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SECRET

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PRIME MINISTER

The Future of the Royal Dockyards

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BACKGROUND

There have been a number of studies of the efficiency of the Royal Dockyards in recent years, but no significant changes except reduction in their number. Only Devonport and Rosyth (which handles nuclear submarines) remain. In May 1984 you indicated that you were content for proposals by Mr Levene, Mr Heseltine's adviser, that the management of the dockyards should be contracted out to be worked up. Mr Heseltine's paper covers a detailed interdepartmental official report on how this might work.

2. The main features of the plan are:

(i) open competition for the management of each dockyard for a fixed term of about 4 years, dockyards and equipment to remain in public ownership;

(ii) dockyard contractors and private ship-repairers to compete for 'non-core' Ministry of Defence (MOD) work;

(iii) redundancies of 3-4,000, mainly at Devonport, costing £30-40 million, compensation for changes in working costs of £15 million and £15 million refurbishment costs to prepare for the new scheme;

(iv) enabling legislation in Summer 1986, vesting perhaps April 1987.



SECRET

MAIN ISSUES

3. The main issues are:

- (i) would contractorisation provide greater efficiency savings than other options, eg. creating a Government-owned company or a trading fund;
- (ii) the effect on private shiprepairers;
- (iii) the risk of industrial disruption;
- (iv) whether special measures should be taken to assist the areas affected.

Dockyard Efficiency

4. The Levene proposals address three main problems: the lack of a proper customer/supplier relationship between the fleet and the dockyards, the need for management freedom, and the need for a commercial accounting system. Efficiency savings of around 30 per cent have been mooted, of which 10-15 per cent (rising to 20 per cent after 2 years if redundancies are 3,000) would result from the preparations needed to introduce a commercial regime. In the case of contractorisation, the savings also depend on satisfactory arrangements being made to avoid any conflict of interest in the use of shared facilities between the dockyard contractors and the naval command in respect of the operational role of the two bases.

FLAG A
FLAG B.

5. Detailed financial assessments are at Annex A of Mr Hesselstine's paper and page 25 of the officials' paper. These are necessarily somewhat speculative. Any failure to carry out the redundancy programme or to improve working practices will endanger the achievement of the savings, as will any cost-overruns on refurbishment. Much also depends on how good a deal MOD negotiate with potential contractors. Ministers will



SECRET

wish to consider the balance of advantage between the efficiency gains which might be achieved (and the likelihood of their achievement) without contractorisation, and the probable extra savings but greater complexity of contractorisation. The Chief Secretary is likely to argue that the full privatisation - which Mr Heseltine strongly opposes for the reasons set out in paragraph 7 of the officials' paper - would achieve the same results as contractorisation with less complications.

Private Sector

e | 6. At present the dockyards handle a 'core' of about 80 per cent of the work, private shiprepairers the rest. Mr Heseltine proposes to allow competition between the dockyards and the private shiprepairers on non-core work, with the dockyards also able to compete for civil work within their capability. Mr Pattie is likely to argue that care needs to be taken to ensure fair competition. If the dockyards cover their overheads on the core work, they could undercut small private shiprepairers. The resulting lack of competition if these shiprepairers were driven out of business might not be in MOD's best long-term interests; on the other hand there are advantages in fully utilising dockyard assets. MOD, the Department of Trade and Industry (DTI) and the Treasury could be asked to explore this further.

Industrial Disruption

7. The unions are opposed to contractorisation, and favour the creation of a trading fund. They might well however be reluctant to accept the redundancies and changes in working practices on which savings depend whichever option is adopted. MOD sent you an assessment of the implications of possible disruption at the dockyards last year (letter of 12 July from Evans to Powell). It remains Mr Heseltine's view that some, probably limited, disruption is likely, but that this



SECRET

can probably be ridden out without major or lasting damage. On the other hand any widespread, sustained action would be bound to endanger defence commitments. The main danger is probably at Devonport, which will bear the brunt of the redundancies.

Job Creation

8. Numbers employed at Rosyth will remain stable because of the Trident programme. Devonport dockyard is the major employer in Plymouth. It has recently suffered 1,000 redundancies, and further job losses would be bound to lead to local political protests. (Dr Owen is the MP). Mr Heseltine suggests this could be alleviated by:

(i) early steps 'along the lines pioneered by the British Steel Corporation (BSC)' (paragraph 8);

(ii) a 'task force' involving Devon County Council and other local bodies (paragraph 16). Presumably this would draw on the Merseyside Task Force experience.

9. He gives few details, and Ministers will no doubt wish to explore the costs of such action, which would offset public expenditure savings on contractorisation. Would a 'Dockyards (Enterprise) PLC' be financed from the existing defence budget? Plymouth is an Intermediate Area (IA); is S.7 Industry Act assistance envisaged? Mr Pattie (whose Department would presumably lead) is likely to oppose the creation of a task force as a bad precedent, and difficult to justify in relation to other areas. The proposed dockyard redundancies might raise unemployment in Plymouth to just over 15 per cent, still below the IA average (15.8 per cent) and well short of the Development Area (DA) average (19.5 per cent).

