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PRIME MINISTER

20 March 1985

THE ROYAL DOCKYARDS: OPEN GOVERNMENT DOCUMENT

There are three issues to resolve at E(A) tomorrow: which option do we want; do we pursue it by consultation; and, if so, will this draft serve the purpose?

Options

Paragraph 34 of the paper puts the arguments for commercial management well. It is the only option which will give us the benefits of commercial management, retains ultimate Government control of the assets and keeps the pressure on the dockyards to perform efficiently, to the customer's financial benefit. None of the other options guarantee this last objective: privatisation would confer a considerable monopoly power to new owners, particularly at Rosyth, where SSBNs have to be serviced. A contractor, on the other hand, would need to offer attractive prices to be sure of renewing his contract.

Contractorisation has been misunderstood in one important respect: it is thought that when a contract is transferred from one contractor to another, large redundancy costs would be involved. This is not so: the point of the employing company is to maintain stability of formal employment terms.

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To consult, or not

Consultation is likely to elicit only one, unhelpful response - a preference for a trading fund. We cannot prove in advance that commercial management is superior, so why not announce that we are going ahead and that we will consult employees about the details?

The consultative document

The draft needs to be more lively and carry more conviction. No evidence of dockyard inefficiency is deployed. The importance of savings to the defence effort is not stressed. Technical points, such as why (at paragraph 7) the financial system which ensures accountability to Parliament is inadequate for commercial operations, are not clear enough. The document is also repetitive: it sets out the options, restates our objectives, then reviews all the options again.

Recommendation

We recommend that you:

1. support the commercial management option;
2. invite Michael Heseltine to consider announcing our decision, rather than consulting about it;
3. suggest a more positive document.

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