in his own right.

(e) Mr Jenkin also proposes that if no valid rate is made by the end of July the Government should introduce a Bill to authorise the imposition of Commissioners. The Bill would be confined to Liverpool. Meanwhile, approaches should be made now on a contingent basis to possible Commissioners.

#### MAIN ISSUES

3. The meeting will wish to consider the following.

(i) What is the current assessment of the chances of Liverpool making a legal rate and budget? In



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the light of that assessment what line should the Secretary of State for the Environment take when he meets Liverpool councillors on 19 June?

(ii) Should the Attorney General take legal action in his own right (ie not as party to a relator action) if Liverpool fails to set a legal rate and budget by 11 July?

(iii) Should the Government decide now to introduce Commissioner legislation by the end of July if there is no legal rate by then?

(iv) Should approaches be made now, on a contingent basis, to possible Commissioners?

Current assessment

4. Prospects for a legal rate and budget do not look good. The majority Labour group has increased its previously proposed budget; the Council's officers think it unlikely that councillors will accept the economies identified by Environment officials; and no doubt the chances of their doing so are not improved by the fact that, even so, they would need to increase rates by about 27 per cent.

5. If this gloomy assessment is right, Ministers will need to consider carefully the line to be taken at the meeting with Liverpool councillors on 19 June. The gap between the concessions which Liverpool's officers have suggested the Government might make (rate effect of £118 million) and what the Government can offer (rate effect, taking account of holdback, of £7 million) is very wide. There must be a risk that if discussions continue after 19 June they will come to be regarded as some sort of negotiation in which any offer that the Government is likely to be able to make would be branded as 'derisory'. It may





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well be better to direct the meeting on 19 June towards identifying the savings that could be made by Liverpool and the modest help that might be offered by the Government, provided that a legal rate was set, and then putting the responsibility for solving the problem firmly on the Council; there is no obvious reason why there should be any further discussions between the Council and the Government.

Legal action

6. Mr Jenkin proposes that if the hoped-for action by a Conservative councillor falters and the Council has not set a legal rate, the Attorney General should take legal action (presumably either or both of asking the Court to quash any illegal rate and action to require the setting of a legal rate). However, it is not clear why this needs to be decided now. Ministers will probably prefer to take decisions when the circumstances are clearer, as they presumably will be after the Council's meeting on 11 July. This is an example of a point discussed in more detail in paragraph 8 below.

Commissioner Legislation and approach to potential Commissioners

7. Similarly, it is not clear -

(a) why Ministers should need to decide now on the timing and scope of any Commissioner legislation; and

(b) whether it is necessary to begin approaches to possible Commissioners now.

No

On the first of these, in particular, Ministers have been reluctant to take decisions until the precise circumstances in which action would be taken are clearer. For this



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reason, Commissioner legislation has been prepared on alternative bases - a general Bill and a Bill limited to Liverpool.

#### Timetable

8. Despite the questions raised in the preceding paragraphs, there is clearly force in the point which underlies Mr Jenkin's suggestions: the Summer Recess is approaching, and the Government is likely to need to take a series of difficult decisions, which no doubt will impact on one another. It is desirable that Ministers should have a clear view of what those decisions are, when they are likely to be taken, and how they may interact. For example, say that the Court issued an order of mandamus against the Council, whether at the suit of a councillor or of the Attorney General, requiring the setting of an adequate rate, and the Council said that it intended to defy that order. The Government would then presumably be in a stronger position if it wished to introduce Commissioner legislation before the Recess. But how long would it take to get the order, and how long would it be before it became clear whether the Council intended to obey it? The answers to these questions determine when the action must be begun if Ministers should wish to keep open the opportunity of taking its outcome into account in deciding on the introduction of Commissioner legislation. Again, Mr Jenkin's suggestion that he should approach potential Commissioners now implies a lead time of six to seven weeks (depending on the exact timing of the Recess) between initial approaches and eventual appointments. Is so long a period necessary?

9. The particular examples may or may not be good ones. But Ministers may well feel that Mr Jenkin should be invited to arrange for the preparation of a detailed timetable of decisions as background for their continuing discussions.



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HANDLING

10. It will probably be convenient to divide the meeting into three main parts:

- (i) current discussions of the rate and budget;
- (ii) possible legal action;
- (iii) scope and timing of Commissioner legislation.

All three parts might be introduced by the Secretary of State for the Environment.

- During the first part it might be convenient to ask the Chancellor of the Exchequer for his current assessment of market sentiment regarding borrowing by Liverpool and by local authorities generally.
- During the second part of the discussion you will no doubt wish to ask the Attorney General for advice on the legal aspects.
- During the third part of the discussion you will wish to invite the Lord Privy Seal to give advice on the implications for the management of business.

CONCLUSIONS

11. You will wish the meeting to reach conclusions on the following.

- (i) The prospects of Liverpool City Council making a legal rate and budget; and, in the light of that assessment, the handling of



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discussions with the Liverpool Councillors  
on 19 June.

If the meeting considers that the time is right for  
decisions -

(ii) whether the Attorney General should take  
legal action if the Council has failed to set  
an adequate rate by early July and no other  
person is taking such action.

(iii) The scope and timing of Commissioner  
legislation.

(iv) Whether approaches should now be made, on  
a contingency basis, to potential Commissioners.

Depending on the course of discussion it may also be  
appropriate -

(v) to invite the Secretary of State for the  
Environment to arrange for the preparation of a  
detailed timetable of decisions indicating when  
they should be taken and how they interact.

*M. S. B.*

M S BUCKLEY  
Cabinet Office.

15 June, 1984