



g/c AD

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

17 February 1982

M. Scholar, Esq.,  
Private Secretary,  
10, Downing Street

*Dear Michael,*

BL: LEYLAND TRUCKS CLOSURE

In your letter of 7 February to Jonathan Spencer, you said that the Prime Minister had asked whether the estimates of the effects of closure of Leyland Vehicles Limited (LVL) in Annex C of the official report circulated in December 1981 represented an up-to-date assessment.

Jonathan Spencer's reply of 10 February noted that we were taking another look at these estimates, and that you would be hearing from us shortly.

.... I attach a report up-dating the earlier work on closure costs. It was prepared in consultation with the Departments of Industry and Employment, and copies have already been sent at official level to those Departments, the CPRS and the No.10 Policy Unit.

I am sending copies of this letter to recipients of yours.

*Yours ever  
Peter*

P.S. JENKINS

## LEYLAND VEHICLES: EFFECTS OF CLOSURE

Note by Treasury Officials

This note is a quick update of the earlier work on the cost of closure of (most of) Leyland Vehicles Ltd (LVL); the earlier work was attached as Annex C to the report by the official group on BL's 1982 Corporate Plan. The numbers presented are orders of magnitude only.

Employment effects at LVL

2. Leyland Vehicles Limited includes virtually all the UK interests of the Leyland Group. It is split into three divisions: Trucks, Buses and Parts. Table 1 attached shows the structure of the Leyland Group in more detail, and in particular which plants are affected by the strike. In summary, the position is:

- (i) At Leyland and Chorley in Lancashire almost all the workforce is on strike. As well as about 6,000 Trucks employees this includes about 2½ thousand employees of the Bus and Parts divisions. Some 2 thousand jobs are due to go at these plants under the Corporate Plan.
- (ii) At Bathgate all the 3½ thousand employees are on strike; they are all in the trucks division. This includes the 850 workers at the tractor plant, even though they have accepted BL's redundancy terms for when the plant closes. A further 400 redundancies at other parts of Bathgate are due under the Corporate Plan.
- (iii) None of the remaining employees at the other Trucks or Buses plants are on strike. No major redundancies were planned at these plants, except at Guy Motors in Wolverhampton where the 700 workforce has accepted redundancy terms for the closure of the plant.

3. Our assumption is that if the strike is not settled, BL will close

- (i) All the Truck, Bus and Parts business at Leyland and Chorly;
- (ii) The Trucks axle plant at Albion in Glasgow;

(iii) All the Trucks business at Bathgate;

(iv) Various service depots for trucks.

In addition, the planned closure of Guy Motors will go ahead. What will be left of LVL will be

(i) The Scammell operations making specialist heavy vehicles in Watford;

(ii) The Bus operations held jointly with the National Bus Company (at Workington, Lowestoft, Bristol and Leeds)

(iii) The DAB Bus subsidiary in Denmark.

(iv) The Parts operations not at Chorley.

It is possible that some people - perhaps up to 500 - might need to be taken on for the Parts operation to help service the existing parc of LVL vehicles: no allowance has been made for this in the calculations.

4. The net effect of this will be a loss of 12,000 jobs over and above the 4,000 already assumed in the Corporate Plan. This is 2,500 more than was assumed in the earlier work on the closure of Leyland Trucks alone: this is accounted for by the 2,500 employees of Leyland Bus and Leyland Parts who are on strike and are assumed to be dismissed. Details of the locations of the jobs assumed lost are given in Tables 2 and 3.

#### Employment in supplier companies

5. We have used the same stylised assumptions about proportionate job losses in supplier firms as were used in the earlier work on the Corporate Plan. On that basis the gross job losses in supplier firms is estimated to be 18,500. These would be partially offset by employment gains in rival UK assemblers and their suppliers. On the <sup>same</sup> same basis as before these gains would amount to 9,500 jobs. The net job losses outside BL are therefore estimated at 9,000.

Timing

6. For convenience we have based the calculations on the assumption that all costs fall after 1 April 1982. The likely date for closure is a month earlier than that but given lags in payments it probably would be only a very small portion of the costs which would fall in the financial year 1981-82. We have assumed that job losses at BL occur immediately, but that job losses at suppliers are spread over 1982-83.

Re-absorption

7. These job losses will lead to a temporary increase in unemployment. There are a range of views about how quickly the economy will adjust and re-absorb the unemployed resources. We have followed the earlier assumption that re-absorption would in present circumstances be fairly slow: these assumptions are no net re-absorption in the first two years, 25% in the third year and 50% in the fourth year. The resulting net increases in unemployment are therefore

At 31 March	1983	1984	1985	1986
Number	21,000	21,000	16,000	11,000

Redundancy Payments

8. There is considerable uncertainty about redundancy payments to be made to workers at BL. At one extreme, all the 12,000 workers now on strike might continue on strike and might be dismissed and receive no redundancy payments (except for those previously employed at Bathgate Tractors and who have agreed redundancy terms). At the other extreme, BL might make normal redundancy payments even to those remaining on strike as a means of securing a relatively peaceful climate for closing of the business and disposing of the assets. There are a range of possibilities in between: if an ultimatum is issued it is likely that at least some of the strikers would return to work and would then receive redundancy payments; and BL could choose to give full redundancy payments to non-strikers but, say, statutory minimum redundancy payments to strikers. The difference to BL's cashflow of the two extreme assumptions is £60 million. The table of total costs

elow gives the range of possible outcomes rather than picking arbitrarily on one number.

9. The State Redundancy Fund would pay 41% of the statutory minimum payments for workers made redundant at BL. Whether the State Redundancy Fund would make these payments if workers at BL were dismissed while on strike but nevertheless given "ex gratia" redundancy payments is not clear. Again, a range of possibilities is included in the table of costs below.

10. There would also be a cost to the State Redundancy Fund from job losses in supplier firms. We have as before assumed that 60% of workers made redundant would be eligible for redundancy pay. The total cost would therefore be about £5 million.

#### Social Security benefits, lost tax and NI receipts

11. The take-up of social security benefits and the loss of tax and National Insurance contributions has been calculated from the assumptions about net job losses. The costs do in principle depend on whether the BL workers are dismissed while on strike or are made redundant. But in practice the difference is very small. If BL workers are dismissed on strike they are not eligible for unemployment pay or supplementary benefit in their own right but their dependants are eligible for supplementary benefit after the £12 deduction for assumed union financial support. If BL workers are made redundant they will receive unemployment pay but they and their dependants will <sup>not</sup> be eligible for supplementary benefit because of the capital value of their redundancy payments.

#### Effects on BL's Cashflow

12. BL have supplied us with provisional estimates of the effects of the closures on the Leyland Group's cash flow. These include the cost to BL of any redundancy payments made and the net effects of repaying trade creditors, collecting receivables, selling stocks and foregoing losses (or losing profits). In the earlier work we identified all these factors separately but we have this time for convenience used BL's aggregate estimates. These figures do not include any allowance for repaying bank debt and other borrowings;

ese are discussed separately below.

13. There is in addition a central contingency in the BL Corporate Plan for "non-achievement" of the Leyland Group Plan. It seems right to credit this contingency in the calculation of the costs of closure since it would no longer be needed.

14. These figures give the net effect on BL's cash flow. They are included in the Table below as public expenditure costs or savings. This is very much a simplifying assumption. There cannot be any firm presumption that a reduction in BL's cash out-flow would lead to a reduction in Government funding, nor that any increased cash outflow could not be accommodated within existing Government funding.

#### Disposal proceeds

15. With much of the Bus and Parts businesses also closing there would be very little left of the Leyland Group to dispose of. The main companies would be Leyland South Africa, Ashok Leyland and the Ennore Foundries in India, and the Scammell specialist vehicle business in Watford. The collective disposal proceeds from these companies would be small - the most profitable are the Indian operations but difficulties of repatriating dividends would hold the value down. No allowance has been made for proceeds from disposals in the table below.

#### Loan repayments

16. A major element in earlier analyses of the costs of closure has been the need for the Government to refinance existing BL debts. This, for example, accounted for half the £200 million identified first-year PSBR costs of not funding the Leyland Trucks plan.

17. In the circumstances which BL face now, they believe they may be able to avoid any substantial repayments by renegotiating the terms of the loans and, if necessary, relying on Government guarantees. A £5 million short-term loan to LVL would, however, almost certainly

have to be repaid. The other loans most at risk are the £65 million loan stocks and the £30 million related medium-term loans. These include restrictive covenants which make them immediately repayable if a "guaranteeing subsidiary" closes a part of its business. Leyland Vehicles is a guaranteeing subsidiary but BL are negotiating with the Trustees to change this.

18. The figures given in the table below do not include any provision for repaying the loan stocks or other debt. The risk that another £100 million might be needed in 1982-83 must be borne in mind.

Total cost

19. The table below shows the total public expenditure and PSBR costs of closure. A plus sign indicates a transaction adding to public expenditure and the PSBR (eg a worsening in BL's cash flow).

	£ million		
	82-83	83-84	84-85
Effect on Leyland Group cashflow	-10 to + 50	-50	+30
Elimination of BL central contingency	-50	-40	-50
Repayment of BL debt (i)	+5	0	0
Payments from State Redundancy Fund	+5 to + 15	0	0
Social security benefits	+25	+40	+30
<b>Total public expenditure</b>	<b>-25 to + 45</b>	<b>-50</b>	<b>+10</b>
Lost tax and NI revenue	+45	+60	+50
<b>Total PSBR effect</b>	<b>+20 to + 90</b>	<b>+10</b>	<b>+60</b>

Note (i) see paragraph 17.

10. These figures are lower than those presented in the earlier work. The main difference is that no provision has been made this time for repayment of the loan stocks, and the elimination of BL's centrally-held contingency has now been included. Otherwise, the figures are similar, allowing for the fact that the lower figure given above for 1982-83 assumes that all strikes<sup>r</sup> are dismissed without any redundancy pay.

IA2 Division

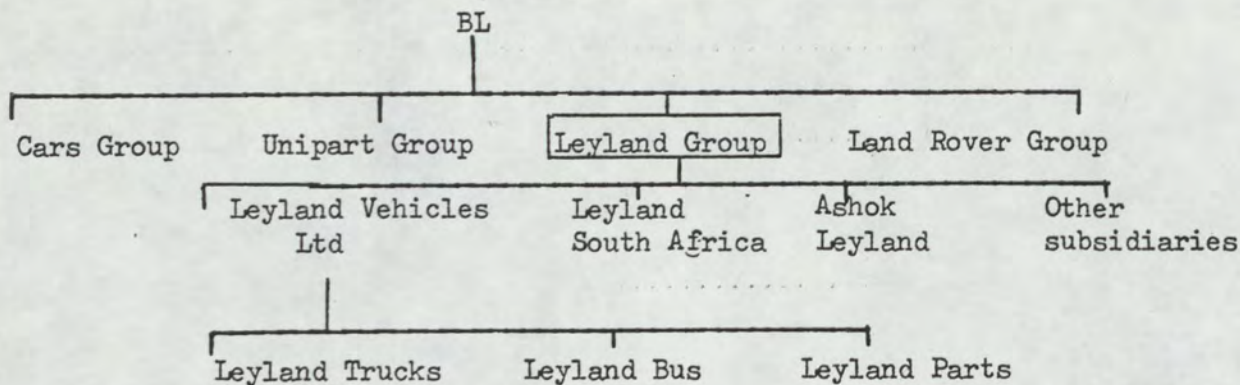
HM Treasury

12 February 1982



LEYLAND GROUP STRUCTURE

TABLE 1



Leyland Vehicles Ltd Plants

<u>Plant</u>	<u>Division</u>	<u>Activities/Plans/Comments</u>
Leyland	Trucks	To become sole Trucks assembly plant; present work on axles to transfer to Albion; present works on engines to cease. All on strike.
Bathgate	"	To become sole Trucks engine plant; present work on assembly to transfer to Leyland; axle work to Albion; tractors to close. All on strike.
Albion	"	To become sole Trucks axle plant; present work on gear boxes to cease. Not on strike.
Guy Motors	"	To close. Assembly work to go to Leyland; axle work to cease. Not on strike.
Scammell	"	Specialist trucks etc. To continue as at present. Not on strike.
Leyland (Comet & BX factories)	Bus	Axle and bus-chassis and coach construction. Was part of Leyland Trucks until 1 January 1982. Is on strike and is included in "Leyland" figures in Tables 2 and 3.
Leyland National (Workington) Bristol Commercial Vehicles Eastern Coach Works (Lowstoft) CH Roe (Leeds)	Bus	The assembly and manufacturing plant of BM (H) Limited, a company jointly owned by LVL and National Bus Company. Not on strike.
DAB	Bus	Danish chassis and body-building company.
Chorley (Lancashire)	Parts	Almost all parts business now concentrated here. Is on strike and is included under "Leyland" in Tables 2 and 3.

JOB LOSSES FROM CLOSURES

('000)

TABLE 2

<u>Plant</u>	<u>Number employed at end 81</u>	<u>Number to be employed at end 82 under Corporate Plan</u>	<u>Number employed if closure</u>	<u>Jobs lost as a result of closure</u>
	(a)	(b)	(c)	(d) = (b) - (c)
Leyland (i)	9.5	7.6	0.2 (ii)	7.4
Guy Motors (Wolverhampton)	0.7	0	0	0
Albion (Glasgow)	1.9	1.7	0	1.7
Bathgate	3.6	2.4	0	2.4
Scammell (Watford)	0.8	0	0.8	0
Service depots	0.5	0.5	0	0.5
TOTAL	<u>17.0</u>	<u>13.0</u>	<u>1.0</u>	<u>12.0</u>

Notes

- (i) Includes employees and staff of both Leyland Trucks and Leyland Buses at Leyland and employees of Leyland Parts at Chorley
- (ii) Some staff would be retained to oversee Leyland Bus production elsewhere in the UK. Some employees might need to be recruited for continuing parts operations, but no account of this taken here.

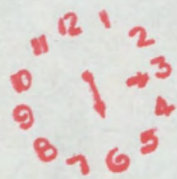
JOB LOSSES FROM CLOSURES

TABLE 3

('000)

<u>Plant</u>	<u>Jobs lost if closure</u>		<u>Memo item:</u>
	<u>Employees who would be dismissed while on strike</u>	<u>Employees not on strike who would be made redundant</u>	<u>Planned redundancies under 1982 Corporate Plan</u>
Leyland	8.4	1.1	1.9
Guy Motors	0	0.7	0.7
Albion	0	1.7	0.2
Bathgate	3.6	0	1.2
Scammell	0	0	0
Depots	0	0.5	0
<u>TOTAL</u>	<u>12.0</u>	<u>4.0</u>	<u>4.0</u>

18 FEB 1982



19 February 1982

Prime Minister

Now overtaken <sup>by</sup> events - but  
you may like to glance at the

cc Mr Hoskyns

MR SCHOLAR

BL: LEYLAND TRUCKS CLOSURE

public expenditure costs/savings of closure  
at flag A.

MUS 19/2

1. I understand from BL that the strike has now collapsed at Bathgate as well as Leyland, Lancashire. They are expecting a return to normal working on Monday.

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2. The revised estimates of the cost of closure were rather lower than those made when the last Corporate Plan was examined. A range of figures has been included for redundancy costs because BL would have had a good deal of discretion about redundancy payments to those dismissed during the strike.

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3. The table at paragraph 19 shows that closure would probably have meant a net saving in public expenditure terms. (I strongly suspect this is understated, because the comparison is being made with a fairly optimistic picture for 1984/5.) However, the closure would have meant 21,000 lost jobs and, due to the loss of revenue to the Exchequer, a net addition to the PSBR.

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4. It is obviously too early to expect an estimate of the adverse impact on Leyland Trucks chances - which were already very poor before the dispute.

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ANDREW DUGUID