

# Do you sincerely want to be broke?

FEW more bizarre stories have emerged from the business world in recent years than the tale of the Mersey Docks and Harbour Board.

Following the crisis which erupted last autumn, the board has been having a sticky time trying to convince the House of Commons that they should be allowed to reconstruct themselves on a better footing.

This is hardly surprising, since so many of the board's statements have been thoroughly unconvincing and contradictory.

What is quite clear — indeed startling — is that the 'crisis' is either years overdue or else totally unnecessary.

A crisis condition has existed more than once in the past and nobody took the slightest notice.

To see how this could occur, it is helpful to see how the board operated its finances over the years.

**1** The board is not supposed to make a profit for anyone. It is financed exclusively by fixed interest loans — like mortgages — and any surplus has to go to reduce its charges or improve its facilities.

**2** Most of the loans have to be repaid at one date or another and the board has always paid these back by raising fresh loans as old ones were repaid.

**3** This re-financing, as it is called, obviously depends on the board being able to find people ready to lend it money. The board can only ask them if it is reasonably certain that the loans can be paid back in ten to twenty years' time. No organisation can be certain that they will be able to repay that far ahead, but that had never stopped the board from borrowing money before — nor had anyone argued that it should stop them.

**4** There were several reasons for this confidence. The board was believed to be managed by talented and sensible men. Public corporation loans were believed to be as safe as houses. Most important, it was believed that the money loaned was covered by the assets of the board — the land, quays and sheds. The board encouraged this belief by valuing land and quays at as much as £46million. Unfortunately, it was worth barely half that amount even in the most favourable circumstances.

**5** This loss of value lay at the heart of the board's miscalculations. Docks like the south end



berths were gradually becoming less useful, but the board took little account of their declining value and set too little money aside for their eventual closure. It is a simple way of fooling yourself by appearing to make a profit when you are not doing so. It is also a nice way of helping your friends by keeping charges down at the time and building up trouble for the future.

## Trouble coming

**6** By 1968 trouble was coming. The board had its assets grossly overvalued and it was making a trading loss. But they cheerfully re-financed some loans — presumably being certain that they could repay them.

**7** Realising that their assets were overvalued, the board began transferring millions of pounds from their reserves in order to reduce the apparent value of their land and

## The inside story of how the Dock Board lost millions of pounds

by Tom McGuire

cement, the board had been advised that with the expected 25% increase in charges there would be a surplus in 1971, substantial deficits in 1972 and 1973 and a surplus thereafter.

In other words, eight days AFTER the crisis was forecast there was hardly any crisis. And yet the board proceeded to publicise its troubles in the most depressing light, thus creating the public mess.

**8** Had the board announced that extensive steps were being taken immediately to improve efficiency, it is likely that they could have continued to re-finance their activities. The way they did it ensured that not a soul would lend them money.

The results were sad: Charges had to go up 44%. Employees are being made redundant. Bondholders are losing money.

Yet because of these actions the board is already back making a profit now.

## Selfish actions

It has all been unnecessary. A crisis caused by the selfish, incompetent and thoroughly irresponsible actions of the board. One of the most wretched features is that the members of the old board have done so little to help the port to its feet after their idiocy had toppled it over.

As a bondholder put it to the House of Commons committee:

"I am compelled to conclude that my money was obtained and used to permit the continued charging of uneconomic rates to the ship owners and traders using the docks."

## Pitiful story

All but a handful of the old board were (guess who!) — the ship owners and traders who would benefit from uneconomic rates.

It is a pitiful story of a managerial version of the Keystone Cops. And Merseyside is now paying for their pathetic tragedy-comedy.

to bring it in to line with reality. They also put their charges up, but not by enough, and so their trading losses grew bigger.

**8** Realising that the board were still in a precarious state in 1970, the new government insisted that outside advice should be obtained. The advice was horrifying. Losses totalling £27million were forecast for the next five years. Future re-financing of loans would be difficult or even dishonest. The board panicked.

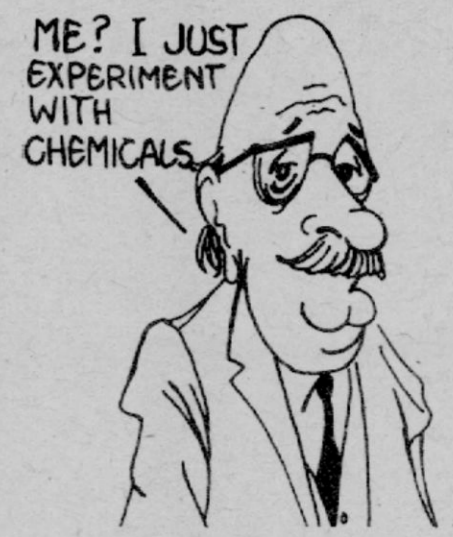
**9** Having failed to get the Ministry of Transport to hale them out, they issued a Press statement about their difficulties in late September 1970, fourteen days after receiving their horrifying advice.

## Nonsensical step

This action made quite sure that a real crisis was created. If you announce — as they did — that the board is in a financial mess, you insure that you will not be able to borrow money at all. It made certain that re-financing of their debts would be quite impossible. The very act of announcing the crisis created the crisis. It was a nonsensical step to take. If the board wanted the Port of Liverpool to commit suicide they could not have chosen a better way.

**10** We are not arguing that the board should have kept quiet — that would have been dishonest, but they could have tried to be sensible. For one thing, the horrifying advice they had received took no account whatsoever of any increases in charges which could be made to improve profitability.

Additionally, just eight days after the forecast of the £27million loss and BEFORE the Press announ-



ME? I JUST EXPERIMENT WITH CHEMICALS.



I JUST RUN THE ASSEMBLY LINE.



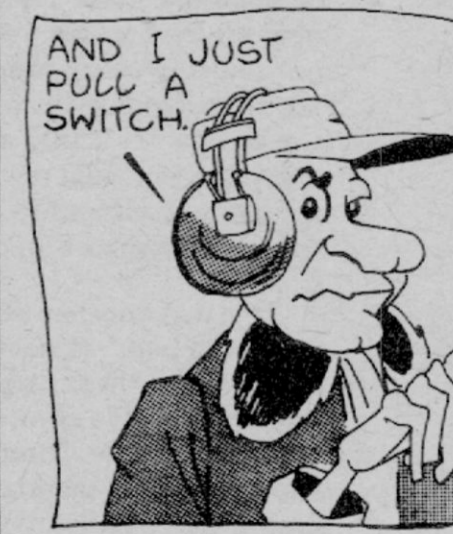
I JUST TYPE SPECIFICATIONS.



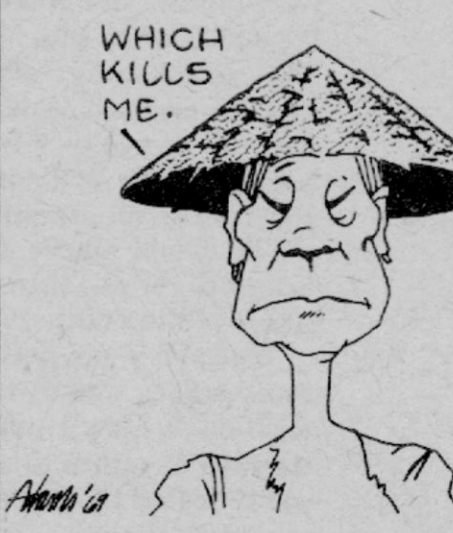
AND I JUST DELIVER FREIGHT.



I JUST FLY A PLANE.



AND I JUST PULL A SWITCH.



WHICH KILLS ME.

## Get it back!

What with Liverpool's rates going up four bob in the pound (twice the national average and the biggest increase in the city's history) you may be thinking of putting in for a rebate.

If your income is small you're almost certainly entitled to one, as long as your rates aren't already covered by supplementary benefit from the social security.

Even tenants who don't pay rates direct can still apply because rates are included in their rent.

To get a full rebate you normally

have to be earning £10 a week or less (if single) or £12.25 (if married). You can add on to this another £2 a week for each child or dependant in your care.

## How to apply

You can get an application form from the Rate Enquiry Centre, Municipal Buildings, Dale Street, or by writing to the City Treasurer, P.O. Box 1, Municipal Buildings, Liverpool L69 2DQ.

