



10 DOWNING STREET

From the Private Secretary

12 December 1985

ROYAL DOCKYARDS

Thank you for your letter of 9 December enclosing a copy of the first edition of the Dockyard Planning Team's Quarterly Review.

The Prime Minister was interested to see this and commends those responsible for its production.

(Charles Powell)

Denis Brennan, Esq.,
Ministry of Defence.

PC



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9th December 1985

Dear Charles,

Prime Minister
Simply to note
the existence of
this CDP/2
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ROYAL DOCKYARDS

My Secretary of State thought that the Prime Minister might be interested in seeing the attached copy of the first edition of the Dockyard Planning Team's Quarterly Review (which was referred to by a number of speakers in the second reading of the Dockyard Services Bill last Monday) of progress in implementing the Government's policy for the future of the Dockyards.

Mr Heseltine has commented that he believes that the production and publication of this document was a very imaginative step on the part of the management of the Dockyard, and has commended those who were involved in its production.

Yours ever,
Denis

(D BRENNAN)

Charles Powell Esq
No 10

THE QUARTERLY REVIEW

The Dockyard Planning Team (DPT) is responsible for putting the Government's Dockyard policy into effect. When the Secretary of State announced his decision in July, the DPT issued a timetable which showed when the major events would happen. The DPT said that it would produce 'reviews' to help keep people informed about progress. This is the first.



On 23rd July 1985, the Secretary of State for Defence announced that the Government had chosen the commercial management option. In a letter to employees, he wrote: 'An efficient Dockyard, under commercial management, will be best placed to attract additional work and the jobs that would generate. This is the best way forward for the local economy in Plymouth and Dunfermline.'

Since July:

- the DPT has presented further discussion papers to interested parties, including Trades Unions;
- a start has been made on setting up the new customer organisation—Directorate General Ship Refitting (DGSR). DGSR is part of the Navy Department and reports to the Chief of Fleet Support (CFS);
- a 'prospectus' containing information needed by potential commercial managers has been given to companies, Naval Base and Dockyard senior managers, and the Trades Unions;
- both Dockyards have been developing their commercial accounting systems—so they will be able to work as 'suppliers' to 'customers';
- a start has been made on valuing the Dockyard assets—land, buildings and machinery—so that the MOD and potential commercial managers will know what the assets are worth;
- interested companies have visited Devonport and Rosyth.
- on the 6th November 1985, in Her speech at the opening of Parliament, HM the Queen announced that the Government would introduce the Dockyard Services Bill.
- a number of Working Groups have been considering the effect of Commercial Management on key areas of Fleet Support.

PROGRESS SO FAR

The 'Defence Open Government Document', 'The Future of the Royal Dockyards', was published on 17th April 1985. In the introduction, the Government stated:

'Although the Dockyards have a long and distinguished tradition of dedicated service to the Fleet, in peace and at times of national emergency—most recently, of course, during the crisis in the South Atlantic—it is the Government's belief that they have not been structured to enable them to operate as efficiently as they might, in order continuously to meet in the most cost effective manner the Royal Navy's need for the maximum availability of warships.'

In paragraph 20 the Government's objectives were summarised as:

- a. *enhancing the fighting effectiveness of the Fleet and preserving vital strategic interests;*
- b. *securing maximum value for money;*
- c. *maximising competitive opportunities;*
- d. *introducing a commercial approach into the Dockyards through:*
 - *a clear separation of the customer from the supplier*
 - *freedom for local managers to manage*
 - *commercial accounting.'*

WHAT HAPPENS NEXT?

In the next three months:

- the 'Dockyard Services Bill' will be introduced to Parliament by the Secretary of State for Defence;
- proposals to enable employees to express preferences about their future careers will be presented to Trades Unions for discussion;
- DPT Working Groups, studying the preparations for commercial management, will complete their reports;
- appointments to DGSR will be made;
- work will continue on the preparation of the contracts for commercial management;
- potential commercial managers will make further visits to Rosyth and Devonport.
- In addition to having meetings with the Trades Unions the DPT will keep employees informed about developments in special bulletins and articles in the Naval Base newspapers.
- Arrangements will be made to let Naval Base and Dockyards employees – at Bath, Devonport and Rosyth – look at the commercial management discussion papers, if they want to.
- Asset valuation in the Dockyards will continue.



'CUSTOMER' AND 'SUPPLIER'

How the Dockyards work now

Parliament 'votes' money to the Navy to run the Fleet. Parliament also votes money directly for refitting and repair to the Fleet mainly in the Dockyards where it is used to pay wages and other operating expenses.

When the Navy brings a ship to one of HM Dockyards, the Navy and the Dockyard agree the work to be done, and how long it should take – the 'time in hand'. Once work starts, all kinds of things can happen. For example: Dockyard officers find defects which were not apparent at the outset; or the Navy may need to change the plans for operational reasons.

This means that, against a background of fixed Dockyard resources, the work content of the refit has changed but the Navy still wants the ship back by the agreed completion date.

The Navy is not required to consider the cost of what it asks the Dockyard to do. It is, therefore, difficult for the Dockyard to plan and control its costs.

How the Dockyards will work in the future

In future the Navy alone will receive money directly from Parliament for the operation, repair and refitting of the Fleet. It will have to account to Parliament for the way all this money is spent.

In its dealings with the Dockyards the Royal Navy, as 'customer', will be represented by DGSR (a Rear Admiral). DGSR will also represent the Royal Fleet Auxiliary (RFA), and the Royal Maritime Auxiliary Service (RMAS).

So, when a ship is due for refit, the specification will be drawn up for the Navy by the new customer organisation – DGSR. Then the refit budget and the target date will be negotiated with whichever Dockyard is to undertake the work. Most of the refitting and repair work will be allocated to the Dockyards as at present but some will be offered for competitive tender to Dockyards and private ship repairers.

Sensible controls will be introduced to make sure work progresses efficiently and that the Navy accepts accountability for the costs of extra work, and for the effects on completion dates.

The new organisation

The major part of the customer organisation will be based in Bath and have staff in London, Devonport and Rosyth. There will be about 570 posts in this new organisation.



PREPARATIONS FOR COMMERCIAL MANAGEMENT

The Dockyards are in the Naval Bases. Going to commercial management will change the relationships between the Dockyards and the MOD, including the other parts of the Bases.

Since the Secretary of State announced the Government's decision the DPT has set up a number of Working Groups to look at more detail behind such questions as:

- How will materiel be supplied to the Dockyard companies?
- How will the refitting and repair of ships other than warships be handled?
- How will Naval Base land, buildings, machinery and facilities be made available to commercial operators?
- How will Naval Base organisation be affected?
- How will CED's current responsibilities outside the Dockyard be undertaken?
- How will Nuclear Safety be assured?
- How will Environmental Safety be assured?
- How will the Fleet Maintenance Bases be affected?
- How will the changes affect Civilian employee conditions of service?
- What will be the effect on RN personnel?
- What will be the effect on war and emergency planning?

- How will quality assurance be maintained?
- How will RMAS and harbour services be provided?
- How will transport services be provided?
- What new financial and accounting systems are needed?
- What measures are required to maintain security?
- What are the future computer needs?
- How will design and support information be supplied?
- What needs to be done to maintain protection of Government and commercial information?

The recommendations of the Working Groups will help prepare the way to Commercial Management.

There are obviously difficult and detailed problems to be tackled but none of the working groups has come across any problems which cannot be resolved satisfactorily.

Where the nature of a job is likely to be affected, Trades Unions will be consulted, and the people involved will be informed personally.

It is, of course no secret that the Trades Unions are opposed to the Government's decision to introduce commercial management to the dockyards. The DPT's aim nevertheless is to:

- a. have responsible consultation with the Trades Unions about the changes ahead,
- b. make sure that employees' interests are fully represented,
- c. make information available at the earliest possible moment to all those affected by the changes.



COMMERCIAL MANAGEMENT- INTERESTED COMPANIES

Many of the interested companies visited Devonport and/or Rosyth in late September and early October. They were:

A & P Appledore Group
Babcock International
Balfour Beatty
British Aerospace
Northern Engineering Industries
Plessey Marine
Taylor Woodrow
Trafalgar House
Thorn EMI
Press Offshore Group
Seaforth Welding
Tyne Ship Repair
Weir Group

The companies that decide to go further will return to find out more about the work and organisation of the Dockyards. The DPT is still getting enquiries from other companies.

THE LEGISLATION

The Dockyard Services Bill will be introduced to Parliament during the current session. The legislation, when enacted, will enable the Secretary of State to make all the necessary arrangements for the transfer to commercial management. It will also make provision for the transfer of employees' current terms and conditions of service on Vesting Day. Pension provision for those transferring does not require legislation and proposals will be put forward to establish a Scheme which will ensure benefits equivalent to those currently enjoyed.

CONSULTANTS IN THE DOCKYARDS

Many people in the Naval Bases have been asking about the consulting firms employed by DPT to help prepare for commercial management.

Touche Ross, an international firm of accountants and management consultants, have been retained to produce the prospectus. This report about the Dockyard work, organisation and finances is needed to help potential commercial managers understand what would be involved in running the Dockyards.

Fuller Peiser, a firm of chartered surveyors and valuers, are working for the Property Services Agency (PSA). They are valuing all the land, buildings and machinery in the Dockyards. Their work will enable the MOD to give potential commercial managers a complete description of the value and condition of Government property.

There are, of course, other consultants, employed by CED and local management, working in the Dockyards to help improve efficiency.

