



From the Minister

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
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The Rt Hon Michael Heseltine MP
Secretary of State for Defence
Whitehall
LONDON SW1A 2HB

18 July 1984

FUTURE OF FISHERY PROTECTION ARRANGEMENTS

As your officials will be aware, we have been carrying out a thorough review of our fishery protection arrangements, which involve the Royal Naval Fishery Protection Squadron and the Nimrod aircraft used by the RAF for offshore surveillance. I am writing to let you know the conclusions of our review and to seek your agreement, and that of other colleagues concerned, to the way we should take this forward from here.

The main background to our review has been the substantial change in the emphasis of fishery protection work over recent years. In the days when we had a three or even a 12 mile fishing limit and a substantial proportion of our fishery fleet operated in distant waters, the tasks of catching poachers inside our limit and of protecting the interests of our fishermen in international waters were pretty closely aligned to the Navy's traditional responsibilities for protecting our national maritime rights and interests. Today, however, with the establishment of 200 mile fishing limits and the virtual disappearance of our distant water fishing fleet, the task of fisheries protection has changed to one of enforcing the various, essentially technical, conservation provisions of the Common Fisheries Policy, including the quota control measures applying to our own fishermen.

We have therefore considered whether this task could be carried out more appropriately and more economically using equipment of a type more suited to civil rather than military duties. Our conclusion is that this is indeed possible and that, moreover, we could transfer a significant amount of work from the public to the private sector by civilianising this work and contracting out both the sea-going fishery protection work in England and Wales and the related offshore surveillance at present carried out by the RAF. DAFS already have a civilian fisheries protection fleet and this would assume responsibility for all that work in the waters off Scotland.

/We see two ...

We see two particular advantages from such a course. The first would be that we would have much more direct control over the operations carried out on our behalf. Whilst the support provided by the Royal Navy and the Royal Air Force has been in the highest traditions of those two services, there can be no doubt that the need to work through their respective operations networks increases the difficulties of dealing urgently with situations which arise on the high seas. An essentially civilian fleet working directly to the Fisheries Departments would greatly reduce that problem.

... The second advantage would be a substantial reduction in the costs to the Fishery Departments of operating the protection and surveillance services. I attach a note which summarises the present level of resources devoted to these tasks and our estimates of the resources needed if we were to contract the work out. The figures for costs of the present system are, of course, based upon the estimates of your own Department. The figures for the costs of the new system we envisage relate only to Fishery Department expenditure and do not allow for any changes in expenditure by your Department. Nevertheless, I hope you would agree that officials should get together at an early date to look at these together with related matters such as the proposal that we and the Scottish Office should take over 5 of the ISLAND class vessels and in return release the 2 CASTLES for sole use for defence purposes.

There is one further point. I have naturally considered all this in terms of my interest in fishery protection, but I recognise that there is, of course, another important customer involved in the use of the present forces: the Department of Energy. Their requirements are not exactly the same as ours, but we have been in close touch with them and I think they would support the principle behind our proposals of obtaining the best service at the lowest cost. I understand that they are currently undertaking an internal review of their requirements, but this need not in my view delay the discussion by officials of these proposals.

Subject to the outcome of these studies, it seems to me that there is a very strong case for civilianisation and contracting out fishery protection work for England and Wales, an approach which would fit in very closely with the discussion we had recently in Cabinet. I hope, therefore, that this can be looked at as a matter of relative urgency with a view to reaching decisions at an early date and to making any announcement at, or soon after, the beginning of the next Parliamentary session.

I am sending copies of this letter to the Prime Minister, the Chancellor of the Exchequer, the Secretaries of State for Industry, Energy, Scotland, Wales and Northern Ireland and the Secretary to the Cabinet.

James F. ...
Michael ...

MR IAEL JOPLING

REVIEW OF FISHERY PROTECTION ARRANGEMENTS: CONTRACTING OUT

Surface Patrol Vessels

1. Sea-going fishery protection is currently carried out by 16 vessels of the Royal Naval Fishery Protection Squadron : 7 TON class, 7 ISLAND class and 2 CASTLE class. Their efforts are devoted primarily (though not exclusively) to the waters off England and Wales, the main fisheries protection task in Scottish waters falling to the 7 vessels of the DAFS fishery protection squadron.
2. Under the existing agency agreement, the running costs of 7 of the RN vessels (5 ISLANDS AND 2 CASTLES) are divided between MAFF, DAFS, WOAD and Department of Energy. These amounted to £8.9m at 1983 prices. The Fisheries Departments also contributed £12m to the capital costs of the 2 CASTLES and will be expected to contribute about £19m to the building of 2 new CASTLES which the MOD advise are necessary to replace the obsolescent TON class vessels. These payment arrangements reflect the fact that the 5 ISLANDS and 2 CASTLES are fully dedicated to protection work, whereas the TONS and the other 2 ISLANDS exist for defence purposes but contribute to offshore protection as necessary in order to enable the required deployment level to be sustained.
3. All 3 classes of vessel were designed primarily with military requirements in mind and the CASTLE class in particular are designed substantially to fulfil a wartime role, being considerably more elaborate than anything that would be needed for fishery protection work. The Royal Navy's traditional operating and manning system, established in relation to its own operational requirements, results in a relatively low rate of utilisation of the vessels; of the present total of 16, the average rate of availability throughout the year is only 6.5 vessels, This is understandable in relation to normal naval requirements, but is much lower than the rate of availability which could be achieved by vessels dedicated solely to civilian purposes.

4. In view of these factors, and the need of the accountable departments to ensure that the means we employ to implement the protection programme are the most cost-effective in the light of current objectives, MAFF has examined alternative ways in which an equivalent coverage could be achieved.

5. MOD has confirmed that, if both the civil tasks were withdrawn, there could no longer be an offshore patrol requirement for either the 5 ISLANDS or the 2 CASTLES. Against this background, the most cost-effective option identified would be one under which MAFF would take over 4 ISLANDS and operate them through a private contractor, while DAFS would take over the fifth ISLAND to deal with that part of the fisheries protection task in Scottish waters currently provided by the Royal Navy. In return, it is proposed that the 2 existing CASTLES should be kept for sole use by the RN for defence purposes. On the basis that their combined present day value is estimated at £24m and that Fisheries Departments contributed 75% of their cost, the exchange of value would represent a slight resource gain to the MOD, given that the combined written down value of the 5 ISLANDS is estimated to be £17.5m.

6. A cost effectiveness analysis, the results of which are summarised at Annex A, indicates that we could expect the discounted equivalent annual cost of operating the 4 MAFF ISLANDS through a private contractor to be approximately £3.4m at 1983 prices. This compares with a discounted equivalent annual cost of £9.1m under a continuation of the present arrangements. DAFS operational costs for the fifth ISLAND vessel to be taken over are estimated to be under £1m compared with their contribution of about £2½m to MOD costs.

7. The savings for MAFF PES are summarised below. As far as MOD is concerned, it would cease to receive repayment for the operation of the 5 ISLANDS and 2 CASTLES. But given their full dedication to protection work, and our payment of full costs, this ought to be matched by a corresponding decrease in MOD expenditure. The opportunity to use the 2 CASTLES solely for MOD purposes should produce some savings in MOD expenditure in that this would remove the need to purchase 2 new CASTLES which the RN at present proposes to replace the TON class vessels (which are required for a defence role).

* figures to be supplied by DAFS

Aerial Surveillance

8. The Nimrod aircraft used by the RAF for offshore surveillance are more sophisticated than is required for the type of surveillance needed for fisheries protection: in particular their high patrol speed and limited visibility hinder the task of identifying and recording. Moreover, although the cost to the customer departments has been alleviated to a degree by the recent change to marginal costing, the charges still remain high in comparison with the costs of operating simpler civilian aircraft.

9. Investigation has shown that offshore surveillance could be conducted satisfactorily by smaller and less sophisticated aircraft at a much lower cost. Actual costs would depend upon the type of aircraft selected, but studies carried out indicate that the task could be carried out by 2 civil aircraft operated under private contract for approximately £1.5m per annum, as opposed to £1.94m under the present system. A fuller comparison of the relative cost is at Annex B.

10. Given the major commitment of Nimrods to defence tasks, it would appear probable that discontinuation of their use for fishery protection work would have no major effects on their deployment, but the marginal costs now charged to the Fishery Departments should be capable of being saved by discontinuing the work for them. This would mean that the difference in the costs to MAFF described in the previous paragraph would be a net overall decrease in public expenditure, and there would also be savings in Scotland.

Estimated MAFF PES Savings

11. The estimated PES savings for MAFF under the changes envisaged for both sea borne and aerial surveillance tasks are substantial: up to £11m when the new system was fully operational.

£000 (in 1983/4 prices)

| | YEAR 0 | YEAR 1 | YEAR 2 | YEAR 3 | YEAR 4 | YEAR 5 | YEAR 6 | YEAR 7 | YEAR 8 | YEAR 9 onwards | FINAL: YEAR 19: | TOTAL CASH FLOW @ 1983 VALUES OVER 16 YEARS |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------------------|--------------------|---|
| discount factors | 1.00 | .95 | .91 | .86 | .82 | .78 | .75 | .71 | .68 | | | |
| OPTION A - continue to use the Royal Navy | | | | | | | | | | | | |
| MAFF share of running costs | | | | | | | | | | | | |
| - 33% Islands | 1838 | 2092 | 2395 | 2395 | 2440 | 1500 | 1500 | 1500 | 1500 | 1500 | 1500 | |
| - 90% Castles | 2359 | 2551 | 3475 | 5614 | 6448 | 6448 | 6448 | 6448 | 6448 | 6448 | 6448 | |
| capital for Castles 3 & 4 | 1988 | 4519 | 10336 | 2532 | 80 | 36 | | | | | | |
| Total costs | : 6185 | 9162 | 16206 | 10541 | 8968 | 7984 | 7948 | 7948 | 7948 | 7948 | 7948 | 138526 |
| net present value | : 6185 | 8726 | 14699 | 9106 | 7378 | 6256 | 5931 | 5648 | 5380 | 41541 | 3145 | |
| cumulative total npv | : 6185 | 14911 | 29610 | 38716 | 46094 | 52349 | 58280 | 63929 | 69308 | 110849 | 113994 | |
| EQUIVALENT ANNUAL COST | 9142: | | | | | | | | | | | |
| ===== | | | | | | | | | | | | |
| OPTION B - take over 4 Island class vessels from RN: operate via commercial contractor | | | | | | | | | | | | |
| initial half life capital refit | : 4000 | | | | | | | | | | | |
| operation by contract includes | : | | | | | | | | | | | |
| running survey/refits @ 717 | : 2868 | 2868 | 2868 | 2868 | 2868 | 2868 | 2868 | 2868 | 2868 | 2868 | 2868 | |
| scrap value on tonnage @ 18 | : | | | | | | | | | | | |
| staff cost 4 Inspectors @ 19.42 | : 78 | 78 | 78 | 78 | 78 | 78 | 78 | 78 | 78 | 78 | 78 | |
| Total costs | : 6946 | 2946 | 2946 | 2946 | 2946 | 2946 | 2946 | 2946 | 2946 | 2946 | 2874 | 51059 |
| net present value | : 6946 | 2805 | 2672 | 2545 | 2423 | 2308 | 2198 | 2093 | 1994 | 10120 | 1382 | |
| cumulative total npv | : 6946 | 9751 | 12423 | 14967 | 17391 | 19699 | 21897 | 23990 | 25984 | 36105 | 37487 | |
| EQUIVALENT ANNUAL COST | 3460: | | | | | | | | | | | |
| ===== | | | | | | | | | | | | |

FISHERIES PROTECTION - AERIAL SURVEY - cost effectiveness appraisal -MAFF resource costs only: using 1984 figure

£000 COSTS IN EACH YEAR (end year transactions taken to include mid year)

| | YEAR 0 | YEAR 1 | YEAR 2 | YEAR 3 | YEAR 4 | YEAR 5 | YEAR 6 | YEAR 7 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|
| OPTION A continue MoD Nimrods for offshore and Islander (+ standby) under civil contract for coastal patrols | | | | | | | | |
| MoD annual service charges | 0 | 1750 | 1750 | 1750 | 1750 | 1750 | 1750 | 1750 |
| coastal contract | 0 | 420 | 420 | 420 | 420 | 420 | 420 | 420 |
| TOTAL COST | 0 | 2170 | 2170 | 2170 | 2170 | 2170 | 2170 | 2170 |
| NPV at 5% | 0 | 2067 | 1968 | 1874 | 1785 | 1700 | 1619 | 1542 |
| CUMULATIVE NPV | 0 | 2067 | 4035 | 5909 | 7695 | 9395 | 11014 | 12556 |
| EQUIVALENT ANNUAL COST | | 1942 | | | | | | |

OPTION D - fully contract out using Dornier aircraft for offshore work

| | | | | | | | | |
|--|---|------|------|------|------|------|------|------|
| single civil contract to provide and operate 2 Dornier + 1 Islander | 0 | 1700 | 1700 | 1700 | 1700 | 1700 | 1700 | 1700 |
| TOTAL | 0 | 1700 | 1700 | 1700 | 1700 | 1700 | 1700 | 1700 |
| NPV at 5% | 0 | 1619 | 1542 | 1468 | 1399 | 1332 | 1269 | 1208 |
| CUMULATIVE NPV | 0 | 1619 | 3161 | 4629 | 6028 | 7360 | 8629 | 9837 |
| EQUIVALENT ANNUAL COST | | 1522 | | | | | | |