



PRIME MINISTER

LIVERPOOL

Prime Minister
Agree to endorse
strongly?

Yes
this
only on
not

DLN
20/2

attached
At MISC 109 on 10 February, I was asked to consider the current situation in Liverpool, in particular what is likely to happen during the period between any disqualification of Labour councillors and the Council elections due on 7 May. This minute does that and concludes that we should continue with our policy of "letting events take their course" for the time being.

BACKGROUND

The House of Lords finished hearing on 3 February the appeal by 45 Labour councillors against the certificates of surcharge issued by the District Auditor. Although we have no firm information, the Lords' judgement is unlikely to be delivered before the end of February, and possibly later. If it goes against the councillors, their disqualification will take effect immediately. By-elections must be held within 42 days. If judgements against the councillors were delivered on 3 March, for instance, it could mean by-elections on 7 or 14 April. For four weeks up to 1 April the state of the parties on the Council would be Liberal 34, Labour 13, Conservative 7. This assumes that the Liberals will not themselves resign because of the financial difficulties they will face - described below - in meeting the statutory duty to make a rate by 1 April.

FINANCIAL POSITION

My officials in the Merseyside Task Force support the view which the Bishop and Archbishop expressed to you on 14 January, that an interim Council will be unwilling to attract the odium of imposing a high rate increase. The City Treasurer has forecast expenditure of at least £330m in 1987/88 if present policies are



maintained. This would entail a local rate increase of 60%, some two thirds of which would result from inability to repeat in 1987/88 creative accounting measures used in 1985/86 and 1986/87. Even spending at the rate support grant settlement assumption (£299.5m), which would require savings of £30m, would entail a rate increase of about 12%. If the Liberals take power temporarily, they may well decide to fix a rate increase in line with inflation, but leave the steps necessary to meet the corresponding expenditure figure (£290m) until after the election.

GOVERNMENT INVOLVEMENT

The City Council have not approached me recently for financial help, but we can expect such an approach once the Lords' judgements is delivered. I see no case for giving any reward to the Labour councillors if they should win their case; nor do I believe that it would be sensible to give preferential treatment to a temporary Liberal administration. By taking no action, we would impress upon any interim Council that they were responsible for running the City and for taking decisions about the budget and rate. This would be a period in which the Liberals could demonstrate their ability and responsibility.

After the 7 May elections, we may face more difficult decisions if approached for assistance by a Liberal administration or a more moderate Labour one led by the previous Leader of Merseyside County Council, Keva Coombes. But we cannot be seen to be giving special help to Liverpool to meet problems which are, to some extent, self-inflicted and in substance little different from those of other inner city authorities.

CONCLUSION

The policy of letting events take their course has served the Government well for the last two years, and I recommend we continue it for at least the next few weeks, whilst monitoring the position closely. Liverpool City Council's financial position is notoriously unpredictable. Whichever party controls the City Council after the 7 May elections is likely to seek our help with Liverpool's financial problems. I will obviously need to consider very carefully my response to such an approach.

I am sending copies of this minute to other members of MISC 109 and to Sir Robert Armstrong.

N R

19 February 1987

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bc BG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

23 February 1987

Dear Robin,

LIVERPOOL

The Prime Minister has seen your Secretary of State's minute of 19 February about the position in Liverpool between any disqualification of Labour Councillors and the Council elections on 7 May.

The Prime Minister agrees most strongly with Mr. Ridley that it would not be right for the Government to intervene in the coming weeks: as Mr. Ridley said, the policy of letting events take their course has served the Government well for the last two years, and the Prime Minister sees no reason to change this policy at this stage.

I am sending copies of this letter to the Private Secretaries to the other members of MISC 109 and to Sir Robert Armstrong.

Yours,
David

DAVID NORGROVE

Robin Young, Esq.,
Department of the Environment.

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P 02498

From: J B UNWIN
11 February 1987

SIR ROBERT ARMSTRONG

cc Mr Langdon
Mr Monger
Mr Roberts

LOCAL AUTHORITIES: FOLLOW-UP TO MISC 109

For the record, I have discussed the follow-up to yesterday's MISC 109 meeting with Mr Heiser and his team.

2. We agreed that:-

(i) DOE would prepare a minute on Liverpool for Mr Ridley to send to the Prime Minister as soon as possible. It seems sensible to handle this separately;

(ii) DOE will prepare a wider ranging paper for consideration by MISC 109 in about a month's time. This will pick up the points in the MISC 109 discussion, concentrating on the Northern Ireland analogy, particularly in relation to key services like housing, personal social services and education (although the last is not, of course, relevant to the London boroughs). In practice this will be another variant of putting in Commissioners, but we agreed that it would be sensible to devise a scheme that could either be introduced after financial collapse (the "5 minutes past midnight" situation), or prior to such collapse if particular services were seen to be breaking down. The paper should also include some facts and numbers so as to give Ministers a better idea of the financial and other implications of what might be involved.

bc Mr Naisome

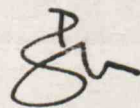
cc Peter Skredder
and pa.

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3. The responsibility is squarely on the DOE, in consultation with the other Departments mainly concerned, to produce this material, but we shall keep closely in touch with them.



J B UNWIN

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Ref. A084/3004

MR TURNBULLcc - Mr Gregson
H. Buckley
H. BrearleyMinisterial Group on Local Authority Rate Setting

Your minute of 8 November asks for proposals on terms of reference and membership for a Group to consider how the Government should handle a refusal by Liverpool City Council or other local authorities to fulfil their obligations.

2. I suggest that the terms of reference for such a Group might be:

"To keep under review any problems which may arise affecting individual local authorities, arising from failure to set a local rate for 1985-86 or to fulfil their legal obligations in other ways, and to consider and co-ordinate such Government action as may be necessary".

The Group might be called the Ministerial Group on Local Government Contingencies.

3. I suggest that the members of the Group, under the chairmanship of the Prime Minister, should be:

Lord President of the Council
 Secretary of State for the Environment
 Home Secretary
 Secretary of State for Education and Science
 Secretary of State for Social Services
 Lord Privy Seal
 Chief Secretary, Treasury
 Attorney General
 Minister for Local Government

The Secretary of State for Trade and Industry has no great departmental locus but the Prime Minister may like him to be a member on a personal basis when he has recovered. I suggest also that the Chancellor of the Exchequer should receive papers and attend meetings when he wishes to do so, and that the Secretaries of State for Scotland and for Wales and the Chief Whip should receive papers and be invited to attend when necessary. The Secretary of State for Defence, because of his earlier involvement in Merseyside, was invited to the meetings the Prime Minister held on Liverpool earlier this year but I doubt whether it is necessary to involve him in the Group this time.

4. If the Prime Minister is content I will arrange for the Ministers concerned to be informed. I believe the Secretary of State for the Environment intends to bring forward a paper on Liverpool later this month. This would be the subject of the Group's first meeting.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

13 November 1984