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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

THE BRITISH STEEL CORPORATION'S CORPORATE PLAN

Memorandum by the Secretary of State for Industry

Attached is a copy of a report by the Chairman of the Interdepartmental Group on the BSC Corporate Plan. This report provides the background to a short paper setting out proposals for the Government's response to the BSC Plan, which I will be circulating separately for consideration by the Committee.

K J

Department of Industry

Ashdown House
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28 January 1981

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INTERDEPARTMENTAL GROUP ON BSC CORPORATE PLAN

Report by the ChairmanI INTRODUCTION

1 BSC submitted their 1981 Corporate Plan to the Secretary of State for Industry on 12 December 1980. An interdepartmental Group of officials comprising representatives of HM Treasury, the Central Policy Review Staff, the Department of Employment, the Department of Energy, the Scottish and Welsh Offices, as well as the Department of Industry, has studied the Plan under Department of Industry chairmanship. This report is based on discussions in the Inter-departmental Group and attempts to reflect the views expressed there. But although the Group have examined earlier drafts, for reasons of time they have not examined this final version, which/submitted on the responsibility of the Chairman.

2 This report does not contain as full an appraisal of BSC's prospects as we would have ideally wished, especially in relation to the Corporation's medium term prospects and in relation to alternative strategies to BSC's proposals falling short of a complete winding up of the Corporation. The major reason for this lies in the nature of the Plan itself and the way in which it was constructed. The BSC Plan is not a conventional medium term Corporate Plan. It is in essence a 6-12 month operation designed to maximise the proportion of BSC which will have a



reasonable prospect of a commercial future thereafter; there is therefore little information available from BSC on the outlook beyond March 1982. Furthermore, the operating plans were largely worked out at the level of the operating business within BSC: no detailed alternative strategy for the whole of the Corporation was worked out.

Background to Preparation of the Plan

3 The BSC's financial record since the mid-1970's has been extremely poor. In all but one of the last five years, the Corporation's loss (after interest) has been of the order of 10% of turnover or more. The causes are several and varied; they include the consequences of the overambitious 10 year development plan of 1972 (which envisaged a BSC steelmaking capacity of 36-38m tonnes in first half of the 1980's), the chronic overcapacity of the European steel industry since 1973 (with the consequent weak price levels), delays in closing surplus or obsolete plant, poor labour productivity, and lack of vigour in marketing.

4 1980 was a year of radical change for BSC:

- i) In December 1979, the Corporation announced a plan to reduce manned steelmaking capacity from 21½m tonnes to 15m tonnes involving the closure of Consett and the halving of capacity at Port Talbot and Llanwern as well as the previously announced closures of steelmaking at Corby and Shotton and the full commissioning of new



plant at Redcar/Lackenby and Ravenscraig, accompanied by a reduction in manpower in iron and steelmaking from 152,000 to 100,000. This programme is now nearly complete.

- ii) The 3 month strike at the beginning of 1980 worsened BSC's loss in 1979/80 by more than £200m. It also disrupted the UK steel market for the rest of the year, first through restocking after the strike (from which imports were the main beneficiary) then through a price-cutting drive by BSC as the Corporation attempted - with some success - to regain market share.
- iii) The position was then worsened further by a very substantial fall in UK demand in the later months of 1980, intensified by heavy destocking. In September and October 1980 the UK steel industry as a whole was working at only about half the level of the same months in 1979.
- iv) The European market for steel has also been extremely weak in recent months. Prices have been very low. For the first time ever the EC Commission had to impose production quotas on European steelmakers under Article 58



of the ECSC Treaty - partly because of the failure of continental producers to observe the voluntary ceilings on deliveries previously in operation. The quotas expire on 30 June 1981.

- v) The financial effects on BSC of weak demand and low price levels have been exacerbated by the combination of a rising sterling exchange rate and UK rate of inflation higher than that suffered by its continental competitors (notably Germany).
- vi) Following the appointment of Mr MacGregor as BSC Chairman from 1 July, the Corporation was reorganised in September into a series of distinct profit-responsible businesses, each covering a specific product range. The intention is to bring the production and marketing functions closer together, and to devolve more decisions to local management.
- 5 The private sector of the British steel industry did not escape these difficulties. Demand for their products in 1980 also fell by about half from 1979 levels. By the fourth quarter of 1980, all major private sector steelmakers (ie Duport, GKN, Hadfields, Sheerness) were known to be making heavy losses. Simultaneously with the preparation of their Corporate Plan, BSC have been engaged in discussions with these firms to rationalise their facilities in areas of overlapping interest. These

discussions assumed that there would be jointly owned companies into which the participants would transfer assets, and that there would be an agreed programme of closures. The proposals arising from these discussions were not sufficiently well defined for BSC to incorporate them in the Plan, except that the major BSC candidates for closure have been provided for in the Plan. Two joint companies are envisaged, one covering rod and bar, the other (and larger) covering engineering steels. If both companies come into being they will together absorb something like 15% of BSC's predicted turnover for 1981/2.

II The Issues for Ministers

6 The Chairman of BSC has said publicly that by any normal criteria BSC is bankrupt. The scale and duration of its past losses coupled with the present state of the steel market mean that it would be unrealistic to expect BSC to return to normal viability quickly, except perhaps by closing down the majority of its businesses. The BSC approach has been to give itself a period of up to six months to establish what parts of its businesses can be made viable by a combination of cost-reductions and improved efficiency (including improved product quality) on the one hand, and by a drive for increased sales on the other. By the end of the period the Corporation expect to have identified those parts of the business which in its view have a long term future, and to have disposed or decided to dispose of the rest (either by closure or sale).



7 The decision for Ministers therefore is, first, whether they wish to continue to support any further a business which is manifestly bankrupt. If they do, the next decision is whether they regard the BSC's Plan as sufficiently realistic to justify the cost of keeping it going until the future viability or otherwise of the various parts of the business can be more clearly established. In BSC's view this will be by July. If the answer to this question is "no", Ministers must then be prepared to justify publicly going against the judgement of Mr MacGregor, whom they appointed only nine months ago, and at unusual expense, with terms of reference "to restore BSC to enduring profitability". If the answer is "yes", Ministers will have to consider on what conditions they are prepared to provide the finance to carry out the Plan.

8 In reaching these decision, Ministers should be aware that the basis of the Plan is rather different from that outlined when they last discussed these issues in September 1980 (E(80)34th). At that time, Ministers had before them a preliminary assessment, drafted entirely at BSC headquarters on the basis of information available in July, with a BSC preferred option of between 12½-13m tonnes of manned steelmaking capacity, and an alternative of 7-8m tonnes capacity (the "lower case"). Ministers decided "to invite Mr MacGregor to proceed to a full evaluation of [his preferred option]; more fundamental options were not ruled out. There was no point in pursuing the lower case".



9 The rest of this paper assesses the risks to the Plan, and estimates the costs involved by reference to the consequences of a more rapid and extensive rundown of the Corporation, whether now or later.

III ASSESSMENT OF THE PLAN AND THE RISKS TO IT

10 A summary of the Plan is at Annex A.

11 The success of the Plan requires a major improvement in the internal performance of the Corporation, and a stabilisation of the external environment (volume and price of steel sales) at rather more favourable levels than existed in late 1980. For the purposes of this assessment we have taken "success" to mean achievement within narrow margins of BSC's financial objectives (profit/loss and cash), without further major closures, ie at the envisaged level of 14.4m tonnes of manned capacity.

A Internal Risks

12 The internal risks to the Plan relate to the achievement of the closures and demanning proposed, within a short timescale and without industrial relations problems, and the consequent achievement of the reduced costs and improved operating efficiencies the BSC envisages; and the extent to which the BSC can satisfy its customers on quality, delivery, and sales services.

13 Closures and Demanning The Corporation envisages reducing manpower by about 11,500 through closures and shift reductions, and by another 10,000 through reduced manning levels. It hopes to achieve the bulk of these reductions by the end of June; in some cases agreements may have been reached but implementation will take



longer. Past experience suggests that the closures will for the most part be more easily negotiated than the demanning. In the case of demanning, the generous severance payments will help to secure acceptance for redundancy, but the main risk in some areas will be that management will have difficulty in negotiating and subsequently implementing changed working practices. There appears to be no intrinsic technical obstacle to the level of manpower productivity the Corporation hopes to achieve in 1982 (8.5 man hours per tonne of liquid steel) when compared with recent German and French experience (7.0 and 9.2 respectively in 1979). Overall the prospects for success seem reasonable. The Corporation has managed to shed some 50,000 employees in the last 12 months, helped by a change of attitudes following the strike and the arrival of Mr MacGregor. And the outcome of the BSC and ISTC ballots is in effect a victory for BSC; the ISTC has said that there will be no national union action to hold up implementation of the Plan, and sullen acquiescence seems likely to be the prevailing view among national union officials. The Corporation has already secured agreement to the major closure in the Plan, at Normanby Park, and to the further rounds of demanning at Port Talbot and Llanwern.

14 Increased Output This will involve individual BSC plants, and the reduced workforces at them, in much higher throughputs than in the recent past. When combined with the demanning envisaged, labour productivity should improve from 135 tonnes per man year (TPMY) at the end of 1980/81 (a figure



depressed by low demand) to 211 TPMY by March 1982. There is clearly a major management task involved here (which will be helped by the productivity bonus scheme introduced last year), though on paper the targets look fully achievable. But the low level of throughput on many plants in recent years, due to chronic overcapacity, means that little firm evidence is available.

15 Pay BSC proposed a 6 month pay freeze from 1 January, followed by a general 7% settlement on 1 July; the normal settlement date of 1 January would apply again from January 1982. The gross cost of the 7% settlement is about £50m in 1981/2 (and £70m for a full year). No provision was made in the Plan as submitted on 12 December, but the BSC has now asked that the EFL for 1981/2 should be increased to £300m from the original proposal of £2750m to cover this. In the light of results of the BSC and ISTC on the Plan and the pay offer, there now seems to be a good chance that this offer will be accepted without industrial disturbance.

16 Attitudes to Marketing Although the cost reduction programmes outlined above are crucial for BSC, by themselves they are not enough. In the severely competitive environment in which BSC currently finds itself in the wake of the strike and the drop in demand in 1980, the Corporation acknowledges that it will need to pay a high degree of attention to the needs of its customers, both on quality and on general service. This is particularly true in the strip



products field, where double sourcing is especially common, and where BSC lost market share particularly heavily during and after the strike. There are signs that Mr MacGregor is injecting new dynamism into this aspect of BSC's operations. The September 1980 reorganisation should help. The Corporation has recently regained the 54% share of the UK market it enjoyed before the strike (principally at the expense of imports), though this recovery is by no means yet assured. It is too soon to expect firm evidence about BSC's longer term success in this area.

B External Risks

17 The external risks to the Plan relate both to the plausibility of BSC's central assumptions on the external environment in which they will be operating and the chances of significant deviations from these central assumptions. BSC's macro-economic assumptions about the development of the UK and world economy, including the level of demand for steel, accord with the views of officials as set out in the paper "Prospects for the Steel Industry" attached to E(80)139. The risks to the Plan arise in large measure from the sensitivity of the financial outcome to relatively small deviations from the BSC's assumptions. This in part reflects the competitive trading environment in which any steel business operates.

18 Sales Volume The BSC bases its estimate of the range of UK demand for steel as being - 1 mt to $\frac{1}{2}$ mt in 1981/2 on a central forecast of 12 $\frac{1}{2}$ mt tonnes of steel products, and they assume they can keep a 54% market share. As a result of

these possible variations, BSC's losses in 1981/2 would be from £45m greater to £35m less than the £175m they have estimated. In addition, for every 1% deviation from the 54% market share assumed, £13m would be lost or gained. Taken by themselves, however, these figures are highly theoretical, since profit or loss will depend predominantly not on volume but on the prices prevalent in the UK and European markets.

19 Steel Prices The Plan assumes a 1% fall in average BSC prices between 1980/1 and 1981/2, masking a 5-7% rise in BSC prices in the course of 1981/2 from the present low point (which will still leave BSC's prices only about 10-12% higher in early 1982 than they were 4 years earlier at the beginning of 1978). This gradual hardening during the year contributes significantly to BSC's forecast of an improving trend on profit/loss. But steel prices are notoriously difficult to predict, and will be affected by the speed and extent of capacity closures in Europe and the level of demand in Europe; by the extent to which a managed market in steel in Europe is maintained (via the Article 58 measures and by whatever may follow - see paragraph 21-22 below); and by movements in the exchange rate. The total effects of exchange rate changes are covered below, but a 5% shift in average UK steel prices over the year as a whole would cause a £125m change in BSC's results for the year, assuming no change in BSC policy. In practice, of course, price and volume are interlinked, and firmer prices would



tend to result from higher demand. Our doubts on the BSC's price assumption mainly relate to our doubts about the underlying assumptions, on the exchange rate and on the extent to which there is a managed market in Europe.

20 Exchange Rate Effects The most crucial currency for BSC in terms of impact on financial results is the Deutschmark (DM) which is the main determinant of BSC's competitiveness with European producers, since prices on the Continent tend to be set by German producers and denominated in DM. The dollar is of much less importance in its net effect on BSC's financial results, since the effect on BSC's sales is largely offset by the effects on dollar-denominated purchases of raw materials. For the Deutschmark, the BSC have assumed an average exchange rate for 1981/2 of 4.20 DM to the £. They have taken this figure as the centre of a range of forecasts of various UK and European institutions available in the autumn of 1980. The Deutschmark now stands at something over 4.80 and seems unlikely to fall as far as is implied by an average of 4.20 for the 1981/2 year as a whole. To give some indication of the effects on BSC's profit/loss, BSC estimate that a variation of just under 10% (ie to 4.60 or 3.80 from the central 4.20) results in a variation in BSC's profit/loss of some £200m. This is a theoretical calculation, and assumes no remedial action by the BSC management. The lags caused by customer loyalties or inertia will dampen the effects for a short period. But in time, a high pound would tend to make more plants less viable and so lead to further closures. The viability of the proposed joint companies with the private sector would also be at risk.

21 European Regime The Plan assumes the continuation after 30 June this year of at least that degree of protection presently provided by the mandatory production quota system operated by the Commission under Article 58 of the Treaty of Paris. To the extent that alternative arrangements, whether voluntary or mandatory, to bring capacity and supply into more sensible balance cannot be made effective on expiry of mandatory quotas, the probability of BSC (as a relatively high-cost producer) achieving its planned targets both in the UK and in other EEC markets is substantially reduced. Alternative strategies for BSC are expensive; either they will have to lower prices (but this will increase losses) or production volumes will be lower (thus increasing losses on that account).

22 The German government say they will not support any extension of mandatory arrangements beyond June 1981. But they may be prepared to support voluntary arrangements after June provided that the Community accepts that State Aids for steel should be phased out rapidly, with the effect that unprofitable capacity will be closed. This policy would have an immediate and severe impact on Italy, Belgium and Luxembourg, who are therefore unlikely to agree. But without such an agreement the German steel industry - which has a competitive edge over the rest of the EEC steel industry - would be likely to attack all the markets available to EEC countries. This would tend to drive the rest of the European industry - and the BSC in particular - into



heavier losses. Achievement of agreement within the EEC or even a temporary managed market will require continuous and vigorous pressure by the Government. It is very difficult to judge now whether we shall be able to achieve the kind of agreement we should want, even with such vigorous pressure. The chances of success are highly uncertain.

Overall Assessment of Risks

23 On balance, we judge that the Corporation are likely to come close to achieving their internal objectives on cost reduction. The major risks to the Plan lie on the external side. There is a serious risk that the average DM rate will be significantly higher than BSC's central assumption of 4.20, and that it will be markedly higher in the early months of the financial year. There is an equally serious risk that the present regime of production quotas under Article 58 will not be followed by a satisfactory scheme for retaining an orderly European steel market - or at least that there will be an undisciplined interregnum of several months in which BSC (and most other European steelmakers) would stand to lose large sums as a result.

24 Taking all these internal and external factors together, a 10% range about the central forecast in the plan is well within the bounds of possibility. This would mean results on profit/loss being better or worse by some £300m against a forecast loss before interest of £175m in 1981/2. This forecast already contains a contingencies allowance



of £100m (or £50m if the cost of the proposed wage increase is taken into account). The degree to which management action would be able to bring P/L back on course in 1981/2 would depend on the extent to which the problem was localised in particular product areas, and on the extent to which further closures resulted in better average margins on sales. Such action could result in an increased EFL requirement in 1981/2, and increased PSBR costs.

25 Achievement of BSC's objectives also depends on the timing of an upturn in steel demand (largely linked to the end of destocking) occurring as predicted. The DoI and Treasury also expect the stock cycle to turn in 1981 but the precise timing of these events is notoriously difficult to forecast. A delay in the upturn would both adversely affect BSC's results in 1981/2 and make sound judgments by July of future viability more difficult.

Risks for Particular Businesses

26 Strip Products As the Corporation themselves recognise, the risks are particularly acute in the strip business (forecast to employ about 28,000 under the Plan, including Tinplate etc). Strip products are to a large extent commodity products selling mainly on price. This part of the steel market is therefore more exposed to competitive pressures and to exchange rate movements. It is also (and not surprisingly) an area where past import penetration has been high, and where BSC lost ground especially heavily after the strike. Coupled with the medium term vulnerability of some of their major customers (BL, Talbot, domestic appliance manufacturers), this means that BSC's sales targets in this sector, and the margins

on them, are particularly at risk despite the Corporation's efforts to win new business (eg with Ford, General Motors). Nonetheless, BSC has chosen to go for a relatively ambitious programme in this sector, involving the retention for the time being of all three major integrated strip plants (Port Talbot, Llanwern and Ravenscraig). The Corporation justifies this on three main grounds. First, each of the three plants have different characteristics (eg Ravenscraig's continuous casting facilities, Llanwern's acceptability to the motor industry, Port Talbot's potentially low cost steel making) and at present closure of any one plant is not likely to benefit the prospects of the remaining two and could damage them. Secondly, if the volume and profit objectives are not achieved then the entire strip business is at risk, not merely a single plant. Thirdly, the BSC have said that the closure of one plant in July would have a neutral effect on their cash requirements in 1981/2 (ie the cost of closure would offset the savings arising from reducing a higher level of losses than envisaged in the Plan). The need to retain all 3 plants may diminish over the next 18 months or so as the current investment at Port Talbot increases the potential flexibility between the three plants.

27 General Steels: Teesside and Scunthorpe

There is a significant degree of potential steelmaking flexibility between Teesside (forecast to employ 12,600 under the Plan) and Scunthorpe (10,700), though at present Teesside concentrates on heavy sections and feedstock for



the tubes, pipes and rails businesses, while Scunthorpe concentrates on medium and lighter sections and billets for wire and rod manufacture. There is rather less flexibility between the two sites on rolling mill capabilities. Teesside continuously casts a higher proportion of its output than Scunthorpe. Teesside also has the newest and largest iron making facility in the Corporation, based on the large Redcar blast-furnace; in the Plan, this facility is planned to operate at the minimum viable level of production and any further reduction in steelmaking on Teesside would jeopardise its future and the heavy investment lying behind it. The iron and steelmaking facilities at Scunthorpe are more mixed in quality, but industrial relations (even with the closure of the smaller steelworks at Normanby Park) have historically been better. The new rod-mill at Scunthorpe is planned to form part of the first of the joint companies with the private sector (in this case GKN alone). If this company gets off the ground as expected, it will have a continuing requirement for billet from Scunthorpe, as long as the price is competitive. This need for competitiveness lies behind the BSC's proposal for significant capital expenditure (£65m) on billet casting at Scunthorpe. While both Teesside and Scunthorpe have strengths on which to build, there are also weaknesses which could jeopardise the future of either or both.

28 Sheffield/Rotherham Works

- a) BSC's engineering steels business is expected to employ some 12,000 under the Plan (following the part-closure



of the Templeborough works and the introduction of continuous casting there). It has always been one of BSC's relatively more successful businesses, and under the Plan is forecast to return to profit (before interest) at the start of 1981/2. The establishment of a viable joint BSC/Private sector company in this area would further enhance the prospects.

- b) BSC Stainless is forecast to employ some 3,600 under the Plan, mostly in Sheffield but also in South Wales. There has been heavy investment in new and tightly manned facilities in recent years. But the prospects of future viability depend heavily on BSC being able to win sufficient business at adequate margins to secure a satisfactory loading for these plants - which they have failed to achieve hitherto. BSC is predicting a loss before interest of more than 25% on turnover in the first quarter of 1981/2, and the business will inevitably be a candidate for closure (or sale) if there are not clear and early signs of improvement. BSC Stainless' vulnerability is heightened by its high proportion of export sales (well over 50%), which increases its exposure to external risks.



IV COMPARATIVE COSTS OF THE PLAN AND OF A RAPID RUNDOWN

Cost of the Plan

29. The main PES and PSBR cost of the Plan is the cost of the BSC request for an EFL of £730m in 1981/2. There are no firm estimates for subsequent years, but on a tentative basis we think that if the Plan succeeds the EFL for each of the two following years might be about £350m. These figures are set out in the Table below:

	£M (out-turn prices)			
	1981/2	1982/3	1983/4	Total
BSC funding requirement (PE and PSBR)	730	[350]	[350]	[1430]

There are some additional costs to the PSBR arising from lost tax revenues and higher benefit payments in respect of the 20,000 redundancies proposed. But since there is no alternative in prospect which would keep these jobs, it would not be appropriate to include these additional PSBR costs in any comparative calculation. There are no significant consequential costs arising from adverse employment effects on BSC's suppliers, since BSC's output is planned to rise in 1981/2 by comparison with 1980/1. The analysis is set out more fully in Annex B.

30 Possible remedial measures for areas affected by the Plan are under consideration in a separate Interdepartmental Group. The possibilities being considered range from a minimum response (involving mainly rephrasing of priorities on factory building and derelict land clearance, together with about £0.5m pa additional expenditure on MSC measures) to a maximum response including changes in Assisted Area gradings and costing about £20m pa. Majority opinion in that Group inclines towards the minimum response.

Costs of a more rapid and extensive rundown

31 We can only make broad estimates of the potential PES and PSBR costs of this course of action. We have estimated on the basis of a complete wind-up of all the Corporation's activities. This is a theoretical calculation since in practice it is likely that some of the Corporation's businesses would continue in a changed form. The principal costs of a rapid rundown to the BSC comprise the running down and closure costs (including compensation payments for broken contracts), and redundancy payments to the workforce (which we have assumed to be at the bare statutory requirement - continuation of BSC's generous severance terms of recent years could cost an additional £400m +). There would also be revenue from the sale of stocks and the release of working capital. Over a longer period there would be receipts from the sale of assets - we have assumed that this would be roughly the value of the land, since demolition costs roughly equal scrap values, and sales as going concerns would be unlikely to realise significant sums. The figures for BSC are

based on information provided by BSC in late 1980. There would be additional costs to the PSBR, over and above those arising from implementation of the job losses in the Plan, from losses of tax revenues and national insurance contributions, and higher payments of unemployment and social security benefits, contributions to statutory redundancy payments; and contributions to the ISERBS scheme. These additional costs would also be reduced by any sales of parts of BSC as going concerns, which would cut back the total loss of jobs. We have made the same assumptions in relation to the rate of reabsorption of labour as were made in the recent BL study. We have also taken into account the effect on BSC's suppliers, where we have assumed (on the basis of input/output tables) that in a rapid rundown of BSC, roughly one job would be lost in supplying industries for every job lost in BSC itself. This assumes that there would be no offsetting expansion in the private sector of the steel industry, and that decisions on eg redundancies in supplying industries would be taken on normal commercial grounds, ie that if suppliers could not find alternative markets they would run down production rather than produce for stock (one particular problem area in this context would be the coal industry, where BSC envisage purchasing some 4m tonnes of coal at a cost of some £150m from the NCB in 1981/2; removal of this business would exacerbate the NCB's own financial problems). See Annex B for further details. On the basis described above, the maximum costs of a rapid rundown of BSC would be as indicated in the following table.

PES AND PSBR COSTS OF A RAPID RUNDOWN OF BSC.

EM (out-turn prices)

	1981/2	1982/3	1983/4	Total
<u>Revenue/(Cost) to the BSC</u>				
- Realisation of current assets	700	-	-	700
- Sale of fixed assets (assumed mainly site values)	-	200	-	200
- Compensation and running down expenses	(400)	-	-	(400)
- Redundancy Payments**	(290)	-	-	(290)
- Interest Payments on BSC debt	(100)	(100)	(100)	(300)
- TOTAL cost to BSC (and hence to PES and PSBR)	(90)	100	(100)	(90)

Additional* PES Costs

(unemployment and social security benefits, redundancy payments, ISERBS)

(610) (310) (60) (980)

Additional* PSBR Costs

(Cost tax and NI revenues + additional PES costs)

(1230) (970) (240) (2440)

TOTAL additional* costs of a rapid rundown

- PES	(700)	(210)	(160)	(1070)
- PSBR	(1320)	(870)	(340)	(2530)

* These calculations show the additional cost of a rapid rundown of BSC as compared with implementation of the Corporate Plan job losses.

** basic statutory requirements only, i.e. no severance payments etc.

Comparison of Costs

32 The costs of supporting the Plan and of a rapid run down of the Corporation over three years are summarised in the following table:

EM (out-turn prices)

	1981/2	1982/83	1983/4	Total
<u>Funding the Plan (PES and PSBR)</u>	(730)	(350)	(350)	(1430)
<u>Rapid run down of the BSC</u>				
- PES	(700)	(210)	(160)	(1070)
-PSBR	(1320)	(870)	(340)	(2530)

N.B. In this table no account is taken of the costs to Government associated with the reduction in BSC manpower that flows from the implementation of the Corporate Plan since this is a common element to both the PE and PSBR costs of the Corporate Plan and a more rapid run down.

Effects of a rapid run down

33 A rapid rundown of BSC would lead to a direct loss of more than 100,000 jobs (about 130,000 if closure took place before the present closure and demanning plans were completed). If indirect job losses in supplying industries are included, the loss of jobs could rise to some 200,000. The impact would be particularly strongly felt in parts of Wales, at Scunthorpe, on Teeside, in the Sheffield/Rotherham ..

area, and in parts of Scotland. For example, unemployment in Ebbw Vale could go over 25%, and on Teeside and in North Lanarkshire over 20%, compared with a current national rate of about 9.4% and an average in Special Development Areas of about 14.4%. There would be strong pressure for a major package of remedial measures involving upgradings of Assisted Area status for most of the affected areas not already Special Development Areas, the cost of which would be about £15mpa, and a programme of advance factory building, the other main regional policy instrument available. For the latter to provide - as an illustration - space for jobs for 10%-20% of the jobs lost would cost about £180m-£360m over 3 years. No account has been taken of any possible remedial measures in the tables set out in paragraphs 31-32 above.

V COSTS OF DELAYING A RUNDOWN UNTIL JULY

34 This section compares the costs of a rapid rundown of BSC now against the total costs of running down in July as a result of the Plan failing. The purpose of this calculation is to demonstrate the amount of money the Government would be putting at risk by accepting the Plan. In practice, decisions on closures will be taken during the six month period rather than in a single review in July, but for the purposes of calculation we have had to assume the latter, since the intermediate positions are unknown. This calculation therefore provides an estimate for the extreme case. It is an overestimate of this extreme case to the extent that more parts

of BSC's businesses will become potentially viable as a result of the slimming that has taken place in the interim. There would be consequential savings on PSBR costs from any additional employment saved, both in BSC and elsewhere.

35 In considering this section it is necessary to bear in mind that it is not clear whether a rapid rundown now would be within the powers available under existing legislation (the Iron and Steel Act 1975). It would therefore be necessary to accelerate the passage into law of the forthcoming Iron and Steel Bill, which will remove the BSC's present duty to supply iron and steel products.

36 The extra costs of delay until July comprise an additional six months losses before interest, plus six months capital expenditure (net of depreciation), plus the increased cost of the 20,000 redundancies envisaged by BSC over this period at BSC's normal severance terms as compared with the bare statutory terms presumed to apply in the event of a rundown equivalent to liquidation. The total figure works out at between £350m and £450m.

VI CONCLUSIONS

37 The view of all Departments represented on the Group is that there are serious downside risks to BSC's proposals, as outlined in this Corporate Plan. But, although there are linkages between various parts of the Corporation's activities, BSC do not claim that the business stands or falls

as a whole (unlike EL). We are not being asked to commit ourselves to a long-term programme of investment - indeed BSC has recently completed a heavy programme of investment (again unlike EL). Mr MacGregor has assured Ministers, and told his workforce, that he will implement further closures and cut-backs if performance and prospects do not justify the retention of the facilities in question. In the light of this, and of the difficulty Ministers would face in challenging Mr MacGregor's judgement on the commercial prospects of the Corporation (which would be implied by a rejection of the Plan or major modifications to it), the Group see no practical alternative to accepting the Plan and backing Mr MacGregor.

38 If Ministers accept this view and continue to fund the BSC as a going concern for at least the next 6 months, then a number of consequential issues arise for Ministerial decision which are discussed below.

VII CONSEQUENTIAL POINTS FOR DECISION

Profit Target

39 For a trading concern such as BSC, a profit target is a more relevant objective than an EFL; in certain circumstances the appropriate commercial response to market conditions, aimed at medium term profitability, may not be readily compatible with a previously fixed and rigid constraint on external finance. A clear and announced programme for loss reduction is also the only one consistent

with our stated policy on State Aids for the steel industry (see paragraph 45). We therefore recommend that BSC's primary objective for 1981/2 (and future years) should be expressed in terms of a profit target, with the EFL as a constraint rather than the principal objective. The BSC Plan envisages a loss (after depreciation and contingency provision, before interest and tax) of £175m in 1981/2, not taking into account the estimated £50m cost of the pay settlement. We suggest that the figure of £175m should be formalised into a firm target and announced as such.

40 The Plan implies that the Corporation will be virtually at breakeven in the final quarter of 1981/2. It seems reasonable to set a target for 1982/3 of breakeven for the year as a whole, and to announce it now, since knowledge of the target must affect decisions to be taken in the course of 1981/2.

External Finance Limits

41 It is also necessary for Ministers to decide and announce a final EFL for 1980/1, and to set the EFL for 1981/2. As regards 1980/1, Ministers have already earmarked a further £200m for BSC on top of the current figure of £971m. BSC now tell us that only £150m of this will be required, including provision for accelerated redundancies costing about £12m.

42 As regards 1981/2, the BSC requested an EFL of £750m. The capital reconstruction would enable it to be reduced by £60m (in respect of reduced interest payments), and accelerated redundancies could permit a reduction of a further £12m (rounded here to £10m); the Corporation has asked for an additional £50m to cover the pay settlement. This leads to a revised total of £730m. We recommend that Ministers should agree to this total. It is in practice likely to leave the BSC with some margin for manoeuvre with which to cope with some adverse movements either internally or externally; conversely, if all went well, an undershoot would be possible.

Monitoring Arrangements

43 We think it important to establish with BSC arrangements, based on the management information system the Corporation itself is introducing, which will enable us to observe progress towards the BSC's profit and cash targets, and to spot deviations promptly. The task of monitoring and decision taking will be particularly difficult in 1981/2, principally because it is expected that half the target loss will fall in the first quarter, leaving little margin for error thereafter, but also because (as noted in paragraph 25 above), achievement of the Plan depends to a significant extent on the turn in stock cycle occurring to forecast. The task of monitoring progress and taking decisions must be for the BSC and not for Ministers, even though plant closures may prove necessary. But if things

go badly wrong, and BSC is forced into a major mid-year reassessment, then Ministers may well have to look again at the EFL for 1981/2; Mr MacGregor has promised to give early warning of any major closures, so that Ministers can consider the need for a further package of remedial measures for the areas affected.

44 We also recommend that BSC should be required to give Ministers a progress report in July, and to submit a further Corporate Plan for the 3 following financial years to the Government as early as possible in the autumn.

European Aspects

45 (i) As noted in paragraphs 21-22 above, the Plan assumes continued discipline on the European market after the present Article 58 measures expire in June. If Ministers endorse the Plan, they will have to make strong efforts to secure some form of discipline in Europe for post-June. It is important to find a form of discipline which avoids the British consumer of steel having to pay a higher price for steel than their European competitors have to pay.

(ii) It will also be necessary to obtain the EC Commission's acquiescence to the level of Government finance envisaged, under the terms of the State Aids decision.

Other Considerations

There are a number of other more detailed points on which we recommend as follows:-

46 i) Capital Investment

The capital investment programme proposed by BSC would cost £198m (net of RDG) in 1981/2. It is very modest by comparison with past levels and largely comprises the completion of schemes in progress together with small new schemes the Corporation regards as being essential. But the BSC are proposing to start preliminary work on two new projects of major significance for their future - a billet caster at Scunthorpe and major refurbishments to the hot strip mill at Port Talbot. Since these projects cannot be assessed against an approved medium-term plan (as one does not now exist), and because a control on new capital expenditure is certain to be a feature of EC Commission approval, we recommend that the Corporation should not be permitted to commit significant funds to either of these projects without providing the Government with fuller justifications for them.

ii) Redundancy Payments

The Plan makes provision for £195m for redundancy and closure costs in 1981/2 (£168m if site clearance and deferred

Consett severance payments are left out). This high figure reflects BSC's policy of generous severance terms in respect of both closures and (since a year or so ago) major demanning exercises. They are well in excess of anything the private sector could afford. The BSC justify the policy partly on historical grounds, but also on the ground that it is the only way of securing agreement to major demanning proposals. We accept this view. But generous severance payments are not normally a privilege afforded to employees of a bankrupt or near-bankrupt concern. The majority of the Group felt that Mr MacGregor or the Government (as appropriate) should make clear now that the present level of severance payments could not necessarily be maintained if the Plan failed. The BSC have already used this tactic to some extent. The main point at issue is whether or not it would be helpful for the Government to make the point in public. A minority of the Group felt that such a policy was likely to prove counter-productive in industrial relation terms and that the established scale of payments should only be abandoned or drastically reduced in the extreme case of a complete collapse of BSC.

iii) Companies Act Structure

The BSC has established a series of new profit-responsible businesses under its reorganisation of September 1980. We recommend that the Corporation should be encouraged to convert some or all of these businesses (and some of the previously existing ones) into subsidiaries subject to the Companies Acts. This would have two advantages

- (a) It would require each subsidiary to produce separate audited accounts, and would therefore expose major lossmaking businesses to a more critical public scrutiny (eg by private sector competitors). At present the BSC produces little detailed information other than at the Corporate level.
- (b) It would prepare the way for the introduction of private capital into some of these subsidiaries as and when circumstances permitted.

MAIN FEATURES OF THE BSC PLAN

A1 Against the background of a disturbed and weak market, a substantially changed plant configuration which had never been fully tested and a new organisational structure, the Corporation have concentrated on producing a short-term recovery plan.

A2 The main features of the Plan as presented to Ministers in December 1980 are as follows.

A3 Financial

- (i) It covers the 1981/82 financial year only with no financial or detailed commercial projections for future years.
- (ii) It forecasts a reduction in trading loss (before interest) from an estimated £480m in 1980/1 to £174m in 1981/2.
- (iii) It proposes an EFL for 1981/2 of £750m, subsequently raised to £800m following progress towards a 7% pay settlement from 1 July (of the present EFL for 1980/1 of £971m, which may have to be increased by a further £150m).

A4 Commercial The BSC's central assumptions on the evolution of the UK and world economy and the market for steel accord closely with the paper by officials on Prospects for the Steel Industry attached to E(80) 139. The Corporation has also projected

- (i) a return to the 54% share of the UK market they enjoyed before the strike, principally at the expense of imports (indeed they expect BSC to hold a marginally smaller share of the UK market than before



the strike in the two main sectors of the steel market where they compete with the Private Sector). Much of this recovery has already been achieved, but the recovery is not yet assured, given the low level of UK steel demand;

- (ii) a 1% fall in average BSC prices between 1980/1 and 1981/2, though they do expect a 5 - 7% rise in BSC prices in the course of 1981/2 from the present low point (which will still leave BSC's prices only about 10 - 12% higher in early 1982 than they were 4 years earlier at the beginning of 1978);
- (iii) BSC exports are forecast to increase from 2.29m tonnes in 1980/1 to 2.72m tonnes in 1981/2. This compares with a historical range of 2½ - 3¼ tonnes of BSC exports in the previous four years.

A5 Production/Operations Total manned liquid steelmaking capacity will be reduced from 15.2m tonnes per year to 14.4m tonnes per year. This includes the closure of Normanby Park (the smaller and older works at Scunthorpe), now agreed, and a major reduction in capacity at Templeborough (Rotherham); it also involves significant changes in the rated operating levels for almost all the other major steelmaking sites, with increases at Port Talbot, Llanwern and the larger Scunthorpe plant being offset by the closures and a reduced level of working at Redcar/Leeds. There are also a number of closures or shift reductions



at rolling mills and other downstream or ancillary operations, notably in tinplate and coke making. The intention is to improve the loading of the plants that remain and thereby reduce unit costs. The closures and shift reductions involve some 11,500 redundancies.

A6 BSC intend to reduce manning levels at the remaining plants by about a further 10,000 with the bulk of the reduction achieved by the end of June. There are however a number of new schemes, including two of major long term significance for the future of the Corporation: these are a £65m proposal for a billet caster at Scunthorpe and a £49m proposal for a refurbishment of the hot strip mill at Port Talbot. Expenditure on these projects in 1981/2 is forecast at £5m and £3m respectively, and the Corporation say that neither project will be released for other than preparatory work until it is demonstrated that the business is on course in its Corporate Plan.

A7 The Corporation proposes to review the progress made by each business towards the objectives set out in the Plan by July 1981. If the planned improvements in performance are not achieved, whether for reasons internal to BSC or due to external developments over which they have no control, the Corporation envisage taking firm action designed to bring them back on to the financial path they have outlined. The severity of the action would clearly depend on the nature and scale of the shortfall in performance; it could involve the closure of one or more of the Corporation's major integrated works, none of which has an assured future in present circumstances.



ANNEX B

THE COSTS OF THE BSC CORPORATE PLAN AND THE EFFECTS
OF A RAPID RUNDOWN OF THE CORPORATION

Methodology

B1 The consequences for the public sector borrowing requirement of the BSC's Corporate Plan and its alternatives can be calculated from the following components:

(a) The cost of statutory redundancy payments

Part of this (41%) comes out of a fund paid for by employers' contributions to the National Insurance Scheme and the remainder is paid for by the BSC. In 1980/81 the average payment to steel workers is expected to be £1,700; since the payments depends on earnings which are assumed not to increase in 1981/82, the 1980/81 figure will be used for redundancies occurring in 1981/82. In addition to this, the BSC pay a supplement equal to 50% of the total statutory redundancy pay.

(b) The loss of taxation and additional unemployment and Social Security benefits. The methodology used

to calculate the public expenditure cost of unemployment and social security payments and the additional cost to the PSBR caused by lost taxation and national insurance payments was the same as that used in the analysis of the ^{B1} Corporate Plan. Insofar as each lost BSC job results in a net addition to unemployment the PSBR cost is £4,660 per 12 months in 1981/82 and 1982/83; and £4,905 in 1983/84 (at outturn prices).

(c) Iron and Steel Employees Readeption Benefits Scheme (ISERBS). Steel workers made redundant as part of schemes designed to reduce capacity



for making ECSC steel products are eligible for ISERBS payments. The average payment is currently expected to be £2,300 in 1981/82, of which the Exchequer pays 55% and the ECSC the remainder. BSC provide an equivalent scheme for workers making non-ECSC products, but this is wholly paid for by the Corporation.

(d) Severance Payments. These are negotiated between the Unions and the BSC, and under the Corporate Plan the BSC expect that these will average about 3600 per worker in 1981/82.

(e) Closure Costs. In the event of a rapid rundown of all or parts of the BSC, there are associated disposal costs and receipts. In November last year the BSC provided an assessment of the financial implications of this (see Appendix I), and many of the figures used in that paper will be used here.

(f) Regional Development Grant. Insofar as capital expenditure is incurred by the BSC in development areas, this attracts Regional Development Grant. In 1980 this amounted to about £30m.

B2 In calculating PSBR costs, some of the above elements do not depend on the length of time the steel worker is without employment, or the extent to which



he gains employment at the expense of other workers: the statutory redundancy payments are, for example, unaffected by this, as are the lump sum payments by the BSC. This is not so, however, in the case of social security payments, unemployment benefit, and lost taxation, and it is therefore necessary to make a judgement of the net employment repercussions of unemployment.

B3 In the review of the BL Corporate Plan, the Official Group recommended that in the current economic circumstances it is unlikely that there will be any net reabsorption of labour for the first two years following any redundancies in and the third year, 25% of those made unemployed as a consequence of the steel redundancies will gain employment. In view of the similarities between the circumstances of the two concerns, the same assumption has been used here.

B4 Those employed in the BSC are not, however, the only ones who would be affected by different courses of action. As can be seen from the Table I, taken from the 1972 Input/Output tables, there are a considerable number of workers in industries outside the steel industry who supply services and materials to the steel industry. These figures are, however, rather old, and there have been a number of important developments since then. The principal change has been the increase in the import component of the purchases of the steel industry. For example, the proportion of imported coking coal has increased from 8% in 1972 to about 40% in 1980, and for iron ore the proportion has increased from 50% in 1972 to nearly 90% in 1980. The effect of these changes suggests that the ratio of employees in industries supplying the steel industry, to those outside is now probably in the range 0.8 - 1.2.



Table I: Employees in Industries Supplying the Steel Industry per 100 Employees in the Steel Industry.
(Source: 1972 Input/Output Tables)

Industry	Number Employed in Supplier Industries for every 100 employed in the Steel Industry
<u>Total</u>	128
Of Which employed in:	
Coal Mining	20
Iron Casting	8
Mechanical Eng.	6
Other Metal Goods	8
Building Materials	5
Railways	6
Road Transport	8
Distributive trades	19

B5 This does not, however, imply that every 100 redundancies in the steel industry results in somewhere between 80 and 120 redundancies outside. Redundancies in the steel industry caused by demanning, for example, have no effect on supplier industries since the same amount of steel is produced. But even where output reductions do occur, there is no simple relationship between lower steel industry output and supplier industry employment. In some instances the withdrawal of BSC business will result in a redirection of some or all of the supplier industry output to other outlets; in other cases, the loss of BSC business may precipitate the liquidation of a whole company in which non-BSC work is also carried out; in the NCB, where closures take some time to effect and raise industrial relations difficulties, the loss of BSC



business will have a greater and more prolonged impact on the NCB's trading losses before any effects are felt on coal industry employment. These interactions are complex and their net effect cannot be satisfactorily computed; for the purpose of calculating total PSBR costs the assumption has been made that for every 100 tonnes of steel not produced, there is a net increase in unemployment outside the steel industry of 1 man (this is in line with a 1 for 1 ratio of men inside the steel industry to men in supplier industries).

Costs of the BSC Plan

B6 The direct public expenditure and PSBR costs of the BSC Plan are £730m in 1981/2, and (very tentatively) £350m in 1982/3 and £350m in 1983/4.

B7 There are other additional costs to public expenditure and the PSBR arising from the Plan. These are set out in Table II below.

Table II: PSBR Costs of BSC Corporate Plan (Out-turn)

	£m		
	1981/82	1982/83	1983/84
<u>Additional Costs to Government arising from 20,000 BSC job losses</u>			
- Loss National Insurance/Tax/Social Security	100	100	200
- Redundancy Fund Payments	12	-	-
- Government contribution to ISERBS	9	-	200
<u>Total Additional Costs to Government</u>	121	100	400



The costs to Government in 1981/82 arise as a direct consequence of the job losses set out in the Corporate Plan. This is a considerable cost and means that measures designed to improve labour productivity in the industry will almost invariably entail higher short-term PSBR costs than would be the case if the redundancies were not made. For example, if the plan was implemented in all respects other than demanning, the wage bill would be about £75m higher (£7,500 x 10,000 men); on the other hand payments by the BSC would be about £100m lower, and payments from government about £50m lower. The first year financial disbenefit to the PSBR of demanning is therefore £75m, and on the assumptions about labour displacement set out above, it is only in the third or fourth years that the cumulative financial balance starts to favour the policy of improving the productivity of the steel industry.

B8 However, these additional costs to government are for practical purposes unavoidable; there is no alternative currently available which would retain these jobs. In comparing the costs of the Plan with e.g. a more rapid rundown we have therefore ignored these costs.

Costs and Effects of a Rapid Run-down of BSC

B9 The PSBR consequences of a rapid run-down of the BSC are set out in Table III. The top half of this table shows the total costs to the BSC of a rapid run-down (equivalent to liquidation) and the various elements within the total: these are the costs that would concern a liquidator or receiver in a private sector wind-up. The lower half of the Table shows the additional PES and PSBR costs associated with making the post-Corporate Plan number of BSC employees redundant, plus the costs of redundancies in supplier industries. No account is taken in this table of the possible cost of remedial measures. In making these calculations we have in some



cases departed from the assumptions made by BSC in their own estimates (see Appendix I). These are:

(a) Borrowings - In the BSC paper on liquidation, £300m was included in the first year for the repayment of short-term loans and interest on long-term loans. We have ignored the repayment of loans on the grounds that BSC's short term borrowing already counts against the PSBR. On interest payments, all calculations assume that the proposed capital reconstruction has taken place; but here also the burden of debt interest will remain whether or not the BSC continues in existence.

(b) Redundancy Pay - The BSC paper discusses the costs of three alternative forms of redundancy pay: the "Hartlepool" level; the statutory payment, plus a negotiated supplement; and what is called "bare statutory". There is a considerable difference between them (£430m), but for the purposes of this paper only the third alternative of basic statutory payments has been used.

(c) Non-BSC Payments - The costs advised by the BSC on national insurance, tax and social security have been used in Table III in preference to those put forward by the BSC in Appendix B.

B10 The cost of liquidating the BSC shown in Table III almost certainly overstates the level of PSBR costs associated with this option since:

- (a) No allowance is made for the sales of any part of the BSC business as a going concern. It may not be possible to get much cash for the

PES AND PSBR COSTS OF A RAPID RUNDOWN OF BSC



£M (out-turn prices)

	1981/2	1982/3	1983/4	Total
<u>Revenue/(Cost) to the BSC</u>				
- Realisation of current assets	700	-	-	700
- Sale of fixed assets (assumed mainly site values)	-	200	-	200
- Compensation and running down expenses	(400)	-	-	(400)
- Redundancy Payments**	(290)	-	-	(290)
- Interest Payments on BSC debt	(100)	(100)	(100)	(300)
- TOTAL cost to BSC (and hence to PS and PSBR)	(90)	100	(100)	(90)

Additional* PES Costs

(unemployment and social security benefits, redundancy payments, ISERBS)	(610)	(310)	(60)	(980)
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Additional* PSBR Costs

(Cost tax and M.I. revenues + additional PES costs)	(1230)	(970)	(240)	(2440)
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TOTAL additional* costs of a rapid rundown				
- PES	(700)	(210)	(160)	(1070)
- PSBR	(1320)	(870)	(340)	(2530)

- * These calculations show the additional cost of a rapid rundown of BSC as compared with implementation of the Corporate Plan job losses.
- ** basic statutory requirements only, i.e. no severance payments etc.



business itself, but there could be important PSBR savings arising from lower tax; national insurance etc losses. For example, if part of the Corporation employing 20,000 is saved, this would reduce the PSBR cost shown in the Table by about £200m.

- (b) No allowance has been made for increased employment opportunities in the private sector of the steel industry, and the consequent reductions in unemployment and social security payments, and increase in tax revenues.

TABLE IV: Comparative Costs of Supporting the Plan and of a Rapid Run-down

	£m (out-turn prices)			Total
	1981/82	1982/83	1983/84	
Funding the Plan (PES and PSBR)	(730)	(350)	(350)	(1430)
Rapid run-down of the BSC				
- PES	(700)	(210)	(160)	(1070)
- PSBR	(1320)	(870)	(340)	(2530)

N.B. In this table no account is taken of the costs to Government associated with the reduction in BSC manpower that flows from the implementation of the Corporate Plan since this is a common element to both the PE and PSBR costs of the Corporate Plan and a more rapid run-down.



Comparison of Public Expenditure and PSBR Costs

B11 The PSBR costs set out in Table III include some costs that are classified as public expenditure (redundancy payments, social security payments etc), and some which relate not to expenditure but to the loss of government revenue (lost taxation, lost national insurance payments). Table IV distinguishes between these two types of costs for the alternatives of supporting the Corporate Plan and running down the BSC rapidly. It shows that in the event of no parts of the BSC being salvaged following a run down, and no addition to employment in the private sector of the steel industry (the extreme case), public expenditure under this option would be less than the public expenditure associated with the Corporate Plan over the period 1981/2 - 1983/4, but the PSBR would be up to £1.1bn greater over the period.

No account has been taken of the possible costs of any package of remedial measures that might be adopted.

The Wider Effects of a Rapid Run Down

B12 In view of the size of the BSC, decisions on its future can have wider macro-economic effects. For example, a rapid run down of the BSC might ultimately affect the exchange rate via a worsened trade balance for steel; higher levels of unemployment might influence real wages and inflation; and the higher PSBR might increase UK interest rates. The overall economic impact of these factors cannot be assessed with any confidence or precision, particularly since it is not sensible to view such problems in isolation from developments in fiscal and monetary policy. What is clear, however, is that in the first two years or so, following a rapid run-down of the BSC there would be a lower level of GDP, a lower level of exports relative to imports, and higher unemployment than would otherwise be the case.



At a more local level, expenditure multipliers can be substantial. However, in view of the relatively generous level of redundancy payments associated with closures, it may be some time before lower employment incomes have a significant effect, and by that time remedial measures may be having some offsetting multiplier effects.

BSC ESTIMATE OF THE COSTS OF LIQUIDATING BSC (LATE 1994)

in £ million.



	(1)	(2)	(3)
<u>Realisation of Current Assets</u>			
Stocks (3/4 of book value)	540		
Debtors less creditors	160		
	<u>700</u>		
<u>2 Payments</u>			
Repayment of short term borrowing	(300)		
Compensation for broken contracts (losses)	(200)		
Additional costs of running down 13 weeks at £15m per week	(200)		
Redundancy pay (130,000 employees):			
(i) Hartlepool level	(730)		
(ii) Statutory & negotiated supplement		(420)	
(iii) Bare statutory			(300)
Net cost of 1 and 2 above:	<u>(730)</u>	<u>(420)</u>	<u>(300)</u>
NB: Costs incurred immediately, receipts over a period			
<u>3 Fixed Assets</u>			
<u>Plant and Buildings</u>			If demolished, cost of demolition approximates to scrap value.
<u>Land</u>			When cleared = £20,000 per acre (East Moors for example)
			10,000 acres of operational land = £200m.
NB: The above assumes no sales of BSC businesses as a going concern.			
<u>4 Borrowings</u>			
Repayment of short-term borrowing already included in 2 above.			
Long-term borrowing (other than MLF) totals £650m which would require repayment of servicing at annual cost of about £70m pa. (Probably total cost of £300 million in 1981/82).			

5 Social Costs



LOSS of PAYE

Per Annum
Per Head

Loss of National Insurance

1230

Employee 350
Employer 700

1050

2280 x 130,000

HMG cost of redundancy and ECSC
readaptation

1200 x 130,000

Social Security £2080 pa x 130,000

BSC employees

Effect on service/supply industries

Assume 1:2 50% of (290)+(260)

Total (social cost)