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 Prime Minister ①
 CDP
 6/12
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MINISTER OF STATE, PRIVY COUNCIL OFFICE

PRIME MINISTER

COMMERCIAL MANAGEMENT OF THE ROYAL DOCKYARDS - MANAGEMENT BID
 with DN. out of PM box 4/12.

1. Michael Heseltine's minute of 29 November set out how he proposed to respond to the management team's bid to be considered for the Devonport contract. The risks of conflict of interest - real and presentational - are obvious and there is no easy answer.

2. I do not object to Michael's suggestion that the management team be allowed to bid at this stage. But this should be on conditions that make clear that we recognise the fears of conflict of interest and that we are taking all due steps to guard against it.

3. I suggest three conditions should be made clear:

- (a) that arrangements will be made to adjust the responsibilities of the management team so that they are not dealing with rival bidders (as envisaged in paragraph 6 of Michael's minute);
- (b) that the working of these arrangements will be closely monitored throughout to ensure that no conflicts of interest arise in practice; and
- (c) that, if other prospective bidders find these arrangements unacceptable and threaten to withdraw from tendering for the contract, the management team will have to choose between withdrawing themselves or resigning and taking their chance as private individuals.

4. This dilemma may persist for only a relatively short period, depending on whether or not the management team's bid survives the initial sift and proceeds to tender. If at that stage they aligned themselves with one of the commercial bidders, the case for asking them to resign might become overwhelming.

5. Copies of this minute go to Michael Heseltine and recipients of his minute.

R.L.

RICHARD LUCE
 5 December 1985

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