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01-233 8319

From the Secretary of the Cabinet and Head of the Home Civil Service

Sir Robert Armstrong GCB CVO

Ref. A085/262

LORD CHANCELLOR

Orders for Frigates

Since this matter was considered in Cabinet yesterday there have been further discussions with the Secretaries of State concerned, which have resulted in a new proposal which was not among the options considered by the Cabinet but which would meet the strongly felt wish of the Cabinet that there should be further work for Cammell Laird.

2. The Prime Minister has instructed me to send you the attached note, which describes the new proposal. You will see that it is agreed between the Secretaries of State concerned and with the Lord President and the Chancellor of the Exchequer, and commended by the Prime Minister to her colleagues.

3. I am sending copies of this minute and the note to other members of the Cabinet. If I have not heard otherwise by noon on Monday 28 January, I shall assume that you and they are content that this proposal should be put into effect.

4. I am also sending copies of this minute and the note to the Chief Whip and the Paymaster General.

Robert Armstrong

25 January 1985

ORDER FOR FRIGATESNote by the Secretary of the Cabinet

At its meeting on 21 January the Cabinet asked that further consideration should be given to possibilities of placing orders for further work with Cammell Laird (CL), so as to ensure its continued operation, consistently with confirming orders to Swan Hunter (SH) for the provision of two frigates.

2. The Secretaries of State for Defence and Trade and Industry have agreed upon the following proposal:

(1) One of the two orders for Type 22 frigates (Type 22/13) should be placed with CL and the other (Type 22/14) with SH.

(2) The Ministry of Defence has embarked upon a programme for the construction of Type 23 frigates. The first (Type 23/01) has been ordered from Yarrow; the next two are due to be put out to tender in a year's time. Both were to be put out to competitive tender. It is now proposed that it should be decided and announced now that one (Type 23/02) will be ordered from SH. The other (Type 23/03) will be put out to competitive tender.

(3) The Secretary of State for Defence will instruct the Accounting Officer for the Ministry of Defence Procurement Vote to accept the CL tender for one Type 22 frigate and to place the contract for one Type 23 frigate with SH on a single tender, subject to satisfactory agreement on price and other contract terms.

(4) The Secretary of State for Defence will absorb in the Defence Budget the extra direct costs (£7 million) of ordering Type 22/13 from CL rather than from SH, and the cost of whatever cash injection into CL is required to keep open the option to privatise CL. The amount required for this purpose is to be agreed between the Secretary of State for Defence, the Secretary of State for Trade and Industry and the Treasury. There is already provision for Type 23/02 in the approved Public Expenditure Survey programmes for the Defence Budget; the Defence Budget will also absorb any additional costs that may result from letting the Type 23/02 contract to SH on non-competitive tender.

3. The value of the Type 23/02 frigate order to SH will be of the order of £70 million during the period of construction beginning about April 1986; the value of the second Type 22 frigate order to SH would have been of the order of £90 million during the period of construction beginning about April 1985. The penalty to SH is thus a reduction of £20 million in the value

of the order and a delay of about a year in its timing. This is likely to mean some redundancies at SH in 1985, over and above the 500 which they are likely to have to declare in any case, and may marginally reduce the proceeds of privatising SH; but these effects will be nowhere near as great as would have to be faced if SH were not assured of the order for Type 23/02.

4. There will be certain indirect costs of this proposal - extra losses of some £1½ million at SH and £5 million at CL - which will add some £6½ million to the External Financing Limits of British Shipbuilders (BS) in 1985-86.

5. It is understood that as a result of this proposal there will be an adverse effect on the receipts of the Yarrow privatisation. This is not easily quantified, but will be of the order of £5-10 million. This will entail a corresponding further adjustment to the External Financing Limits of BS. In order to contain this, it will be necessary to give a public assurance that the Type 23/03 contract will be let on the outcome of a fair competitive tendering process.

6. This proposal has been agreed with the Lord President of the Council and the Chancellor of the Exchequer.

7. The Prime Minister would be content to resolve the matter on the basis of the proposal set out in this note, and commends it to her colleagues accordingly.

ROBERT ARMSTRONG

Cabinet Office

25 January 1985



10 DOWNING STREET

Prime Minister ⁽¹⁾

RTA has set out the
proposals for frigates agreed
last evening.

Robin thought that in
addition to to £7 milia
and the cost injection into
C-L being borne by the
Reference Budget, it would
meet the losses of the two
yards, i.e. £6½ milia. At
the point I left to meet by
this last item was not
included.

Agree as drafted? Yes
no

or Agree including £6½ milia
to be met by Reference Budget?

AT
24/1



Ref. A085/258

PRIME MINISTEROrders for Frigates

--- I attach a note setting out the proposal which you agreed with the Lord President, the Chancellor of the Exchequer and the Secretaries of State for Defence and Trade and Industry this evening.

2. I am sending copies of this minute and the note to those Ministers. If tomorrow morning it is confirmed that you and they are content that it correctly records the proposal, the note will be used as the basis for informing other members of the Cabinet what has been agreed. We shall try to complete that process during the course of tomorrow. Assuming that other members of the Cabinet concur, the Secretary of State for Defence will make an announcement in Parliament next week.

for ROBERT ARMSTRONG

24 January 1985

ORDERS FOR FRIGATES

Note by the Secretary of the Cabinet

At its meeting on 21 January the Cabinet asked that further consideration should be given to possibilities of placing orders for further work with Cammell Laird (CL), so as to ensure its continued operation, consistently with confirming orders to Swan Hunter (SH) for the provision of two frigates.

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(4) The Secretary of State for Defence will absorb in the Defence Budget the extra direct costs (£7 million) of ordering Type 22/13 from CL rather than from SH, and the cost of whatever cash injection into CL is required to keep open the option to privatise CL. The amount required for this purpose is to be agreed between the Secretary of State for Defence, the Secretary of State for Trade and Industry and the Treasury.

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4. There will be some addition to the External Financing Limits of British Shipbuilders as a result of this proposal: this addition could amount to some £6½ million in 1985/86.

5. This proposal has been agreed with the Chancellor of the Exchequer and the Lord President of the Council.

6. The Prime Minister would be content to resolve the matter on the basis of the proposal set out in this note, and commends it to her colleagues accordingly.

24 January 1985