



STRICTLY CONFIDENTIAL

PRIME MINISTER

IT TOOK A RIOT

No sentiment was more frequently expressed to me during the time I spent with Tim Raison in Merseyside. There is no escaping the uncomfortable implications.

Merseyside has been suffering from long term decline at least since the Great War. The County's current population is 1.5 million; Liverpool's 0.5 million. The City has lost a third of its population, mainly the more skilled, since 1961; the County as a whole lost about 10% between 1971 and 1981. There are 75,000 fewer jobs than in 1976. Unemployment rates have been consistently well above national figures since before the last war, and are now 18%. That means 125,000 unemployed out of a work force of 720,000. In Liverpool alone, 55,000 are without a job - 18,000 of them concentrated in the core of the city. But Merseyside is only the most extreme case: similar problems are to be found in our other great cities (see Annex A).

Nor are prospects good. As part of my exercise, Coopers and Lybrand looked at the average of 11,000 job losses in each of the last 5 years. In part because a high proportion of Merseyside's manufacturing jobs are in industries with declining prospects they confirmed that this trend is likely to continue at similar rates. Recent major closures make this all too likely.

STRICTLY CONFIDENTIAL



STRICTLY CONFIDENTIAL

Regional assistance, largely automatic and heavily slanted to manufacturing, has not primarily focussed on the needs of Liverpool's service-biased economy, including the Port. Major plants brought there suffered from all the difficulties of imposing large scale manufacturing industries on existing communities.

The Port itself faces many problems. Bad industrial relations have not helped; but they are not the sole problem. There is the high cost of dredging the river, borne by the Port. It also suffers from the grid system of charges by which shippers equalise charges and thus give a wholly improper advantage to ports like Southampton. I am told this practice would be illegal in the United States. Not least, the financial structure imposed on the Port in 1974 means that the Docks and Harbour Company is virtually unable to realise freehold capital assets for improvement of its business, as the proceeds go to the bondholders. Well over 1,000 acres along both banks of former industrial land lie idle and rotting.

The river is an open sewer. Unless it can be cleaned up it will be impossible for Merseyside to develop a whole range of water-based amenities (fishing, boating, marinas), which would stimulate employment in the leisure industries.



STRICTLY CONFIDENTIAL

Among the people who have left the area have been middle managers who have gone to the suburbs for better homes, schools and surroundings. More significant still has been the loss to Liverpool of the headquarters of its major firms. There are hardly any left. So the leaders have gone, and decisions are made elsewhere - by the nationals and multi-nationals. It is the branches in Liverpool and places like it that go first.

It is not just industry and commerce. Local government - the Corpy - is remote, and much of its housing indescribable. There are 38,000 outstanding repairs notices for the city's 78,000 dwellings. The city's decision-making processes are emasculated. There have been 6 changes of control in the last 7 years. The 2 tiers of local government make things worse, with the County seeking to justify its existence by double-banking work that should be done at district level. The DHSS are deeply concerned about the quality of management in the health service. Central Government's regional offices are in Manchester, with largely executive functions.

The unemployment figures quoted in my 2nd paragraph are appalling in themselves. But one has to talk to the people day after day to understand just what hopelessness means. Young people expect to be unemployed and they are being brought up by parents who expect them to be unemployed. We have to realise the hollowness of the phrase 'parental responsibility' when



STRICTLY CONFIDENTIAL

unemployed parents - many of them single - live cooped up with energetic kids with nothing to do, and nowhere to go. If parents have lost their sense of purpose, they cannot command their children's respect.

Of course, the headlines have concentrated on Liverpool 8 or Toxteth and here the problem is most acute. This is the only black community on Merseyside - Liverpool people of several generations' standing. The crime rate is high, educational attainments low. The reputation of the area is a barrier when applying for work. Up to 45% of the 16-20 year olds are unemployed - among the blacks the figure was said to be higher. To keep a perspective, Liverpool 8 is an area of barely a square mile; and at the height of the riots only 200-300 local people were involved.

Relations between black and white in the area seem tolerable. But there is undoubtedly a serious breakdown of confidence between a great part of the population in the area and the police. In the eyes of many local people, not just in Liverpool 8, this is the dominant issue - though the overwhelming majority of people I spoke to recognise the need to maintain law and order. With Tim Raison I will discuss my conclusions about this with the Home Secretary.

In looking back over my visit to Merseyside, I found an area in parts of which the long term problems are so acute, and

STRICTLY CONFIDENTIAL



STRICTLY CONFIDENTIAL

human resources so thin, and whose political structures are so compartmentalised that there is no prospect of effective leadership. It follows that the hard left – and more extreme forces – are at work. They are now arguing: "All the traditional methods have failed: its time for more radical measures." In the Labour Party, local MPs and municipal leaders are under constant threat of their jobs, with all the consequences this brings to their speeches and their actions.

- ① Yet there are strengths. There is a substantial City Centre in Liverpool with a grand architectural heritage. It is still an attractive and lively place. There is a strong
- ② tradition of office work and entertainment, and outstanding cultural (Walker Art Gallery and Philharmonic orchestra) and
- ③ sporting (Liverpool and Everton FC) assets. The port is the biggest on the west coast with modern investment. There are
- ④ good, if not exceptional, communications (by road and rail). There is a University with a good reputation and community
- ⑤ links. There are good industrial firms. Industrial relations for the great range of firms are good, and much better than the Merseyside image. There are recent Government initiatives,
- ⑦ including the Urban Development Corporation (though its area is narrowly defined) and the Enterprise Zone and the Land Registers. We must build on these things.

There are also the community groups. Voluntary agencies and self-help groups can do things more cheaply and effectively than official bodies – and contribute to the growth of local



STRICTLY CONFIDENTIAL

communities. In spite of the dangers of infiltration and plain inefficiency – which burnt the Liberals' fingers – I am convinced that within these groups are many who are interested in helping this community deal with social, housing, sporting and leisure activity. We must harness their energies. If we do not, these groups will not disappear: they will be easy prey for those who seek to use them for other purposes.

Merseyside's economic and social problems are severe. So too are those of the other conurbations. The facts are well documented. It is in my judgement our inescapable duty to respond to the problems of the main urban areas with urgency and resource. I opened this report by referring frankly to the inescapable connection between the riots and the visit which I was asked to make. I cannot stress too strongly that my conclusions and proposals are not based on my fear of further riots. They are based on my belief that the conditions and prospects in the cities are not compatible with the traditions of social justice and national evenhandedness on which our Party prides itself.

We must get the strengths of the community pulling in the same direction; and free the spirit of enterprise which is latent. This will not happen on its own or without leadership.

I should say that I have not expanded on the concept of a tactical retreat, a combination of economic erosion and encouraged evacuation. In part that has been the outcome of post-war

STRICTLY CONFIDENTIAL



STRICTLY CONFIDENTIAL

policy. There will be some continuation of this drift but even to stabilise a smaller community in conditions that are socially acceptable, there will need to be a very real degree of leadership and the commitment of substantial resources.

PART II: MAIN PROPOSALS

Organisation

I believe the Government must take the first step. Major institutional change, however justified, takes time. Since the need for action is urgent, I recommend that we make the most flexible possible use of existing powers, resources and agencies. In order to maintain the impetus we have gained on Merseyside, I believe that continuing Ministerial commitment is required. I suggest that my special responsibility should continue for a specified period of, say, one year. Part of my job would be to co-ordinate Government action, with my colleagues' agreement; to act as a trouble-shooter on behalf of colleagues; to secure maximum value for money from present programmes; and take new initiatives where appropriate. I should do my best to secure improved performance in local government; and would continue to seek a much greater commitment to Merseyside from the private sector.

To give thrust to this proposal, a single regional office is needed for Merseyside, and probably related parts of Lancashire and Cheshire. The details need to be worked out, but it should comprise the main departments concerned with



STRICTLY CONFIDENTIAL

economic development: DOE, DOI, DE/MSD, and DTp. An effective regional presence for DES is required, and suitable links with DHSS.

Necessarily, it will be asked whether similar arrangements are justified for other conurbations. My belief is that they are – though of course with another colleague in the lead in each case.

Local Government

Having been to Merseyside I remain more than ever convinced that we should abolish the Metropolitan Counties.

The Home Secretary has been invited to consider the future of the GLC and metropolitan counties (E(81)22nd). Subject to his views, I suggest that we now set up an interdepartmental group under the chairmanship of my Department to examine and report as quickly as possible on the implications of abolition of this tier of local government, and on the fastest practicable timetable for the enactment of legislation and implementation.

At the same time, it would be helpful if such a group were to report on the merits of legislation to end the system of triennial elections, which provide for annual elections of parts of district councils. Triennial elections have the advantage

STRICTLY CONFIDENTIAL



STRICTLY CONFIDENTIAL

of testing the acceptability of a local authority's policies by ballot box; but can create – as in Liverpool – great uncertainty about political control, which is inimical to decision and action.

In the meantime we must make the best use of what we have. Provided I had something to offer, I believe we could get results by working with the existing authorities and agencies. I intend to review the operation of the Liverpool partnership, and some early rationalisation of agencies in the economic field might be possible.

The Private Sector and the Financial Institutions

A feature of my visit was the tour of some 30 representatives of the Financial Institutions (listed at Annex C). They have agreed – partly as a result of the shock of all they saw – to join the Government in a comprehensive examination of the role of the private sector in financing urban development and in the revival of the older urban areas. They will second one of their best young Managers for a year. First, we need to get them fully absorbed in the challenge and the opportunity, with some visits at least to the USA and Germany to see what has been achieved there by co-operation between public and private sectors. They will then need to study the problems here. This exercise crosses the interests of many Departments and will need co-ordination. Naturally I have made the point that we are not seeking subsidies or advocating loss-making investments but

STRICTLY CONFIDENTIAL



STRICTLY CONFIDENTIAL

rather the development of methods that will enhance the flow of private capital into urban opportunities. I also explained something of the NEC of the Labour Party's plans for them!

In addition, I have been offered help by 20 Merseyside firms, who will each provide a manager to join in the local initiatives I have announced, and help to organise the training of extra young people whom their firms will be taking on.

Part III: Policies

There is a number of general government and local government policies with special, but not exclusive, application to Merseyside which must urgently be reviewed. I set out in Annex B some initiatives I was able to set in hand but they in no way match the scale of the problem.

(i) Industry, Employment and Training

Our policies for assisting industry should reflect a greater emphasis on areas facing both high unemployment and grave social stress. The existence of a Ministerial presence in each conurbation should enable a co-ordinated and area-based industrial and employment policy to be pursued, using both existing and additional resources.

There are undoubted advantages in an automatic system of regional development grants. But on Merseyside, although some £20m might be spent this year on selective assistance and



STRICTLY CONFIDENTIAL

factory-building in the county, most industrial support goes to the fringes of the conurbation and beyond.

We should move if we can to a greater use of selective assistance, in a form which can be focussed to help the worst-hit parts of the conurbations, with the aim of creating new and lasting jobs. As part of this we should have more flexibility to assist the development of service industries.

We must renew our determination to secure the establishment of small businesses who are some way apart from the mainstream of government grants.

We should consider further the possibility of providing more Civil Service jobs in Merseyside.

Training should lead to a qualification of some sort and be more widely available. Having seen what school leavers are doing under the MSC programmes, I am deeply dissatisfied - as many of them are. The problem is certainly complex. But I am convinced that the private sector needs to be brought in more. The present rules about private gain still mean too many cosmetic jobs.

There are good examples to draw on in the USA where banks, the other institutions and the wider private sector have responded creatively to Government initiatives. The Americans long since took the decision to let people make a profit out of public job creation. Similar progress has been



STRICTLY CONFIDENTIAL

made in Germany. We, too, must reassess how to make better use of what are massive human resources.

Special efforts must be made to improve employment prospects for blacks. The service training centres mentioned in Annex B are a start - though a small one.

On Merseyside:

- The current emphasis in the inner areas on the development of local industry and commerce and small firms in the urban areas is right as an immediate goal. The English Industrial Estates Corporation are particularly active locally. And the UDC will add to this effort.
- Bigger firms have some scope in the Enterprise Zone and elsewhere. There is potential land if we proceed with clearing it up.
- We must promote service industries, including financial and leisure services.
- The construction industry on Merseyside needs a higher continuing level of activity, with the employment of more local young people; with every effort made to see that wage rates in the industry (traditionally high on Merseyside) are not forced up; and with a continuing eye on bringing in the private sector. There are

STRICTLY CONFIDENTIAL



STRICTLY CONFIDENTIAL

opportunities and needs in housing; in cleaning up the banks of the Mersey; in site preparation for industry; and in removing dereliction more generally.

(ii) The Port

We need urgently to settle the future of the port. E(EA) will be considering proposals next month. In doing so, we must examine how we can make best use of the Port in the interests of Merseyside. Furthermore, we need to see whether we can do anything about the consequences of the financial reconstruction of 1974 (see fifth paragraph). We must take the opportunity which the Merseyside Development Corporation (MDC) offers to reclaim vacant derelict land with urgency. I shall consider extending the area and terms of reference of the MDC, which is pursuing its limited role with vigour.

(iii) Police

The police service must review its arrangements for securing good community relations in poorer areas and developing its links with ethnic minorities. Better training at all levels is vital. There must be better links with communities, including local committees with black representatives. There should be footpatrols rather than cars. In some areas improvements in police public relations machinery are important. In some places, reintroducing local police stations would help. My personal view is that there is no substitute for the policeman on the beat, with backing up the line, and with a continuing relationship with people in the area he patrols. We certainly need to try and recruit and promote more black policemen.

STRICTLY CONFIDENTIAL



STRICTLY CONFIDENTIAL

Effective arrangements are needed to involve the police (both police authority and Chief Constable) in developing local inner city policies so that crime prevention and law and order considerations influence other policies; and vice versa. The Probation Service (with its links with personal social and community services, education and health) should also be involved.

(iv) Housing

Over the past decade, the housing programme has borne the brunt of capital expenditure economies, and is projected to decline further. Some, at least, of these cuts will need to be restored. Urgent needs include:

- improving older, privately owned housing and the many deplorable public sector housing estates. I want to devote more resources to this.
- removing some of the pressures of density, and increasing the amount of open space.
- looking mainly to the private sector for new building. I shall encourage low cost homes for sale, shared ownership or renting in the inner areas by partnership between private and public sectors, including housing associations.
- ways must be found to use housing work to train more young people, with extra costs being borne via MSC training programmes.



STRICTLY CONFIDENTIAL

- I aim to develop ways of involving local communities to be involved in the management and upkeep of big council estates.
- steps are needed to ensure that black people get a fair share of the better housing.
- we should consider legislation to enable building societies to hold land so that they can build for rent and shared ownership.

(v) Race Relations

Central government and agencies it controls must give a lead in its own policies and practices as recommended by the Select Committee, in affirming its commitment to equal opportunity.

Local authorities must be pressed to do more to implement Section 71 of the Race Relations Act (which imposes on them a duty to seek to eliminate discrimination and to promote equal opportunities); to examine their own employment practices and declare their commitment to equal opportunity.

They must also be pressed to follow clear multi-racial policies in education and to recognise special needs.

Central and local government need to devote more thought and effort, from the highest levels, to introducing effective consultation with ethnic minority groups; and pay regard to the



STRICTLY CONFIDENTIAL

special problems of racial minorities, and of disadvantage, across the board of services and inner city policies.

(vi) Education

The urgent need in Liverpool is for decisions on the future pattern of schooling; for the development of policies for the community use of schools (including links between parents and schools); for developing curricula adapted to the dismal employment prospects of pupils; and for linking education in schools and further education with the training efforts of the MSC and the industrial and commercial prospects in the area. A more active role for DES will be required.

We must seek to achieve a closer partnership between the University and the industries on Merseyside, particularly in sectors such as electronics. (Plessey have a major communications plant on Merseyside.)

(vii) Voluntary Organisations

Subject to the need for reasonable scrutiny, as to their aims, political motivation, achievements and running costs, voluntary organisations and self-help groups should be given:

- a degree of confidence in the continuity of grant aid and avoidance of sudden changes and in support for the running costs of useful projects;
- in areas where, in particular, the middle classes have

STRICTLY CONFIDENTIAL



STRICTLY CONFIDENTIAL

left, it may exceptionally be necessary to support paid workers without whom voluntary bodies might collapse. There are resource implications here; and also a need for regular scrutiny.

(viii) Sport and Leisure

Local sports centres and kick about areas are in short supply throughout Merseyside, and would yield a good return. More are needed. I hope to tap private sources of funding and voluntary effort, matched by some public funds – both revenue and capital. The Sports Council and the Football Trust are keen to help.

(ix) Urban Programme

We should amend the Local Authorities (Social Needs) Act 1968 so as to enable grants to be paid to bodies other than local authorities; in the meantime we should consider a higher rate of grant. Both would add to the flexibility of our instruments (particularly by providing the opportunity to fund the private sector direct).

PART IV – RESOURCES

Public expenditure on Merseyside amounts to over £2 billion (Annex D). I should think Merseyside contributes about the same in rates and taxes but the sums are difficult to do. Much public expenditure goes on pensions, supplementary benefits, unemployment benefits and the national health service. The areas of flexibility

STRICTLY CONFIDENTIAL



STRICTLY CONFIDENTIAL

are central and local government capital expenditure (about £250 million), the programmes of the Manpower Services Commission and to some extent expenditure on industrial support.

More resources can be put into Merseyside and the other conurbations at the expense of other parts of the country through bending the distribution of the main programmes of government. I intend to consider my capital programmes in this light and I invite my colleagues to consider theirs. We must see that we are doing as much as we can for the conurbations out of existing programmes.

The private sector can, and I believe is willing to, play a large part. My initiatives with Merseyside firms and the financial institutions are designed to secure a positive response. In some instances it may be possible to use public sector funds to prime the pump or to exert leverage on the private sector to secure their financial contribution.

There are critical problems on Merseyside, and elsewhere, however, that only the public sector can tackle. Many things are going to have to be done at some time in the future. The old dock areas will have to be reclaimed to eliminate the present negative value. The Victorian sewers will need to be mended or replaced. The Mersey will have to be cleaned up. Derelict sites and buildings must be cleared. There is a whole range of projects which the private sector will never tackle. But until they are tackled the inner city opportunities for the private sector are prejudiced in favour of the suburbs. In addition we shall have

STRICTLY CONFIDENTIAL



STRICTLY CONFIDENTIAL

to support industrial and commercial initiatives; to take action to stimulate the renovation of industrial estates; to restore decent housing conditions in the inner areas and on some of the council estates; to support some of the voluntary organisations; and to share in providing better local facilities for sport and leisure.

I have not sought to provide a shopping list for Merseyside. It will take time to draw up a programme of worthwhile projects. We need to decide, however, on the scale of resources to deploy.

The revival in the economy will help reduce unemployment but no-one believes it will happen quickly enough or on a scale which matches the urgency of the situation. We therefore need to settle as we consider public expenditure programmes this autumn how much extra we are prepared to spend next year and the year after on Merseyside (and the other conurbations) in alleviating conditions and getting people off the unemployment register in ways which secure long-term benefits. The cost of moving people into work will vary from scheme to scheme. We might have to spend a net £100 million a year, after allowing for savings in unemployment benefits, to reduce the level of unemployment by 20,000 people. The precise figures need to be worked out.

I do not believe that extra money should be added automatically to main programmes in the usual way. If it is decided to appoint Ministers with special responsibilities for the conurbations, I recommend giving them considerable discretion in deciding how it should be spent.

STRICTLY CONFIDENTIAL



STRICTLY CONFIDENTIAL

A commitment of extra public resources on the scale above is a matter for political judgement but anything significantly less would make that much less impact on Merseyside's 125,000 unemployed. The projects for the public sector are there. Most of them will have to be undertaken some time. I believe that now is the time to make a substantial commitment of extra resources to Merseyside and other hard-pressed conurbations. My colleagues are aware how I believe this can be financed within our macro-economic strategy.

PART V SUMMARY

In summary, my recommendations are as follows:

- (i) the economic and social decline evident in Merseyside, and other conurbations, requires a new priority for these areas in our policies;
- (ii) a continued Ministerial commitment to Merseyside is required for a specific period of, say, one year. A single regional office is needed in Liverpool comprising the main departments concerned with economic development. Similar arrangements should be adopted for other conurbations;
- (iii) our industrial, regional and training policies should be reassessed within the new context, and administered with flexibility;
- (iv) as part of this, we should involve the private sector and

STRICTLY CONFIDENTIAL



STRICTLY CONFIDENTIAL

the financial institutions to a far greater degree than hitherto;

- (v) the future of the metropolitan counties and the GLC should be examined quickly;
- (vi) substantial additional public resources should be directed to Merseyside and other hard-pressed urban areas to create jobs on worthwhile schemes.
- (vii) the other policy reviews and initiatives suggested in this report should be pursued.

I am sending a copy of this minute to all Cabinet colleagues, the Chief Whip, Timothy Raison, Sir Robert Armstrong, Sir Ian Bancroft and to Robin Ibbs (CPRS).

MH

M H

13 August 1981

STRICTLY CONFIDENTIAL