



Prime Minister

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SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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Prime Minister

BSC: FUTURE STRATEGY

At our meeting on 6 December, Leon Brittan and I were asked to arrange for estimates to be circulated to the group of the financial consequences of any decision to close Ravenscraig.

2. The attached paper, which has been prepared by Scottish Office and Treasury officials, fulfils that remit. The paper examines two scenarios - Case A under which only the Ravenscraig complex (which includes the Gartcosh cold rolling mill and the Hunterston ore terminal) would close, and Case B under which BSC's other plants at Dalzell, Glengarnock and Clydebridge would close. These plants have no primary steel making capacity of their own and therefore rely wholly upon Ravenscraig as the only source of semi-finished steel in Scotland. BSC have rather surprisingly indicated that these associated plants would not necessarily be affected by a decision to close Ravenscraig; but this implies that they would be kept going on supplies of semi-finished slabs hauled up from some other source in the UK. Such an arrangement seems to me both unrealistic and unsatisfactory except as an extremely short term measure. In my view, therefore, case B provides the only realistic estimate.

3. The paper brings out that the main financial considerations are:-

- (i) there are significant redundancy costs in the first two years following closure;
- (ii) additional investment is necessary elsewhere as a consequence of closure;
- (iii) there are tax and social security costs of higher unemployment.

4. These estimates are inevitably speculative. In terms of what they quantify, there is very great uncertainty about the rate at which the increased unemployment might be attenuated, and beyond the first two years this is the critical element in any judgement about the scale of offset to the BSC savings. Experience at Linwood leads me to expect that the local impact would persist with very little diminution for a very long time. The attenuation of unemployment is therefore assumed to arise from the beneficial effects to the PSBR of reduced support for BSC. Clearly this is extremely hard to measure and any gains to employment which are likely in consequence would be spread throughout the UK and could not be expected to have a significant impact in the Lanarkshire area.

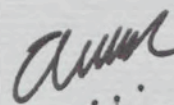
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5. The paper does not attempt to quantify the impact of possible industrial relations consequences which could lead to very substantial costs to the Government. In addition, there are major knock-on effects for other nationalised industries. We know that British Rail would be likely to lose about a third of their freight revenue in Scotland and I would not expect this to be more than partially compensated by increased traffic from the Welsh mills. The most serious repercussions are for NCB who would stand to lose in direct sales to Ravenscraig and also indirect through the provision of electricity something approaching 1m tons of output a year. If this is not to lead to even more intolerable surpluses than exist at present there would have to be accelerated pit closures and an estimated loss of 2,000 jobs in coal-mining.

6. The figures take no account of the cost to the Exchequer of the remedial action which would be required in, particularly, the Motherwell area. The costs involved in, for example, derelict land clearance and new factory building would be substantial - probably of the order of £50m - and could not be met from the Scottish Development Agency's existing budget.

7. But even if the unquantified costs are set to one side, the overall impact of closing Ravenscraig now is one of substantial financial cost to the Government in 1983/84, little net effect in the second year, with the savings to the Government accruing only in subsequent years. And the extent of these savings would depend on how far and how fast the initial rise in unemployment is eroded and on the validity of applying the BSC figure of £100m to future years.

8. I am copying this minute and the attached paper to Leon Brittan, Patrick Jenkin, Francis Pym, Geoffrey Howe, Nicholas Edwards, Norman Tebbit, Arthur Cockfield, Sir Robert Armstrong and John Sparrow.



Approved by the Secretary of State
and signed in his absence

13 December 1982

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FINANCIAL IMPLICATIONS OF CLOSING RAVENSCRAIG

This paper discusses the public expenditure consequences of closing Ravenscraig, on the basis of information currently available. We consider complete closure in 1983/84 and also, for illustrative purposes, a phased closure over 3-4 years. Some of the estimates represent informed guesses and would require further investigation before being firmed up; but we believe they represent a reasonable basis for order of magnitude estimates.

2. We assume that the Ravenscraig ingot route is to be closed anyway. BSC estimate that the closure of the rest of the Ravenscraig steelworks would result in an annual saving of £100 million. In practice this may be affected by the state of demand and other considerations. A comprehensive assessment of the implication of closure for the PSBR needs to take account of:-

- i. redundancy payment costs;
- ii. the need for additional capital investment at other BSC plants if Ravenscraig is closed;
- iii. the cost to the Exchequer of higher unemployment;
- iv. other effects including those on other nationalised industries.

Employment consequences

3. If the Ravenscraig plant were to be closed, there would be a direct loss of around 4000 jobs (ie excluding 700 jobs lost by the ingot route). There may also be an impact on the viability of jobs at three other Scottish BSC plants at Dalzell, Glengarnock and Clydebridge which obtain their steel supplies from Ravenscraig and at present employ 1070. There are also 1300 support staff in Scotland. BSC advise that the prospects for these three plants and all the support staff would not be materially affected by whether or not Ravenscraig remains open.

However, it seems improbable that serious consequential effects will not arise. We therefore give two estimates: in case A we consider only the loss of the 4000 jobs at Ravenscraig. In case B we include the loss of all the jobs at the other plants and 1000 support staff, totalling 6070. In the absence of information from BSC, we have had to ignore any savings additional to the £100m which might result from the further plant closures and staff reductions associated with this case. To the extent that these might arise, the savings in public expenditure in case B may be understated.

4. We have also attempted to assess the indirect consequences on suppliers who include NCB, SSEB, BR, the Clyde Port Authority, road haulage and other contractors. There would also be effects on local services generally. In case A such job losses are estimated at around 3000 and in case B 4530. The largest single loss is likely to arise in the NCB. The estimates take no account of consequences of the possible cost penalty to steel-using industries in Scotland from having to purchase steel from the rest of the UK or from abroad. It is uncertain at present whether existing pricing arrangements could be retained.

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5. These figures apply to Scotland but the increased BSC word-load elsewhere in the UK would give rise to some offsetting gains. The gains in BSC and NCB employment are likely to be limited and our estimate is of an upper limit in total of one-third of the Scottish job losses.

Cost of complete closure

6. The estimates of the public expenditure consequences of redundancy costs take account of the phasing of job losses in the BSC and other industries.

7. BSC now estimate that if Ravenscraig were to close additional capital investment would be required of £50m in each of the first two years for the continuous casting machinery in South Wales. It is no longer believed that additional investment of around £50m on coke ovens in South Wales and coal injection at Teeside would necessarily follow. Estimates take no account of additional investment to upgrade the Port Talbot strip mill, which BSC seek to undertake in any event.

8. The cost of higher unemployment arising from job losses of the scale described above will depend on:-

- i. the proportion of those losing their jobs who drop out of the labour force. Given the overwhelmingly male composition of employment in the steel industry and the main steel supplying industries - for whom activity rates are higher than for females - and the circumstances of North Lanarkshire this proportion is likely to be low (perhaps 10%).
- ii. the rate of reabsorption into employment of the increase in unemployment. At local level experience of other major steel closures, such as Shotton and Consett, suggests that even where redundant steelworkers find alternative employment in the short term this is likely to be predominantly at the expense of others in the local areas so that the short run net increase in unemployment is likely to be close to the number of job losses (less those dropping out of the labour force), and absorption will only occur over a lengthy period. This is likely to be true for the case of Ravenscraig since both local unemployment rate (19.5% total, 21.7% males for November 1982 on the new statistical basis) and the national unemployment rate are considerably higher than in the case of the previous major steel closures.

Low rate of reabsorption at local level are likely to persist for a long time. At national level, however, it is necessary to take account of the wider effects of the changes in public expenditure related to steel, and the responsiveness of wages and inflation to higher unemployment. Our main estimates assume that reabsorption takes place over 5 years, as set out below. In view of the uncertainty surrounding the rate of adjustment, however, we have provided an indication of the sensitivity of the results to an assumption that reabsorption takes place more quickly and is completed after 3 years.

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Level of reabsorption into employment of
increases in net unemployment resulting
from closure

Year	Main Assumption	Alternative assumption
1	0	33
2	25	66
3	50	100
4	75	100
5	100	100

iii. the average ^{Exchequer} cost per additional unemployed person. This cost results from reduced income tax and national insurance payments, and increased unemployment and social security benefits. This is assumed to be £5000 per unemployed person.

9. The closure of Ravenscraig would also have repercussions on several nationalised industries which supply goods and services to the works:

- i. The National Coal Board in Scotland would be affected directly through the loss of market for coking coal (some 500,000 tons per annum) and indirectly through reduced demand for electricity - Ravenscraig is the main customer of the South of Scotland Electricity Board using electricity with a coal equivalent of some 300,000-400,000 tons per annum. But the effect on public sector finances needs also to take account of the high costs of coal production in the supplying pits. Both SSEB and British Gas in Scotland would be adversely affected - Ravenscraig accounts for 3% of the output of the former and 4% of the sales of the latter in Scotland. Freight purchases by Ravenscraig accounted for about one-third of all rail freight revenue in Scotland in 1981. The effect on the Clyde Port Authority would be a net loss of revenue of about £1 million per annum, beginning two years from the date of a decision to close the Hunterston iron ore terminal.
- ii. The Exchequer implications of all these repercussions will ultimately depend on the balance between reduced revenue and reduced costs in each of the industries concerned, and on the consequential demands arising from higher steel output in the rest of the UK.
- iii. A further implication for the Exchequer could arise from the loss of rate payments at Ravenscraig and associated works which amounts to some £7 million per annum. If a part of this shortfall in rate revenue is made up by the Exchequer (in addition to an extra burden falling on local rate-payers and other local authorities in Scotland), there would be an extra financial cost involved.

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- iv. Finally, important financial costs could result if as a result of a decision to close Ravenscraig there were to be industrial relations disruption in the steel and related industries.

We have been unable to provide an overall assessment of these effects.

10. The net effects of these various costs are set against the estimated savings to BSC from closing Ravenscraig in table 1 attached.

Costs of Phased Closure

11. We have also briefly considered the financial consequences of an 'illustrative' case of phased closure. The savings derived from pursuing such a set of changes are inevitably much more speculative. We assume:

- i. closure of Gartcosh and one Blast Furnace in 1983/84;
- ii. closure of hot strip mill in 1985/86;
- iii. total closure in 1986/87.

The main item to note here is that, in order to take over from Ravenscraig on closure of the hot strip mill, the investment in South Wales is assumed to take place in 1984/85 and 1985/86, one year later than in the immediate closure case. Again the potential costs of disruption from industrial relations could be high, but quantification is not practicable.

12. The financial consequences are set out in Table 2 attached.

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Table 1

Financial Implications of Closing Ravenscraig

£m at end-1982 prices

Case A

	83/4	84/5	85/6	86/7	87/8
Savings to BSC	75	100	100	100	100
Costs:-					
Redundancy Payments	(45)	(8)			
Additional investment elsewhere in BSC	(50)	(50)			
Costs of unemployment	(25)	(29)	(18)	(11)	(3)
	(45)	13	82	89	97
Possible offset from higher BSC activity elsewhere in the UK	8	9	6	3	1

Case B

Savings to BSC	75	100	100	100	100
Costs:-					
Redundancy Payments	(66)	(10)			
Additional investment elsewhere in BSC	(50)	(50)			
Costs of unemployment	(30)	(45)	(32)	(19)	(6)
	(71)	(5)	68	81	94
Possible offset from higher BSC activity elsewhere in the UK	10	15	11	6	2

Note

In the case where re-absorption of the unemployed is complete after three years the overall costs of closure are reduced from £45m to £37m in 1983-84 in case A and from £71m to £61m in case B. There is a net annual saving of £100m by 1986-87.

Financial Implications of Phased Closure

Table 2

<u>Case A</u>	<u>£m at end-1982 prices</u>				
	83/4	84/5	85/6	86/7	87/8
Savings from closing Ravenscraig	26	34	44	88	100
Costs:-					
Redundancy Payments	(13)	(3)	(11)	(22)	(4)
Additional investment		(50)	(50)		
Cost of unemployment	(7)	(8)	(12)	(21)	(14)
	6	(27)	(29)	45	82
Possible offset from higher BSC activity elsewhere in the UK	2	3	4	7	5
<u>Case B</u>					
Savings from closing Ravenscraig	26	34	44	88	100
Costs:-					
Redundancy Payments	(20)	(5)	(17)	(33)	(6)
Additional investment		(50)	(50)		
Cost of unemployment	(11)	(12)	(18)	(32)	(21)
	(5)	(33)	(41)	23	73
Possible offset from higher BSC activity elsewhere in the UK	4	4	6	11	7