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THE PRIME MINISTER

TATE & LYLE LIVERPOOL REFINERY

I have seen a copy of George Jellicoe's letter to you of 27 February about the closure of Tate & Lyle's Liverpool refinery. I have also seen a copy of Peter Walker's comments.

2. I am writing to let you know that I very much agree with Peter Walker's advice that the Government should not intervene to prevent or delay this closure.
3. Regrettable as an increase in the level of unemployment in the Liverpool area undoubtedly is, I do not believe that it would be compatible with our industrial policy towards the private sector if we were to inject Government money in the present case. George Jellicoe's letter brings out very clearly that what would be involved is not merely a once-and-for-all injection of capital but, in effect, a permanent operating subsidy paid on sugar exports. In other words, even with the capital conversion of the Liverpool refinery as proposed, there is no prospect of it ever returning to profitable operation even in the long-term. Given this outlook and the evident reluctance of the company themselves to keep the refinery open, I think we should accept George Jellicoe's advice that the closure should take place sooner rather than later.
4. In addition to what I see as the fundamental objection set out above, the two proposals on page 4 of George Jellicoe's letter present particular difficulties. Quite apart from possible objections from the Community, a 100% grant for capital investment would go well beyond anything we are normally prepared to offer

under the regional assistance programmes and would be an expensive precedent for the future. The same is also true of the suggested export subsidy.

5. I understand that, when you saw the Trade Unions involved in the closure on 23 February, one of the arguments they advanced for Government intervention was the cost falling on the Exchequer as a result of the closure. I attach below a note by my officials commenting on the Trade Union's figures. Given that TL's proposals for keeping the refinery open in any case entail reducing the workforce by nearly half, it looks as though no significant Exchequer saving would be achieved by keeping the refinery open even in the short-term. This, of course, reinforces the case against any Government intervention in present circumstances.

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LEON BRITTAN

4 March 1981

EXCHEQUER COSTS OF CLOSURE OF TATE & LYLE'S LIVERPOOL REFINERY

Note by Treasury officials

The two documents produced by the trade unions representing the workers at the Liverpool refinery and by the Liverpool Welfare Rights Resource Centre analyse the Exchequer costs of the closure of the refinery under four headings:

- costs of redundancy payments to the Exchequer: -£4m
- losses from write-off of capital: - unquantified
- loss of rates to local authority: -£0.25 - £0.5m
- loss of tax and additional social security payments:
-£4.5m - £10m

2. In the time available it has not been possible to make a precise calculation of the costs under these four headings. In closure cases the precise Exchequer costs depend on the circumstances surrounding the redundancies, the age and length of service of those made redundant, the proportion of those made redundant who register as unemployed, the extent to which they are able to find new employment and if so whether they displace people presently employed or extend the duration of unemployment for others on the register as well as on numerous other variables. A full appraisal would involve a lengthy study and consultation with Department of Employment and DHSS. The comments below are therefore intended only to give a broad picture of the possible costs on the basis of recent work on the average costs of unemployment reported in the February Economic Progress Report.

Redundancy costs

3. The data quoted in the Welfare Rights Centre imply an abnormally long average length of service for the Tate & Lyle workers and their estimate of £4m Exchequer costs looks too high for this reason. During 1980 the average payment from the redundancy fund was about £1,000 per redundancy. On this basis we estimate the direct costs of the Tate & Lyle redundancies at some £1.6m. In

addition consequential redundancies in the supply industries might raise this total by half as much again to give a total cost of £2.4m.

Write-off of capital

4. The unions argue that some of TL's £20m capital write offs will qualify for Corporation Tax relief. We believe this is unlikely to be significant, because in the case of plant 100% capital allowances will already have been given and the buildings are probably fully depreciated for tax purposes.

Loss of rates

5. We agree with the lower estimate of £0.25m given in the Welfare Rights Centre document. This would decline in future years.

Loss of tax and additional social security payments

6. On average Exchequer costs per additional unemployed person are about £3,500 per annum. On this basis and assuming a total rise in unemployment of between 1,600 and 3,200 (the latter figure being an extreme assumption of an equal number of unemployed in the supplying industries) the total cost would be £5.6m - £11.2m, a shade above the union estimate of £4.5m - £10m. We would expect the cost to persist at something like these levels for 2-3 years and thereafter to decline gradually. Even in areas of high unemployment those initially made redundant may be re-employed quite quickly; in the Liverpool area the median length of unemployment seems to be about 1 year.

Comment

7. The calculations above suggest a once-and-for-all redundancy cost to the Exchequer of up to £2.4m and a cost of foregone revenue and additional social security payments of £11m at maximum. The proposals in Lord Jellicoe's letter imply a capital cost of £11m and a continuing export subsidy of £4m a year; to these figures

must be added the cost of reducing the workforce by half which on the analysis above could come to at least a further £3m a year.

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