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PRIME MINISTER

FUTURE MANAGEMENT OF THE ROYAL DOCKYARDS

I have now completed the consultative exercise on the future of the Royal Dockyards set in hand on 17th April with the publication of the Defence Open Government Document and my statement in the House. From the views received - from the House of Commons Defence Committee (HCDC) and the Public Accounts Committee, from trades unions and local authorities, and from industry - and on the advice of the Navy Board, I conclude that we should now press ahead with the introduction of commercial management.

2. There has been very little of significance arising from consultation for the purposes of the immediate decision. Understandably the weight of opinion is against the preferred option as most of the reaction has come from those naturally opposed to change. But no one has identified any significant flaw in the proposal. It is certainly without complete precedent and is the least acceptable to the Unions; as a result, its implementation will be more difficult and will increase the need for careful management of the programme.



3. On the other hand, no one has seriously questioned the view that commercial management offers the greatest prospects for efficiency, and the best basis for attracting any available additional work into the Dockyards. The PAC have been critical over the validity of the costs which we have produced to date. From its line of questioning, I would expect the HCDC to draw attention to the potential risks, as they see them, to defence and - in particular - the maintenance of the deterrent but to remain neutral on the central question itself.

4. The final criticism has been that inadequate time has been allowed for consultation. This has been most strongly expressed by the Unions - who will not change their minds however long they are given. The HCDC are also likely to echo the Union criticism but I do not believe that three months has allowed inadequate consultation. No one seems to have recognised that the proposals have in fact been in the public domain for many months following the leak of the original interim report.

5. The Navy Board has re-examined the proposals and concluded that commercial management of the Royal Dockyards still offers the most advantages for the Navy - and the best prospects for the long term future for the Dockyards. They recognise that the change may provoke industrial disruption. This might last for some time and have a visible effect on the availability of the



Fleet. The Navy Board believes - and I agree - that this is a price we may need to pay to secure the long term gains which my scheme offers.

6. I should also remind colleagues that the financial advantage to the Defence budget will depend on a PES transfer to compensate for the payments we shall have to make in the contract for the future pensions of the work force. We agreed in our earlier discussions that this point should be settled at an appropriate time in a future PES cycle - but I should now remind colleagues that the change in management of the Royal Dockyards is probably the biggest administrative upheaval faced by the Navy in peace since the war; it would not be right for the Defence budget to get no benefit from it.

7. My main concern at this stage is the degree of commercial interest; Rosyth has attracted sufficient companies for me to have confidence that there will be effective competition for the selection of commercial management. Devonport presents a bigger problem and I would not wish to see any falling off in the presently expressed level of interest in bidding for the contract. We have interest from a number of significant companies and this will provide the necessary competitive process. I would wish to introduce commercial management at both Yards in any case and I therefore intend to keep open the



possibility of inserting the necessary commercial skills into Devonport - perhaps by the direct appointment of individuals into the company to which we shall be transferring the work force.

8. In this way we shall be able to keep up the competitive pressure - and by maintaining our options increase the pressure on the bidders to bid competitively.

9. My intention is to make a statement in the House announcing our decisions on Tuesday 23rd July and I will assume the agreement of my colleagues if I do not hear further by Friday 19th July.

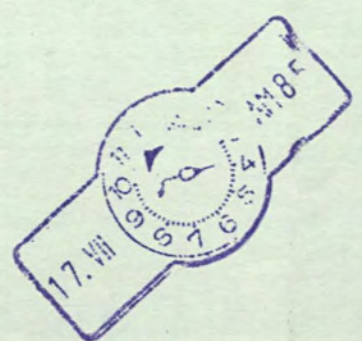
10. I am sending copies of this minute to others members of E(A) and to Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be "W. J. K." or similar, written in a cursive style.

Ministry of Defence

16th July 1985

W. J. MORGAN



~~CCNO~~

NBPM

AT

22/7



PRIME MINISTER

FUTURE MANAGEMENT OF THE ROYAL DOCKYARDS

With AT?

I have seen Michael Heseltine's minute of 16 July.

I have no objection to his plans for implementing Commercial Management in the Dockyards. I do want however to put up a marker that I hope we can have a full collective consideration in due course of the issue of funding the payments for future pensions (paragraph 6 of Michael's minute). This matter raises some important points of principle and was not settled in our earlier discussions in E(A).

/ I am copying this to other members of E(A) and Sir Robert Armstrong.

22nd July 1985

K

R N E



REVISE

Fite

NAVAL DOCKYARDS

General Line to Take

My rt. hon. Friend's proposals are designed to get greater efficiency in the naval dockyards and hence better value for money for the defence budget. I recall the Leader of the Opposition said at the Labour Party Conference in 1983:

"We very much do want value for money, because it is our money".

The Opposition have not made a single practical proposal for improving efficiency in the naval dockyards.

Evidence of Inefficiency

The Government could not accept a situation in which absenteeism in the dockyards accounts for a full working month on average for every employee - about 40% above the national average.

Loss of Jobs

Of course the Government regrets the loss of jobs necessary to achieve greater efficiency. My rt. hon. Friend announced yesterday the special efforts which his Department will be making in co-operation with the local authorities involved to create opportunities for further employment in the areas affected. Moreover, Plymouth has already been designated as an Assisted Area under the Government's regional policy.

Opposition Attitude to Job Losses

The Opposition's defence policy would itself involve massive job losses (between 2,000 and 3,000) at Rosyth.

Wrong in Principle for Contracting Out of Naval Dockyards

As my rt. hon. Friend pointed out yesterday, there are a number of American examples of large defence organisations being managed under the system he proposes. Experience has demonstrated that the private sector can contribute as much to the defence effort as the public sector.

Dr. Owen's Approach

When the rt hon Gentleman was Minister for the Navy he carried out a review of Naval dockyards which he described as "A vigorous policy to get greater productivity with a smaller labour force". His proposals envisaged a total reduction of 5,000 personnel in the Naval dockyards. The difference between his proposals and those of my rt hon Friend is that his did not work.

Extend Period of Consultation?

As my rt. hon. Friend said yesterday, these proposals have been under consideration for a very considerable time. I do not believe that an extension of the period of consultation would be justified.

Mr. Levene

The appointment of Mr. Levene as Chief of Defence Procurement was made by my. rt. hon. Friend to bring a more commercial approach to a procurement budget of some £8 b.

Appointment Illegal?

There is no question of this appointment having been illegal. It began on 19 March and is under a fixed term contract not exceeding 5 years in accordance with paragraph 1(2)(g) of the Civil Service Order in Council 1982.

18 April 1985

PRODUCTION, REPAIR AND SUPPLY ORGANISATION IN THE UNITED KINGDOM

36. The following paragraphs report the main features of the programmes of the production establishments in 1969-70 and describe the progress made with further measures to improve management efficiency in the production, repair, and supply organisation.

H.M. DOCKYARDS

37. As stated in Chapter I, paragraph 29 a review of the future of H.M. Dockyards in the United Kingdom has now been completed and all four home dockyards will still be required. The main aim of the review has been to work out the most effective and economical dockyard support for the Fleet. It has also been to plan a dockyard organisation which will match the reduction in the future size of the Fleet, and in naval support as a whole.

38. The workload for the next ten years has already been largely determined by the destroyers, frigates and submarines which are now in service or on order. Rosyth Dockyard, which has been developed to support the *Polaris* force and at present is engaged on the refit and refuelling of H.M.S. *Dreadnought*, will slightly increase its labour force over the next five years. The labour force at Portsmouth, Devonport and Chatham Dockyards will gradually fall in size, by natural wastage as far as possible, thus producing the total reduction of some 5,000 civilian personnel by the mid-1970s mentioned in Chapter I. This is a continuation of a rundown which, over the past five years, has amounted to some 4,000 in the United Kingdom. Singapore Dockyard has already been transferred to the Singapore Government, together with 3,500 employees. Until we finally leave the Far East, the yard will continue to carry out a substantial amount of repair work for the Royal Navy, but after our withdrawal we shall not need to plan for its regular use.

39. Portsmouth, Chatham and Devonport Dockyards will continue to have a full load of work. Portsmouth Dockyard, which has just started the first long refit of the guided-missile destroyer H.M.S. *Devonshire*, will become the type yard for this class. It will continue to refit a wide range of other ships including conventional submarines and frigates. Chatham Dockyard can now carry out the intermediate dockings of nuclear submarines and is expected to start its first nuclear refit about the end of the financial year 1969-70; Devonport Dockyard will, when the major refit of H.M.S. *Ark Royal* and the building of the *Leander* class frigate H.M.S. *Scylla* are complete, become the "lead" yard for *Leander* class frigates. It will also be developed as a third nuclear submarine dockyard capable of undertaking refits as the need builds up in the 1970s.

40. In the longer term, substantial dockyard support will still be needed; for the new, more advanced classes of ship and submarine which will enter the Fleet during the next ten years require even greater skills and work of even higher quality than in the past. The refit of nuclear submarines involving the most advanced techniques, for example, will be a particularly large commitment, which will grow until, by the end of the 1970s, it will at least equal the workload of aircraft carrier refits in recent years. We thus have the strongest incentive to fit more and more standardised equipment in ships in order to simplify maintenance and repair. We shall also design ships with a greater emphasis on ease and economy of refit.

41. H.M. Government's decision on the future of the home dockyards will be the basis for a vigorous policy to get greater productivity with a smaller labour force. The efficient upkeep of the Fleet will depend upon its success.

42. Many of the measures necessary to achieve this are the responsibility of management and are already in hand. They will lead to changes in

responsibilities and procedures which will require a willingness by the Trade Unions to accept some modification in traditional practices. For without such changes, substantial increases in pay cannot be justified.

43. The following steps are being taken to stimulate productivity:

- a. to follow up the improvements in management which we have made in recent years by giving greater authority to General Managers in the individual dockyards. At Headquarters, an executive under the Chief of Fleet Support will be the responsible authority for managing all the yards.
- b. to replace, rather than repair, individual components in ships.
- c. the gradual introduction of a system under which either complete classes of ships will be based on particular dockyards or one dockyard will become the "lead" yard for a large class, such as the *Leander* frigates.
- d. a comprehensive rationalisation and modernisation of workshops and other facilities in the yards.

44. If the aims of the Dockyard Review are to be carried out, we must plan at the same time for reductions in the labour force and for greater output in the dockyards. Natural wastage will make the major contribution towards reducing the labour force, but it will be essential to re-train certain tradesmen if redundancy is to be avoided. We want to work in the closest partnership with the Trade Unions with the object not only of making the dockyards more productive and efficient but, at the same time, seeing that those who work in them obtain a fair share of the benefits which these improvements should bring. With these objectives in mind, productivity working parties have already been set up in the dockyards and discussions have started with the Manpower and Productivity Service of the Department of Employment and Productivity.