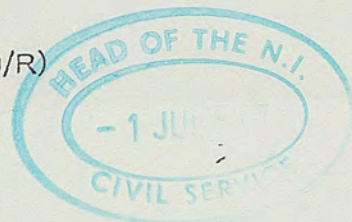


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- c.c. PS/Mr Stanley (L & B)
- PS/PUS (L & B)
- ① PS/Sir Kenneth Bloomfield 2/7 (2) red 4
- Mr Fell
- Dr Quigley
- Mr Burns
- Mr Gibson
- Mr Semple
- Mr Chesterton
- Mr Hunter
- Mr McConnell
- Mr Warnock (O/R)

SECRETARY OF STATE (L & B)



HARLAND AND WOLFF

1. The purpose of this minute is to examine the options which we can take in the short term to tackle the problems at Harland and Wolff.
2. The unwelcome difficulties which have emerged at H & W this week are largely due to the company's failure to complete a stage in the construction of SWOPS and thereby earn an instalment payment from BP. Construction of the vessel is running some six months behind schedule, in turn resulting from the major problems and delays encountered on ATS. Perhaps more serious, however, is the breach by the company of its annual budget so soon after it was approved. This underlying failure was being addressed in the Department when the cash flow problem arose and, indeed, I have been in correspondence with Mr Parker on the matter. All of this provides evidence of a lack of effective senior management; particularly production and financial management.
3. I believe that we have now reached a crisis point in our dealings with H & W. Unless the Government is seen to act decisively, there is the risk that our control systems will become no more than mere reporting devices which lead to the balancing of the books after the damage is done. Cash flow problems at H & W have been a recurring problem and you will recall that you had to go back to colleagues last year for an in-year increase in the EFL.

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We cannot contemplate such a repetition year on year and yet without any action there is no guarantee that this will not happen. Furthermore before approaching colleagues once again we will have to demonstrate that we have taken firm and effective action to address the situation. That suggests a reversal of our current hands-off approach of leaving management to manage ( ) and of leaving market forces to determine the size of the Yard.

4. There are several actions which might be taken to address the crisis and to impress on the management the gravity of the situation. Such actions would also alert the workforce and the general public to the difficulties being faced and the seriousness with which the Government views them. Among the options are:-

- (a) to place the company in receivership.

- (b) replace the Executive Directors.

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(c) replace the Chairman/Managing Director.

(d) replace the non-executive Directors.

(e) replace the Financial Management. As explained at the beginning of this minute the real problem - which has become increasingly apparent in recent weeks - is the lack of financial control in the company. Apart from the budget exceedings, the inability to predict accurately the contract out-turns for both SWOPS and ATS and the continuing delay in the preparation of plans for the physical restructuring of the Yard highlight the weaknesses in this area. This is something which we could directly influence by making it a condition of any further assistance that a team of accountants be engaged to take over this financial control. This team would have two responsibilities namely (i) to advise us as quickly as possible of how serious the financial control problem is and (ii) to take whatever measures are possible to remedy the situation. The team would report to DED and the present Finance Department at H & W would report to it. If necessary it could represent a first stage of receivership and closure. I would envisage a continuing role for Touche Ross to assist DED in the monitoring of the company's performance generally, and more importantly, in the monitoring of progress on AOR, on which we have given a commitment to the House.

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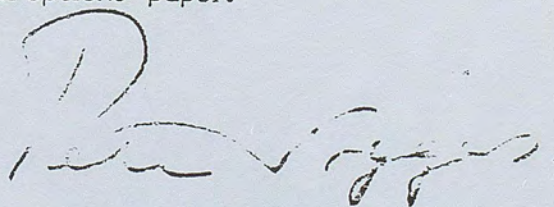


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5. I recommend that we adopt option 4(e) above. This is essentially a short term measure and I have not yet addressed the question of closure. However, we will need to return to this possibility and I would aim to let you have a paper examining all the options - however radical - within the next two weeks. As regards timing, there are good reasons why we should not take any significant steps shortly before "the marching season". However, there is never a good time for this type of measure and I think it is worth the risk. But it is a risk because by going for the lesser option we will need to play up our concerns. It should be presented as a positive, corrective action alerting the public and the workforce to our real concerns. We should, therefore, move to make this appointment within the next few days, and I suggest that you and I should see Mr Parker urgently.

CONCLUSIONS

6. I should like to discuss my recommendation that the financial control of the company should be reinforced as quickly as possible by an outside team of Accountants. In the meantime my officials and Touche Ross are discussing with the company its revised financial projections for the rest of the year. When we have a clearer picture it will be necessary for you to go back to E(A) colleagues. Before that, you will have my "radical options" paper.



PETER VIGGERS  
30 June 1987

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