

CONFIDENTIAL



PRIME MINISTER

LIVERPOOL CITY COUNCIL

In advance of tomorrow's discussion of the proposed Direction limiting Liverpool City Council's capital spending for 1985/86, you may like to have the attached report on latest developments in the City.

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

Atkin
for P J

6 February 1985

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

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LIVERPOOL CURRENT POSITION

Latest Developments

1. As expected the Councillors have started a campaign locally for backing from Unions etc, claiming that a balanced budget for 1985/86 would require a 220% rate rise or 6,000 redundancies. These figures assume that the Council deliberately make matters as difficult as possible for themselves. We understand that discussion of the 1985/86 budget is at political level, with no involvement (or at least none that is admitted) of officers. Since the Council's message is likely to be very much the same as last year, they may have less success in whipping up support. At the same time, a series of insensitive or provocative acts is giving the Council very bad publicity. These include attacks on housing co-operatives and the voluntary sector; the appointment of a militant race relations adviser from Brent, and the passing of the right of appointment to council security posts to the militant lead GMWU. It has also been suggested in the press that Councillor Hatton has improperly sought to fix, for a developer, planning permission for an ASDA store in Speke.

Budget Position

2. The latest Treasurer's Report of 16 January estimates the deficit for 1984/85 as £25.4m (including holdback). There is still no evidence of any attempt to make economies to reduce this deficit (though the Treasurer is considering what he has left in his creative accounting armoury) or to reduce the base budget which will need to be paid for in the 1985/86. We believe that the

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final deficit could be some £5m to £10m higher before allowing for any creative accounting effects. A 1985/86 budget of £268 m (one definition of 'standstill') plus a deficit of £30m carried forward would require a rate increase of 139%. The Council would receive only £24m for spending at this level, as against a potential of £118m available if they spent at target (£222m).

Audit Action

3. The District Auditor wrote to the Council on 28 November warning them about the build up of the deficit in 1984/85. The letter was simply noted and, as indicated above, the Council has taken no action to respond to the warning. It is not clear what further steps the Auditor intends to take.

Credit

4. There have been no recent developments. Liverpool and some rate capped authorities are still being asked to pay a slightly higher premium rate on loans.

Urban Programme, etc.

5. Liverpool have now been told their allocation for 1985/86 will be £24.1m (the same in cash as this year excluding the £2.5m they were given in last year's budget settlement), subject to them submitting a satisfactory programme. The Secretary of State has decided to withdraw part of the derelict land grant on the Jolliffe Street Housing Project. Grant was offered here on the basis of a private sector scheme which the Council subsequently municipalised without consultation.

Housing Issues and Capital Programme

6. Liverpool's Housing Investment Programme allocation for 1985/86 is £31m, a reduction on 1984/85 to which they will be able to add a smaller proportion of capital receipts. The Council reacted predictably to this announcement. The Treasurer's January Report puts forecast capital expenditure in 1985/86 at £97m, which is likely to exceed allocations, receipts and tolerance by more than £32m. The Report does not admit that there will be an unbridgeable gap, however, saying that ways are being sought to finance the programme. The Treasurer appears to be considering in particular selling off the Council's debt on housing mortgages and entering into deferred payment contracts with contractors and/or finance houses. We doubt whether these measures could bridge the gap. The Secretary of State has now written to ministerial colleagues on the issuing of a direction under Section 78 of the Local Government Planning and Land Act to control Liverpool's capital spending in 1985/86. The Treasurer's equivocal report makes it more necessary than ever to issue warning letters to the Council giving them the opportunity to explain their position before a Direction is actually issued.

Visits and Meetings

7. The Secretary of State is visiting Liverpool on 7 and 8 February. If a warning letter about the Section 78 Direction has been sent this will be an helpful opportunity to give it publicity.

Contingency Measures

8. Work is in hand on tidying up the Commissioner Legislation and in considering what emergency measures might be necessary to maintain services prior to the appointment of Commissioners.

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