NATIONAL AUDIT OFFICE

Report by the Comptroller and Auditor General

Department of Trade and Industry: Assistance to British Shipbuilders

Ordered by the House of Commons to be printed
20 March 1986

LONDON
HER MAJESTY'S STATIONERY OFFICE
£3.30 net
This report is presented to the House of Commons in accordance with Section 9 of the National Audit Act, 1983.

Gordon Downey
Comptroller and Auditor General

National Audit Office
19 March 1986
Contents

Department of Trade and Industry: Assistance to British Shipbuilders

Summary and conclusions

Report
Part 1: Background and Scope 7–8
Part 2: Financial Assistance to BS 9–10
Part 3: Financial Controls and Monitoring 11–13
Part 4: Submarine Facilities Project 14

Glossary of abbreviations 15

Appendices
1. Turnover and trading results 16
2. Profit (loss) by activity 17
3. Shipbuilding Intervention Fund 18
4. Financial targets and EFLs 19
Department of Trade and Industry: Assistance to British Shipbuilders

Summary and conclusions

1. Following the restructuring of the UK shipbuilding industry by the Aircraft and Shipbuilding Industries Act 1977, British Shipbuilders (BS) was established as a new corporation on 1 July 1977. The Public Accounts Committee (PAC) considered the formation of BS and the assistance provided for shipbuilding through the Shipbuilding Intervention Fund (SIF) on the basis of reports by the Comptroller and Auditor General and made a number of recommendations in their First and Nineteenth Reports of Session 1979–80 relating, inter alia, to the amount and distribution of the assistance.

2. This Report records the results of an investigation by the National Audit Office (NAO) which aimed to ascertain the extent to which the PAC's recommendations had been implemented since 1980. The NAO examined the effectiveness of the controls operated by the sponsor department, the Department of Trade and Industry (DTI), under the regime established by the 1978 White Paper on the Nationalised Industries. The NAO also examined a new support limit system introduced in 1984 and reviewed a major capital construction project being undertaken in a warshipbuilding company shortly to be sold by BS.

3. The NAO investigation noted that in 1984 the Government set BS specific objectives involving the sale of the profitable warshipbuilding yards by March 1986, leaving the Corporation to concentrate on its merchant shipbuilding and engine building interests, grouped in mid-1985 into seven merchant shipbuilding yards and five associated companies all of which made losses in 1984–85. It is Government policy to set tight and decreasing levels of financial support for the merchant shipbuilding sector. BS aims to manage the business within that framework at a capacity level reflecting its efficiency and the market in which it is operating. Successful pursuit of these objectives will however require BS further to reduce its losses below present levels.

4. The NAO found that BS and DTI had only in part been able to meet PAC's 1979–80 recommendations relating to the high levels of subsidy given to BS and to the need to relate such assistance to the long-term future of the shipyards. Up to 31 March 1985 BS had received assistance of £1,245 million since it was established in 1977 and the financial controls imposed by the Department had not been fully effective. Losses had been made on most completed contracts examined by NAO and while DTI had looked carefully at the initial estimates, the NAO considered it regrettable that the Department had felt constrained by their lack of expertise to accept some estimates which they thought were likely to contain over-optimistic productivity assumptions. The investigation found that there had been no plans to close shipyards undertaking contracts at the time DTI had approved assistance but three of the yards had closed in 1984. BS's new contract
support limit system, introduced in December 1984, aimed to control the amount of support provided to BS and to limit the risk of BS taking on work requiring more subsidy than the Government were prepared to provide. Under this system, BS was free to seek orders, which generally required SIF support, for all its merchant shipyards and to take account of performance on these orders to determine the pattern of any future restructuring. The NAO consider it too soon to say how far the new system will remedy the weaknesses of the old, although DTI think that, on the evidence so far, there is every reason to believe that it will do so.

5. The Government announced on 7 March 1986 that consent has been given to the sale of Vickers Shipbuilding and Engineering Ltd. (VSEL) at whose yard special submarine capital facilities are being constructed funded by public dividend capital (PDC) and loans from public funds. The total cost of the facilities was estimated in October 1985 at £220 million of which £182.5 million was to be funded by means of PDC.

6. Since it was established in 1977 BS has closed a number of shipyards and companies as part of the restructuring of the industry necessary to allow for the decline in the world market for new merchant ships which in 1985 was in its ninth year of no real growth. BS have pointed to the difficulties of European shipbuilders in competing in a market where Far East shipbuilders sold and financed sales on terms which did not cover their costs (paragraph 1.4). The Government set BS specific objectives in July 1984 including the privatisation of the warshipbuilders' yards by March 1986 (paragraph 1.5) and their achievement was expected to reduce BS by March 1986 to 11 (since reorganised into 8) companies engaged in merchant shipbuilding and associated activities which in 1984–85 had a turnover of £179 million and a trading loss of £64 million. The Government approved the strategy underlying the 1984 Corporate Plan (CP) and set tight financial limits which should have enabled BS to secure — on its own efficiency and price forecasts — 200,000 compensated gross tonnes (cgt) of new orders in 1984–85. In addition the Government indicated that for future years a tight and decreasing financial support regime would apply.

7. PAC have previously expressed concern that BS had received a high level of subsidy and trusted that the discipline of financial controls would lead to improvements in performance (paragraph 1.9). Up to 31 March 1985 BS had received about £1,245 million support since it was established in 1977 by way of PDC and SIF and has also had the benefit of dividends of some £160 million on PDC which the Government agreed to forego (paragraph 1.8). BS has suffered losses every year since it was established; its trading loss in 1984–85 was £25 million compared with £161 million in 1983–84; for a number of years larger losses on the merchant shipbuilding yards have been offset by profits on the warshipbuilding yards. In its half-year statement issued on 27 November BS estimated that it would incur an overall loss of £40 million in 1985–86 though the loss on merchant shipbuilding was likely to be less than in 1984–85. I note that the BS auditors have qualified their opinions on the annual accounts in recent years for reasons which must cast doubt on the reliability of the trading results (paragraph 1.7).

8. PAC were also concerned that the Department had committed SIF payments with little regard to the long-term future of the yards concerned (paragraph 1.9) and the Treasury Minute accepted that the Fund should be used to assist the restructuring of merchant shipbuilding with the objective of establishing a competitive and productive, though smaller industry (paragraph 1.10). Although SIF assistance was provided subsequently to three shipyards closed in 1984, NAO
Financial controls

Examination of completed contracts confirmed that at the time assistance was approved there had been no definite plans to close them (paragraph 2.8). BS has adopted a new policy following the introduction of the new contract support limit system (paragraph 11).

9. From the outset of the SIF one of the principal criteria for granting assistance on a shipyard’s order was that the contract should break even after such support. In 1979–80 PAC had observed that the Treasury considered it a major cause for worry that this had not been achieved. This remained the position in 1984–85 when about 45 per cent of the £64 million trading loss incurred by merchant shipbuilding and engine building companies related to contract loss. NAO examination of a sample of completed contracts revealed that losses of £89.1 million, after SIF support of £40.2 million, had been incurred on 16 contracts with a combined value of £209 million. The Department’s accountants had reviewed the original estimates and accepted them in most cases but in others had expressed reservations particularly as to the reasonableness of productivity assumptions. The Department did not consider, however, that they had sufficient expertise to challenge the estimates in depth, but reviewed the completed orders and found that the losses were mainly due to overruns on labour costs and associated overheads (paragraph 2.11).

10. In December 1984 the Department introduced, as a complement to the annual EFLs, a new contract support limit system aimed principally at controlling the amount of support provided on contracts. It was also aimed at reducing the risk of BS incurring losses and requiring support greater than the Department were prepared to provide. The system is designed to achieve these aims by limiting BS’s ability to take on new subsidised work, whilst leaving it with greater responsibility for the commercial management of the business. Under the system BS’s planned order intake levels are derived from the financial assistance limit which the Government have indicated they will provide and from BS’s own price and efficiency forecasts. Should these forecasts prove to have been optimistic, the system is intended to force BS to take fewer orders, rather than make a larger loss. If on the other hand BS can do better than forecast on price and efficiency, it may be able to take on more orders than planned. Within this framework BS has limited discretion to determine how and where the available assistance should be applied in its best commercial interests, provided always that orders are not expected to make a loss after such assistance. There are specific safeguards to ensure that this discretion does not enable BS to compete unfairly with UK private sector yards (paragraph 3.7 to 3.10).

11. Despite PAC’s earlier expectation that SIF assistance should have regard to the long-term future of yards, BS’s current policy is to try to secure orders, which generally require SIF support, for all its merchant shipbuilding yards and to take account of the performance on those orders to determine the pattern of any future restructuring (paragraph 3.9). BS no longer has to seek approval for assistance on individual contracts under the new system but is still required to submit to the Department basic contract details and estimates. The Department will not normally examine these estimates in detail at the outset unless there are special considerations such as competition from other UK or EC yards. The Department however continue as before to examine in full the auditors’ reports upon completion of each contract.

12. The Department have exercised financial control over BS by means of a financial target, which until 1983–84 consisted of an annual limit on trading losses, and the annual EFL. They have not set performance aims but have relied upon these controls — which themselves are set in the light of performance
assumptions underlying the Corporate Plan — and market forces to provide the stimulus to greater efficiency. BS has made a drive to bring its capacity more into line with realistic sale expectations and had reduced its workforce by 16 per cent during 1984 — 85. BS had also made cost savings by improving its procurement procedures and anticipated further savings from the regionalisation of facilities and improved techniques and controls (paragraph 3.19). Although BS had met its loss limit except in years when there were exceptional difficulties and had kept within its EFL, NAO examination indicated that neither of these controls could be considered to be effective. Trading losses were difficult to control whilst BS was in the process of restructuring and BS had little incentive to remain within imposed limits since there was no financial penalty for failing to do so. The EFL had often been achieved by deferring expenditure or by accelerating receipts at the end of financial years (paragraph 3.6).

13. In December 1984 the Department, recognising the limitations of the existing controls, installed the new contract support limit system and set limits for BS for 1984 — 85 and 1985 — 86 designed to enforce the tight and reducing financial support framework specified by the Government, and to reflect the level of subsidy the Government were prepared to commit, the availability of Intervention Fund support and the relevant EFL. For 1984 — 85 the limit was designed to enable BS — on its own price and efficiency forecasts — to secure its CP target of 200,000 cgt. In the event BS met its target. Although the Department intended that the system would not permit BS to undertake more orders where this would mean exceeding the predetermined limit they have allowed BS a degree of flexibility. This, for example, enables BS to commit up to 25 per cent of funds allocated for 1985 — 86 to orders taken in 1984 — 85 provided that construction was not due to start until 1985 — 86 or later (paragraphs 3.8, 3.10).

14. Until recently BS has experienced some difficulty in putting forward realistic EFLs for approval because the CPs on which they were based had not been formally approved by Ministers (paragraph 3.13). The 1985 CP, which was consistent with the levels of financial support which the Government had indicated could be available, was, however, formally approved. Based on these levels BS forecast a reduction in order intake from 200,000 cgt in 1984 — 85 to 168,000 cgt in 1987 — 88 (paragraph 3.14).

15. BS incurred expenditure of £12 million on fixed assets in the Merchant and Composite Division in 1984 — 85 and the Department have approved expenditure of £21 million in 1985 — 86 and £14 million in 1986 — 87 (paragraph 3.16). Following the rejection of the CP for 1983 — 84 to 1986 — 87, for one year Ministers set BS a limit of £1 million (reduced from £2 million) for notifying the Department of individual projects to ensure that BS did not devote capital expenditure to shipyards with doubtful futures. Projects above £5 million continued to require Departmental approval. The NAO examination found that BS’s expenditure comprised a number of relatively small projects and only two notifiable projects had been undertaken in recent years. The Department are in the course of examining BS’s system of investment appraisal and a sample of projects (paragraphs 3.17, 3.18).

16. In 1981 the Department carried out a financial appraisal of a project to modernise facilities at Vickers Shipbuilding and Engineering Ltd. (VSEL) at Barrow-in-Furness; to facilitate the construction of efficient modern warships (including Trident submarines) and to improve productivity, efficiency and competitiveness. In November 1982, the Government approved a scheme which involved elements considered both necessary and desirable. The desirable element was expected to give real returns of from 6 to 9 per cent, calculated by
comparing the extra costs with the benefits obtained but ignoring the expected
general productivity improvements. The return on the total scheme, including
both the essential and the desirable elements, was expected to yield from 2 to 6 per
cent in terms of total costs and benefits including the productivity improvements.
The returns depended upon the level of allowance made for contingencies as well
as being dependent upon changes in certain working practices and upon any
benefits resulting directly from the improved facilities accruing to BS and Min-
istry of Defence (MOD) rather than the workforce (paragraph 4.2).

17. The Government announced in November 1983 that the project would take
about five years to complete at a cost of £230 million (paragraph 4.3). Part of the
cost was to be met by an MOD loan of £25 million although BS would derive no
benefit from the extra costs of £42 million incurred in respect of the Trident
programme after its completion (paragraph 4.4). The arrangements enabling the
Department to monitor the construction and the productivity improvements
were found by their Internal Audit branch in September 1983 to be operating
satisfactorily (paragraph 4.5).

18. In October 1985 the Minister of State, DTI, announced that as part of the
programme of privatising warshipbuilding yards the Department had issued sale
documents for VSEL, together with Cammell Laird Shipbuilders Ltd. On 7
March 1986 the Secretary of State for Trade and Industry announced that he had
given his consent to their sale to the VSEL Consortium plc. The Department
informed me that in order to maximise the proceeds they had suggested to the
bidders that a profit-sharing element should be included in their bids. The Con-
sortium both included such an element and undertook to complete and fund the
remainder of the work on the Submarine Facilities Project (paragraph 4.7).

19. The NAO investigation gives rise to the following principal comments.

20. As well as requiring BS to sell the profitable warshipbuilding yards by
March 1986, in 1984 the Government set BS specific objectives relating to mer-
chant shipbuilding:

(a) to concentrate its resources on 11 loss-making companies engaged in
merchant shipbuilding and associated activities (subsequently reorganised
into eight companies) with a view to establishing a stable, cost-effective
mainstream merchant shipbuilding business; and

(b) to operate within tight and decreasing levels of financial support
(paragraph 6).

As BS forecasts that, in 1985–86, the companies in question will continue to
make substantial losses (paragraph 7) the likely immediate effect of progress
towards these objectives will be that subsidies will be reduced though continuing
at a significant level. Successful pursuit of the objectives will however depend
upon BS further reducing its losses.

21. The NAO noted that following PAC's concern in 1979, and until a new
system was introduced in December 1984, DTI pursued the objective of directing
assistance to shipyards expected to have a long-term future and on the basis that
contracts receiving assistance should break even. However three assisted mer-
chant shipbuilding yards were closed in 1984 and substantial losses were incurred
on 16 out of 18 completed contracts examined by NAO. The Department found
that these losses were mainly due to overruns on labour costs and associated
overheads. It seems regrettable that the Department felt constrained by their lack
of expertise to accept some estimates which they thought were likely to contain
over-optimistic productivity assumptions (paragraphs 8 and 9).

22. The Department have not set performance aims for BS and have relied
upon the combination of financial target, EFL and market forces to provide the
stimulus to greater efficiency. NAO examination indicated that the main controls
prior to 1984–85 of annual loss limits and EFLs were not fully effective (para-
graph 12). However, a new system introduced in December 1984, which is com-
plementary to EFLs, is aimed at controlling the amount of support provided on
contracts and reducing the risk of BS requiring support greater than DTI were
prepared to provide (paragraph 10). Under this system, BS is free to try to secure
orders, which generally require SIF support, for all its merchant shipbuilding
yards and to take account of the performance on these orders to determine the
pattern of any future restructuring. BS no longer has to seek DTI approval for
assistance on individual contracts but submits contract details and estimates.
DTI will not normally examine these in detail but will examine reports from
shipyards’ auditors (paragraph 11). In my view it is too soon as yet to say how far
the new system will remedy the weaknesses of the old. The Department however
take the view that on the evidence so far there is every reason to believe that it will
remedy most, if not all, of these weaknesses.

23. The Submarine Facilities Project at VSEL is due for completion in 1988 at a
cost of £220 million with real returns ranging from 2 to 9 per cent depending upon
the basis of calculation, the assumptions made and expected changes in certain
working practices (paragraph 16). The arrangements enabling DTI to monitor
construction and productivity were operating satisfactorily in 1983 (paragraph
17). In October 1985 DTI issued sale documents for VSEL and have been con-
sidering various options for maximising the proceeds from the sale taking
account of both the Government investment to date and the requirement for
further investment by the buyer. Consent to the sale of VSEL to the VSEL Con-
sortium plc, was announced on 7 March 1986 (paragraph 18).
Department of Trade and Industry:
Assistance to British Shipbuilders

Report

Part 1: Background and Scope

1.1 For a period of about 20 years from the mid 1950's the
world shipbuilding industry as a whole underwent a major
expansion although shipbuilding capacity remained con-
stant in the United Kingdom. As a result the UK's share of
the world shipbuilding market fell over the period from 25 to
3½ per cent. From 1973 there was a substantial worldwide
decrease in new shipbuilding orders largely as a result of the
1973–74 oil crisis and the related economic recession.

1.2 The world market for new merchant ships continued to
decline and in 1977 a major restructuring of the UK shipbuil-
ding industry took place with the passing of the Aircraft and
Shipbuilding Industries Act 1977 (1977 Act) which estab-
lished British Shipbuilders (BS) as a new Corporation on 1
July 1977. The principal powers and duties of the Corpor-
ation laid down in the Act as subsequently amended by the
British Shipbuilders Act 1983 are:

- to carry on the design, development, production,
sale, repair and maintenance of ships and slow speed
diesel marine engines and research into matters relat-
ing thereto.

- to carry on any activities which were carried on
immediately before vesting day by any company which
became a wholly owned subsidiary of BS by virtue of
the 1977 Act.

- to carry on any other activities authorised by the
Secretary of State.

In exercising these powers it is the duty of BS to
organise its activities in an efficient manner and to
obtain the Secretary of State's consent before making
any substantial change in its organisation.

The securities of 27 specified shipbuilding and repair firms
were vested in the new Corporation and the firms were compen-
sated in the form of Government stock. Although a
number of small shipbuilding and repair firms remained in
the private sector following nationalisation BS, together
with Harland and Wolff, which is wholly owned by the
Northern Ireland Department of Economic Development,
accounted for most of the total UK merchant shipbuilding
completions (94 per cent in 1978; 85 per cent in 1984).

1.3 The 1977 Act required the Secretary of State to deter-
mine the amount of the commencing capital debt and public
dividend capital (PDC). In 1979 he announced that BS would
have no commencing capital debt and would be financed by
PDC issued to replace interim loans advanced from the
National Loans Fund (NLF). PDC has continued to be paid
every year but BS has not been required to pay dividend on
its capital until such time as the industry becomes profitable.

1.4 The restructuring of the industry has involved yard
closures and reductions in capacity and manpower. In BS's
first four years of operation nine shipyards, three ship repair
companies and a number of other facilities were closed and
this pattern has continued with a further five companies
being sold or closed in 1984–85. In the 1984–85 Annual
Report and Accounts, the BS Chairman noted that the
world market for new merchant ships had continued its
latest decline into the first quarter of 1985 with the world
order book falling to a two year low. The market for new
merchant vessels was in its ninth year of no real growth and
prospects were little better for the foreseeable future. He
commented on the difficulties faced by European shipbuil-
ders in competing in a market where Far East shipbuilders
sold and financed sales on terms which did not cover their
costs, let alone provide profit. BS considered that unless
South Korea and Japan adopted more responsible policies
then it was difficult to see how any European shipyard could
maintain its capacity even at the present dramatically
reduced levels. I note that the Swedish Government
announced in February 1986 the closure of the country's last
remaining merchant shipyard.

1.5 The Government's primary aims for the future are to
return the constituent parts of BS to the private sector at the
earliest opportunity and to reduce substantially BS's call on
Government financial support as quickly as possible.
Accordingly in July 1984 the Government endorsed BS's
primary aim of concentrating resources on a stable, cost-
effective mainstream merchant shipbuilding business and
required it to secure the privatisation of the warshipbuilders' yards by March 1986.

1.6 In October 1985 the Government confirmed that as in
1984 they endorsed the broad thrust of the proposed strategy
now contained in BS's Corporate Plan for 1985–86 to
1988–89. This strategy had, in 1984–85, enabled BS to
reduce its trading loss to £25 million and to achieve its new
order target for merchant ships of some 200,000 compens-
sated gross tonnes (cgt) although this level was unlikely to be
achieved in 1985–86.
1.7 For each year since its establishment in 1977 BS has made a loss and the adverse balance on reserves at 31 March 1985 included accumulated losses of £854.7 million. The BS Accounts for 1984–85 showed that the historic cost trading loss of £25 million, after crediting Shipbuilding Intervention Fund (SIF) support of £22 million (Appendix 1), consisted principally of losses of £59 million on merchant shipbuilding and £9 million on engine-building and other engineering, offset by profits of £45 million on warshipbuilding (Appendix 2). The most significant factor in the trading result was the cost of underutilisation of facilities amounting to £52 million which gave rise to severe losses for a number of subsidiaries despite, for the most part, underlying improvements in manufacturing costs. The Accounts identified 11 companies which would continue to form part of BS after the sale and closure of companies was complete. The turnover of these continuing companies in 1984–85 was £179 million (£886 million for all BS activities) and they incurred a trading loss of £64 million. However I note that the auditors gave the historic cost basis accounts a qualified report on four counts relating mainly to uncertainty as to the provisions for losses and depreciation and thereby casting doubt on the reliability of the results. In its half year statement issued on 27 November BS reported a trading loss of £24 million in the first half of 1985–86 and forecast a loss of £40 million for the whole year. This latter figure reflected the progressive privatisation of the profitable warshipbuilding activities but the statement noted that the residual merchant shipbuilding activity showed an improvement in financial performance over 1984–85.

1.8 In addition to payments of PDC totalling £987 million on which the Department have forgone dividends (paragraph 2.2), the main forms of financial support available either directly or indirectly to BS and the private sector are grants from the SIF (£20 million in 1984–85; estimated £28 million in 1985–86) and grants made under the Home Shipbuilding Credit Guarantee Scheme (HSCGS) to lending institutions for the benefit of shipowners (£20 million net in 1984–85; estimated £60 million net in 1985–86). Grants from the SIF and HSCGS are also available to the private sector. DTI are making payments in 1985–86 under these three forms of assistance from Class IV, Votes 7 and 21 and are responsible for the monitoring and control of BS.

Scope of NAO examination

1.9 The Public Accounts Committee (PAC) have in earlier years examined various aspects of assistance to shipbuilders. Most recently they considered the formation of BS and the operation of the SIF in their First and Nineteenth Reports of Session 1979–80. They expressed concern that, notwithstanding the recommendations of previous Committees, the Department had committed SIF payments to meeting losses on building merchant ships with little regard to the long-term future of the particular yards concerned. They observed that the Treasury had considered it a major cause for worry that BS had not broken even on orders supported from the Fund, as had been intended. PAC were also concerned at the high level of subsidy given to BS and trusted that the discipline imposed by applying EFLs and financial targets would lead to the improvements in performance necessary to return BS in the short-term to a fully competitive position.

1.10 The Treasury Minutes responding to those Reports accepted that the Fund should be used to assist the restructuring of merchant shipbuilding with the objective of establishing a competitive and productive, though smaller industry. In July 1979 the Government had announced their policy towards the shipbuilding industry and the level of support in the light of BS’s plans to contract its merchant shipbuilding capacity to an annual rate of some 430,000 tons by March 1980. Since the first tranche of SIF assistance referred to by PAC, subsequent assistance to BS had been directed exclusively to those yards to be retained under its Corporate Strategy and this continued to be the Department’s policy (Cmd 7788 and 8125).

1.11 The aim of the NAO examination was to ascertain the developments since PAC reported in 1979–80 and the effectiveness of the financial controls in operation until December 1984 when a new contract support limit system was introduced. NAO examined the procedures introduced under this new system. It also reviewed a construction project being undertaken in a warshipbuilding yard shortly to be sold by BS. The examination was mainly concerned with PDC issues and SIF assistance and excluded the Shipbuilding Redundancy Payments Scheme which forms part of the costs of restructuring of BS, and other assistance schemes which have now ended or on which payments were relatively small. Nor did it cover the guarantees to lending Institutions of secured loans for new shipbuilding orders under the Industry Act 1972 (as amended).

1.12 In carrying out this examination the NAO had access to the records of DTI but not to those of BS.
Public dividend capital

2.1 The 1977 Act provided for the Corporation to be funded by PDC with the approval of the Treasury. The 1978 White Paper on the Nationalised Industries (Cmd 7131) stated that the nationalised industries statutorily eligible to receive PDC (including BS) were operating in highly competitive international markets. It was right that they should have a capital structure which did not create an annual obligation to pay an unduly large fixed amount of interest during the downturn of their trading cycle. However the Government did not see the issue of PDC as a soft option because they would expect that taking good and bad years together the average level of gross dividend payments would be at least as much as the interest which the Government would have received if they had advanced the money from the NLF.

2.2 Initially the Treasury considered that it would be inappropriate to finance substantial deficits of BS for several years by means of PDC but in August 1979 the Treasury approved its use for an initial period of two years from December 1979. The Government announced in October 1979 that BS would not pay dividends on its PDC until it became profitable. The amount of PDC paid to BS is decided as part of the annual Investment and Financing Review (IFR) and by 31 March 1985 the DTI had paid PDC totalling £986.9 million.

If this amount had been taken as 15 year maturity loans from the NLF, interest payments would have amounted to some £160 million.

2.3 The Department considered that the expected proceeds from the privatisation of the warshipbuilding yards would obviate the need for any payments of PDC to BS in 1985–86 and made no provision in the original Estimates. The Treasury initially allowed BS to borrow from the NLF on a short term basis until the proceeds became available. However they subsequently concluded that, as BS was not in a position to service borrowings from internally generated funds other than sale receipts, with one exception no further loans should in general be issued. The exception is a short term loan covering the cost of buying in a $50 million Eurobond issue, whose terms required BS to remain in control of virtually the whole of the UK shipbuilding industry, and whose redemption was therefore triggered by the sale of the warshipbuilding yards in 1985–86. The 1985 Supplementary Estimates for Class IV Vote 21 included a new provision of £75 million PDC to be paid to BS to cover the costs incurred under the terms of the sale of Scott Lithgow considered by PAC in their 2nd Report, Session 1985–86 (£35 million) and to fund part of the cost of the modernisation of VSEL (£40 million).

2.4 The Supply Estimates making provision for payment of PDC to BS have noted the Government’s decision that BS would not pay dividends until it was profitable and the BS Annual Accounts show the amounts of PDC received. The European Communities (EC) allow member states to provide production aid to their shipbuilding industries (paragraph 2.7) but the European Commission have sought information each year about UK proposals to pay PDC under procedures laid down in Article 93 of the Treaty of Rome. The Commission have given retrospective approval to the proposals after examination of the BS Annual Reports and Accounts.

Shipbuilding Intervention Fund

2.5 In February 1977 the Government set up the SIF under the Industry Act 1972 to assist shipyards in the UK to obtain orders. In particular grants were made available from the Fund to BS and the remaining private sector shipyards to enable them to compete with Far Eastern shipyards. The Government intended that the Fund should be used selectively to secure the maximum benefit at least cost and applied criteria to its use. These related to the cost in relation to the benefit for the long-term future of the industry, the improvement of the industry’s competitiveness, the maintenance of employment and the avoidance of serious industrial disruption. Grants are now made under the terms of the Industrial Development Act 1982.

2.6 National schemes of assistance to shipbuilders in EC member states have to satisfy the EC Council’s Fifth Directive on Aid to Shipbuilding dated April 1981. The Directive allows a member state to provide production aid to remedy a serious crisis in the shipbuilding industry provided it is linked to the attainment of industrial restructuring objectives with a view to making the industry competitive.

Part 2: Financial Assistance to BS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>£m</td>
<td>236.0</td>
<td>110.0</td>
<td>107.0</td>
<td>70.0</td>
<td>274.9</td>
<td>189.0</td>
</tr>
</tbody>
</table>

If this amount had been taken as 15 year maturity loans from the NLF, interest payments would have amounted to some £160 million.

2.7 In July 1985 the Minister announced agreement with the Commission of new arrangements which applied to orders taken from July 1984 and would last until December 1986 and which permitted an increased rate of SIF of up to 20.5 per cent of contract price. The Commission had indicated that they would consider payments above the specified rates on a case by case basis particularly for orders where there was no EC competition. The Minister affirmed that SIF assistance was intended essentially as a temporary aid to merchant shipbuilding and was provided only for contracts taken on a non-profit basis. He explained that such aid would not normally be appropriate for, nor provided to, shipbuilding interests which had been or were to be privatised by BS. The Commission had, however, agreed to...
consider any case where exceptionally, for reasons related to the maintenance of defence capacity, SIF support might be given.

2.8 The NAO considered whether assistance had been provided in respect of contracts undertaken by shipyards which subsequently had closed or were, at the time assistance was approved, planned to close. The examination revealed that, at the time SIF assistance was approved, there had been no plans to close three merchant shipbuilding yards which were subsequently closed in 1984. Nor, in the other cases examined were there definite plans for early closure of the yards responsible for the contracts at the time assistance was approved. BS has now adopted a new policy (paragraph 3.9).

2.9 The applications for SIF assistance submitted by shipyards through BS up to December 1984 contained detailed estimates of the contract costs with basic assumptions on the rate of inflation, productivity, etc. DTI accountants examined the estimates which the Department and the Treasury considered before they recommended the applications for Ministerial approval. Where applications were approved, the Department made payments from the Fund on an instalment basis. On completion of construction the shipyard submitted a claim for the final instalment of assistance which was supported by an auditor’s certificate and examined by the Department’s accountants.

2.10 NAO examination revealed that for 1984–85 about 45 per cent of the trading loss of £64.3 million of the merchant shipbuilding and engine building companies of BS related to contract losses. As one of the principal criteria for the granting of SIF support was that the contract should break even, the NAO examined a sample of 18 completed contracts placed between 1977 and 1982 involving 11 shipyards to see whether this had been achieved.

2.11 The outturn costs of 16 of the contracts showed that losses of £89.1 million on total contract costs of £209 million had been made after support of £40.2 million from the Intervention Fund. The other two contracts with a combined value of £26.3 million made total profits of £1.3 million after support of £6.7 million. The Department’s accountants had reviewed and accepted the original contract estimates in most cases but in others had expressed reservations particularly as to the reasonableness of productivity assumptions. All of the contracts examined by the NAO had been reviewed by DTI who found that the losses were mainly due to higher than estimated labour costs and associated overheads frequently because expectations of improvements in productivity had not been realised. DTI did not consider that they had the expertise to challenge in depth the estimates submitted by the shipyards.

2.12 The new Contract Support Limit Scheme introduced in December 1984 is considered in Part 3 (paragraphs 3.7 to 3.10).

Home Shipbuilding Credit Guarantee Scheme (HSCGS)

2.13 DTI operate this Scheme, under Section 10 of the Industry Act 1972 (as amended), for financing domestic orders for building, modifying and repairing ships and mobile offshore installations in UK shipyards. The Department pay sums to the lending institutions sufficient to ensure that they receive an agreed rate of return on their lending under the Scheme by bringing the rates of interest on fixed rate loans to shipowners up to market rates. In 1984–85 the Department paid out £27.7 million in respect of ships built both by BS and by the private sector (Class IV, Vote 8).

2.14 The Scheme conforms to an Organisation for Economic Co-operation and Development (OECD) Understanding on credit for the export of new ships over 100 gross registered tonnage. It provides for loans of up to 80 per cent of the contract price over a maximum of 8½ years currently at a net interest rate of 7½ per cent. Applications for HSCGS support receive individual scrutiny from DTI and their professional agents as to the costs and risks involved.
3.1 The NAO examination considered the extent to which the main 1978 White Paper controls over the nationalised industries were relevant to BS and how effectively those in place were operating. Until December 1984 DTI exercised financial control mainly by means of the financial target, which took the form of an annual limit on trading losses, and the annual external financing limit (EFL). In December 1984 the Department introduced a new control system to operate alongside EFLs (paragraphs 3.7 to 3.10).

Financial target and external financing limit

3.2 The Secretary of State with the approval of the Treasury has determined BS's financial duty as seeking to limit any trading loss before interest, tax and extraordinary items and, from 1981-82, after crediting SIF assistance (Appendix 4). The loss limit was met until 1982-83 when it was substantially exceeded because of difficulties with four contracts and customer default in connection with a liability guaranteed by BS. The unpublished limit for 1983-84 was set at £20 million and was based on BS's forecast of trading although the Department considered this figure optimistic and thought the loss would amount to £60 million. In the event, the trading loss was £160.9 million of which £100.9 million arose from BS's offshore activities from which it has subsequently withdrawn.

3.3 The Department and the Treasury agree the EFL annually with BS following the annual IFR for which BS provides the standard returns. BS has never exceeded its EFL although in some years the limit has been increased to meet special circumstances (Appendix 4). In 1981-82 the outturn was just within the EFL although the outturn did not take account of a sum of £80 million paid by MOD on 31 March 1982 and shown in BS's accounts as notes receivable.

3.4 The EFLs for 1982-83 and 1983-84 were:

<table>
<thead>
<tr>
<th></th>
<th>1982-83</th>
<th>1983-84</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original Bid</td>
<td>£147</td>
<td>£108</td>
</tr>
<tr>
<td>Revised Bid</td>
<td>£130</td>
<td>£167.2</td>
</tr>
<tr>
<td></td>
<td>(plus</td>
<td></td>
</tr>
<tr>
<td></td>
<td>contingency of</td>
<td></td>
</tr>
<tr>
<td></td>
<td>£41m</td>
<td></td>
</tr>
<tr>
<td>Notified EFL</td>
<td>125</td>
<td>160</td>
</tr>
<tr>
<td>Adjusted EFL (National Insurance Surcharge)</td>
<td>122</td>
<td>158</td>
</tr>
<tr>
<td>Revised Notified EFL</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outturn</td>
<td>119.7</td>
<td>172.3*</td>
</tr>
</tbody>
</table>

* Excluding costs of £33.3 million cash associated with the restructuring and disposal of Scott Lithgow Ltd.

For 1982-83 the original bid included an element for capital expenditure of £60 million but this was subsequently reduced to £49 million of which £14 million related to the Submarine Facilities Project at VSEL (Part 4). During the second half of the year, as a result of pressure on its EFL brought about by depressed trading conditions in all market sectors, BS imposed tight constraints on almost all non-essential capital expenditure. This resulted in a shortfall in expenditure of £33 million against the 1982 Corporate Plan (CP).

3.5 By May 1983 it became clear that the approved 1983-84 EFL of £158 million (after adjustment) would be substantially exceeded due principally to shortfalls in orders, and the Department sought Treasury approval in principle for an increased EFL. By the end of September BS was forecasting a requirement of £294 million which included costs associated with the Britoil contract at Scott Lithgow of £106 million. In October Treasury approval was sought for a revised EFL of £180 million (excluding Scott Lithgow) and this was notified to BS in November. BS was only able to remain within the limit by deferring capital expenditure totalling £49 million against an allocation of £90 million, by deferring redundancy and creditors' payments and accelerating receipts from the European Social Fund and the Ministry of Defence (MOD). When BS realised that after all it would be substantially within its EFL, it withdrew bills for £51.6 million submitted to MOD before the end of 1983-84 before they were paid and re-presented them in 1984-85.

3.6 The NAO examination revealed — as DTI had already recognised — that the loss limit had proved to be an ineffective means of control. It was difficult to control trading losses whilst BS was in the process of restructuring and there was no incentive for BS to remain within imposed limits since there was no financial penalty should it fail to do so. The examination also showed that whilst historically BS had a good record of staying within its EFL this had often been achieved by deferral of expenditure or acceleration of receipts at the end of financial years. This was possible because BS had an uneven cash flow, having relatively few but high value contracts and the cash forecasts were volatile, making tight EFLs difficult to set. It was relatively easy for BS to advance or delay transactions in order to adhere to its EFL.

Contract support limit (CSL)

3.7 In December 1984 the Department, recognising the limitations of the existing controls, introduced the CSL system as a complement to EFLs with the primary aims of controlling the amount of support provided on contracts and reducing the risk of BS requiring support greater than the Department were prepared to provide.

3.8 The system is designed to achieve these aims by limiting BS's ability to take on new subsidised work, whilst leaving it with the flexibility to decide what work to take on. Under the system BS's planned order intake levels are derived from the financial limit which the Government have indicated they will provide and from BS's own price and efficiency forecasts. Should these forecasts prove to have been optimistic, the system is intended to force BS to take on fewer orders, rather than make a larger loss. If on the other hand BS can do better than forecast on price and efficiency, it may be able to take on more orders than planned. Grants from the SIF will be the main component of the new system and these will be subject, as before, to parameters agreed with the European Commission within which an annual limit will be set by the Department.

3.9 Under the new system BS has discretion, within certain limits, to apply the various means of assistance as it sees fit although it cannot take orders which are forecast to make losses after such assistance. There are specific safeguards to
ensure that this discretion does not enable BS to compete unfairly with UK private sector yards. BS policy is to try to secure orders for all its merchant shipbuilding yards (which can generally only be done with SIF support) and to take account of the performance on these orders to determine the pattern of any future restructuring. The new system simplifies the SIF application procedure because BS no longer has to seek approval for assistance on individual contracts but submits to the Department basic contract details and costings on which the Department issue a grant letter. The Department do not normally undertake a detailed examination of the costings at the application stage unless there are special considerations such as competition from other UK or EC yards. However they will require, on completion of the contract, a report from the shipyard's auditors, which they will examine. If the Department find that the contract costs are lower than estimated they will retain or claw back the appropriate sums in accordance with prescribed profit-sharing arrangements.

3.10 In December 1984 the Department notified BS of the CSLS set for 1984–85 and 1985–86. While the Department intended that the system would not permit BS to undertake more orders where this would mean exceeding the predetermined limit they have allowed a certain degree of flexibility. Up to 25 per cent of funds allocated for 1985–86 may be applied to orders taken in 1984–85 provided that construction of the ships was not due to start until 1985–86 or later. BS kept within the 1984–85 limit after drawing an amount well within the allowed degree of flexibility from the next year's funds. For 1985–86 BS is expected to keep well within the limit, partly reflecting the current worldwide depression of the shipbuilding market and consequent shortage of new orders.

3.11 The 1984–85 EFL was split between merchant shipbuilding and warshipbuilding. Initially BS made a provisional total bid for a 1984–85 EFL of £131 million which, after revised bids, was finally approved at £217 million — £137 million for merchant shipbuilding and £80 million for warshipbuilding. The outturn against these limits was £134.3 million and £78.1 million respectively, mainly because of cancellations and deferrals in capital expenditure (£96 million before grants against a budget of £145 million).

**Corporate planning and monitoring**

3.12 Corporate Plans produced by nationalised industries are intended to be the principal vehicle for providing information to sponsor departments on the industry's medium-term plans, placing these in the context of strategic options open to the industry, and giving details of its objectives and planning assumptions and the factors most likely to influence the industry's ability to meet its Plan. Plans are subject to Ministerial approval.

3.13 BS's Plans cover 4-year periods and are normally produced annually though none of those produced in the period 1978 to 1983 received Ministerial approval; since EFL bids are based on information contained in each Plan BS experienced some difficulty during this period in putting forward realistic EFL bids. The 1983 CP covering 1983–84 to 1986–87 was initially rejected by Ministers because BS considered that it was only possible to project acceptable levels of Government support by assuming rates of productivity improvement which the Department did not consider feasible. BS was instead asked to produce a strategy document containing as much planning information as was possible in the time available. The 1984 CP covering 1984–85 to 1987–88 was based on this strategy document.

3.14 The Government approved the strategy underlying the 1984 CP and set tight financial limits which would nevertheless enable BS to secure on its own efficiency and price forecasts, 200,000 cgt of new orders for 1984–85. In addition the Government indicated that they would apply a tight and decreasing financial support regime. The 1983 CP submitted to the Department was consistent with intended future support levels and forecast a reduction in order intake from 200,000 cgt in 1984–85 to 168,000 in 1987–88. It did not consider alternative options for the size of the industry.

3.15 DTI are responsible for monitoring the activities of BS and in addition to the CP they receive, on a monthly basis, Consolidated Financial Reports. These provide extensive financial information covering, inter alia, trading profit/loss, direct labour and overhead costs and utilisation, financial support of contracts and cash flow; the reports also provide on a shipyard by shipyard basis details of contract profit/loss and shipyard profit/loss. The Department also receive monthly funds flow statements (prepared by all nationalised industries) covering separately the merchant shipbuilding and warshipbuilding Divisions of BS. DTI and BS meet quarterly to discuss the monitoring information supplied to the Department. Discussions cover such topics as recovery of overheads, productivity and procurement and ship financing.

**Investment strategy and appraisal of investment projects**

3.16 BS's objectives in relation to capital expenditure are: to replace assets selectively; to implement a development expenditure programme linked to productivity plans; and the approval of contract related product development expenditure on a required basis once a contract is renewed or agreement in principle reached. The capital expenditure plan for the Merchant and Composite Division is based on the submissions of subsidiary companies after review the Division and the Corporate Capital Expenditure Planning Committee. BS expended £12 million on capital investment in the Division in 1984–85 and DTI approved £21 million of investment in 1985–86 and £14 million in 1986–87.

3.17 BS ranks investment proposals in order of priority, in order to identify those which can be deferred in the event of financial constraints. As a general rule replacement expenditure is accorded a higher priority than productivity-related investment. Following the Government's rejection of the 1983 CP, Ministers agreed that to ensure BS did not devote capital expenditure to yards with doubtful futures, the limits above which projects had to be notified to the Department should be reduced from £2 million to £1 million; the limit of £5 million beyond which Departmental approval was required remained unchanged. Following acceptance of BS's 1984 CP the limits have reverted to their previous levels.

3.18 BS's merchant shipbuilding investment comprises a number of relatively small projects which, under current arrangements, mean the Department will rarely have an opportunity to assess and comment on BS's methods of
investment appraisal. The NAO examination found that BS had undertaken only two notifiable projects over £2 million in recent years. The Department had already concluded that they should examine BS's appraisal system through a sample of projects and are in the course of doing so. To this end they have been holding discussions with BS on the planning and ranking of projects and methods of investment appraisal. The Department intend to produce a report on the systems used for evaluation and monitoring.

Performance aims

3.19 The Department have not set performance aims for BS and the stimulus to efficiency is provided by the combination of financial target and EFL, both of which reflect the performance assumptions underlying the CP, and market forces. The 1984-85 Annual Report and Accounts noted that the drive which BS had made to bring capacity more into line with realistic sales expectations had provided a healthier workload for its remaining shipyards. Total employment in the BS Group had been reduced by 16 per cent in the year 31 March 1985. BS had made an estimated 2½ per cent saving on equipment and materials purchased for ships under construction and had negotiated a saving of 5 per cent compared with the All Manufacturing Industries Index on contracts for consumables and stock. BS had gained cost savings and was anticipating further savings from the regionalisation of facilities and improved techniques and controls. In addition in two merchant shipyards where it had applied new budgeting procedures it expected savings to range from 11 to 33 per cent of individual overhead cost elements, amounting to £5.3 million out of a total of £20 million.
Part 4: Submarine Facilities Project (SFP)

4.1 In June 1985 my Report on the design and procurement of warships referred to contracts placed with Vickers Shipbuilding and Engineering Ltd (VSEL) for the Trident submarine programme. The NAO has now carried out a scrutiny of DTI papers relating to a construction project at VSEL which is of particular significance because it is being funded mainly from PDC and the warshipbuilders being provided with the facilities are in the process of being sold.

4.2 In 1981 DTI carried out a financial appraisal of a project to modernise VSEL's facilities at Barrow-in-Furness to facilitate the construction of efficient modern warships (including Trident submarines) to Ministry of Defence (MOD) requirements and to improve productivity, efficiency and competitiveness. They considered two ways of providing the facilities to meet MOD's proposed programme. One would involve the minimum level of expenditure (£94 million at 1980 prices) and the other would require an additional £43 million at 1980 prices, principally to provide a large-level-floor covered hall for the final stages of fabrication.

4.3 BS considered that the expenditure on the cheaper option was essential to meet the MOD proposed programme. BS also considered the additional expenditure to be very desirable but not essential but argued that it was only the extra costs that had to be justified and its appraisal showed a better return than the 5 per cent required for nationalised industries' investment. The Department assessed the internal real rate of return as being between 6 and 9 per cent when comparing the extra cost of the desirable work with the benefits of reduced labour costs and of savings in direct and overhead costs, but ignoring the general productivity improvements anticipated. They assessed the rate of return as being between 2 and 6 per cent if the costs of the total scheme, including both the essential and desirable elements, were compared with total benefits, including the general productivity improvements. The range of returns depended upon whether allowances were made for contingencies on capital costs and the basis of calculation of any allowance. The returns were also dependent upon BS and trade unions giving undertakings that certain working practices would be changed and that any benefits resulting directly from the improved facilities would accrue to BS and MOD rather than to the work force.

4.4 The Government approved the full project in November 1982 and a year later the Minister of State, DTI, gave further details of the project and its funding. The project would take about five years to complete at a cost of £220 million, funded two-thirds PDC and one-third loans. The finance would be advanced to BS and passed on to VSEL on the same terms. VSEL would be responsible for servicing the loan through BS and would also remunerate the PDC element of the funding. The rate at which PDC would be remunerated would be decided by the Secretary of State for Trade and Industry with the consent of the Treasury taking into account VSEL's profits arising on contracts and improvements from productivity arising from the project itself. BS might retain the remuneration of the PDC in which case it would be taken into account when setting its external financing limit each year.

4.5 MOD would provide £25 million of the loans although BS had estimated that extra costs incurred in respect of the Trident programme would amount to £42 million from which BS would derive no benefit after completion of the programme. The remainder of the loans was to be borrowed from the National Loans Fund (NLF) and £12.5 million had been issued by July 1985 when the funding arrangements were revised (see paragraph 2.3) with the NLF element henceforth to be met through PDC pending the sale of VSEL. The estimated total expenditure at October 1985 was £220 million.

<table>
<thead>
<tr>
<th>PDC</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>MOD loans</td>
<td>25.0</td>
</tr>
<tr>
<td>NLF loans</td>
<td>12.5</td>
</tr>
<tr>
<td>Total</td>
<td>£220.0</td>
</tr>
</tbody>
</table>

4.6 A memorandum of understanding between DTI and BS contained an outline of the information to be provided by BS for monitoring the project construction programme and productivity improvements. DTI also required BS to obtain statements from its auditors verifying the expenditure on the project and confirming that significant transactions between VSEL and BS had been on normal commercial terms. The memorandum makes provision for DTI to engage an agent to monitor the progress and cost of the works and they have engaged the Property Services Agency to do so. BS would allow the agent reasonable access to the site and would make available all data relevant to the construction. The Department's Internal Audit Branch reported in September 1983 that they were satisfied with the monitoring system.

4.7 The Minister of State, DTI, announced in October 1985 that as part of the programme of the privatisation of warshipbuilding yards the sale documents for VSEL, together with Cammell Laird Shipbuilders Ltd, had been issued on 10 October. The VSEL fixed assets at 31 March 1985 were £116 million although net assets were only £25 million. On 7 March 1986, the Secretary of State for Trade and Industry announced that he had given his consent to the sale of Vickers Shipbuilding and Engineering Ltd to the VSEL Consortium plc. Its offer consists of a downpayment of £60 million, together with a profit-sharing arrangement for the period 1986 to 1992, which could provide British Shipbuilders with further payments of up to £40 million in 1992 and 1993. The Consortium has undertaken to complete and fund the remainder of the work on the Submarine Facilities Project, which will modernise the production facilities at VSEL and enable the company to complete the Trident submarine programme in accordance with the Ministry of Defence's requirements. In October 1985 the outturn cost of this project was estimated to be £220 million. By the time of completion of the sale the Government expect to have provided £124 million of which some £93 million will be funded by PDC. In addition, under the terms of sale BS will meet further outstanding costs up to the date of completion estimated to total £4 million. The Department informed me that in order to maximise the proceeds they had suggested to the bidders that a profit-sharing element should be included in their bids. The Consortium both included such an element and undertook to complete and fund the remainder of the work on the Submarine Facilities Project.
Glossary of Abbreviations

BS  British Shipbuilders

cgt  Compensated gross tonnes

CP  Corporate Plan

CSL  Contract Support Limit

DTI  Department of Trade and Industry

EC  European Communities

EFL  External Financing Limit

HSCGS  Home Shipbuilding Credit Guarantee Scheme

IFR  Investment and Financing Review

MOD  Ministry of Defence

NAO  National Audit Office

NLF  National Loans Fund

OECD  Organisation for Economic Co-operation and Development

PAC  Public Accounts Committee

PDC  Public Dividend Capital

SFP  Submarine Facilities Project

SIF  Shipbuilding Intervention Fund

VSEL  Vickers Shipbuilding and Engineering Ltd
### BS Turnover and trading results

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Turnover</strong></td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Turnover</td>
<td>899.3</td>
<td>1,025.6</td>
<td>1,092.5</td>
<td>886.8</td>
<td>865.9</td>
</tr>
<tr>
<td>Loss before SIF</td>
<td>85.5</td>
<td>66.6</td>
<td>137.9</td>
<td>172.2</td>
<td>47.2</td>
</tr>
<tr>
<td>SIF credited</td>
<td>44.1</td>
<td>46.8</td>
<td>20.4</td>
<td>11.3</td>
<td>22.0</td>
</tr>
<tr>
<td><strong>Trading Loss</strong></td>
<td>41.4</td>
<td>19.8</td>
<td>117.5</td>
<td>160.9</td>
<td>25.2</td>
</tr>
<tr>
<td><strong>Adverse Balances on reserves</strong></td>
<td>210.4</td>
<td>225.7</td>
<td>353.6</td>
<td>585.6</td>
<td>692.4</td>
</tr>
</tbody>
</table>

* Principally accumulated losses less adjustments in respect of subsidiary companies acquired on vesting date and Department of Industry loans taken over from the Secretary of State.
## Appendix 2

### Profit (loss) by activity

<table>
<thead>
<tr>
<th>Activity</th>
<th>1982–83 £m</th>
<th>1983–84 £m</th>
<th>1984–85 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merchant Shipbuilding</td>
<td>(85.5)</td>
<td>(49.2)</td>
<td>(59.3)</td>
</tr>
<tr>
<td>Warshipbuilding</td>
<td>54.7</td>
<td>43.8</td>
<td>45.5</td>
</tr>
<tr>
<td>Engineering</td>
<td>(2.0)</td>
<td>(12.6)</td>
<td>(8.8)</td>
</tr>
<tr>
<td>Ship repairing</td>
<td>(5.3)</td>
<td>(3.7)</td>
<td>(0.8)</td>
</tr>
<tr>
<td>Offshore</td>
<td>(76.8)</td>
<td>(100.9)</td>
<td>(3.5)</td>
</tr>
<tr>
<td>Other</td>
<td>(2.6)</td>
<td>(38.3)*</td>
<td>1.7</td>
</tr>
<tr>
<td></td>
<td>(117.5)</td>
<td>(160.9)</td>
<td>(25.2)</td>
</tr>
</tbody>
</table>

* Includes special depreciation provision of £37.9 million made in 1983–84.
### Appendix 3

#### Shipbuilding Intervention Fund

<table>
<thead>
<tr>
<th>Intervention Fund Tranche</th>
<th>Period</th>
<th>Maximum Amount</th>
<th>Maximum rate of assistance</th>
<th>Commitments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>£m</td>
<td>%</td>
<td>age</td>
</tr>
<tr>
<td>1</td>
<td>24/2/77–15/7/78</td>
<td>65</td>
<td>30</td>
<td>57.1</td>
</tr>
<tr>
<td>2</td>
<td>16/7/78–15/7/79</td>
<td>85</td>
<td>30</td>
<td>39.4</td>
</tr>
<tr>
<td>3</td>
<td>16/7/79–15/7/80</td>
<td>65</td>
<td>23</td>
<td>52.5</td>
</tr>
<tr>
<td>4</td>
<td>16/7/80–15/7/81</td>
<td>55</td>
<td>23</td>
<td>49.9</td>
</tr>
<tr>
<td>5</td>
<td>16/7/81–15/7/82</td>
<td>45</td>
<td>15</td>
<td>39.8</td>
</tr>
<tr>
<td>6</td>
<td>16/7/82–30/6/84</td>
<td>54</td>
<td>15</td>
<td>33.6</td>
</tr>
<tr>
<td></td>
<td></td>
<td>369</td>
<td>272.3</td>
<td>16.3</td>
</tr>
</tbody>
</table>
## Table 1

### British Shipbuilders Trading Losses Limits imposed by Secretary of State and Outturn

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Limit</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td></td>
<td>90.0*</td>
<td>25.0</td>
<td>10.0</td>
<td>20.0**</td>
<td>Not determined</td>
</tr>
<tr>
<td>Outturn</td>
<td>85.5</td>
<td>19.8</td>
<td>117.5</td>
<td>160.9</td>
<td>25.2</td>
</tr>
</tbody>
</table>

* Before crediting Intervention Fund; subsequent limits are after crediting Intervention Fund.
** Not published.

## Table 2

### British Shipbuilders External Financing Limit imposed by Secretary of State and Outturn

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Limit</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td></td>
<td>185.0</td>
<td>150.0</td>
<td>122.0</td>
<td>180.0</td>
<td>137.0</td>
</tr>
<tr>
<td>Outturn</td>
<td>169.6</td>
<td>146.4</td>
<td>119.7</td>
<td>172.3*</td>
<td>134.3*</td>
</tr>
</tbody>
</table>

* Excludes cash costs specifically associated with the restructuring and sale of Scott Lithgow Ltd (1981–84 £153.3 million; 1984–85 £22.5 million).