

Joint Trade Union Proposal on  
**DARA Rotary Wing & Components**  
Business Units





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## **Introduction**

On May 21st, senior officers of the Trades Unions (TUs) were briefed by the Minister (DE&S), Lord Drayson, in London ahead of an announcement in Parliament. The Minister told the TUs he was minded to merge ABRO and DARA to create a new defence maintenance, repair and overhaul entity (subsequently named the Defence Support Group – DSG). The Minister told us that he believed he had arrived just in time to avert a crisis in support for the Armed Forces, and in some cases, perhaps just too late. The new DSG he was minded to set up would be a key strategic asset, critical to the Nation's defence, and it would be central to the MoD's operations. The Minister told us that he recognised that this would require changed behaviours and relationships within the Department, and that the new DSG would have to have access to new platforms to ensure its long term success. He also told us that visibility of workload and the ability to plan over the long term relied on the new DSG being regarded by IPTs and the Armed Forces as a fundamental part of the MoD which had to be protected and maintained.

A few weeks later, Lord Drayson announced to Parliament that he was pressing ahead with the sale of DARA's Rotary Wing & Components business. The TUs sought a meeting with the Minister to clarify the position, and we met him on September 13th in London. The TUs told the Minister that we believed proceeding with the sale of RW&C directly contradicted the spirit and intent of the creation of DSG, and introduced an unacceptable level of risk in helicopter support at a time when the platforms were key to our success in two theatres. The Minister told us that he shared our concerns and that the decision to sell was one of the things that kept him awake at night, but that he was advised by Senior Civil Servants that the only alternative to sale was long term decline for the RW&C business and inevitable job losses for those employed. The proposed sale to Vector Aerospace was a finely balanced judgement, but gave the chance to bring in new work, including possible work on commercial platforms which the MoD did not have access to. The Minister invited us to put an alternative scenario to him and assured us that this would be given full weight in his decision on whether or not to proceed to sale.

The Trade Union Proposal which follows is therefore a set of suggested measures which, taken together, would change the context within which the RW&C business operates. We believe that the measures proposed are sensible, achievable and necessary in order to protect a key asset critical to the Nation's defence, and that managed decline of the RW&C business is not inevitable.

# 1. Trade Union Proposal

1.1. The Trade Unions believe the key driver in servicing the front line should be the high quality delivery of that capability in an efficient, flexible and value for money way. This includes recognising the need for financial control, but not at the expense of the quality of servicing the Armed Forces.

1.2. Support arrangements offered to the Armed Forces and Integrated Project Teams (IPTs) are a key aspect of service delivery and need to be as flexible as possible. Flexibility means any situation can be reacted to appropriately; the TUs believe an in-house solution incorporating the proposals below would provide the best level of flexibility, quality and value for money. There is already a great deal of innovation in improving the level of flexibility within DARA. For example, DARA Almondbank sends working parties to Main Operating Bases in response to urgent operational requirements that cannot be dealt with by the Bases or contractors. DARA Almondbank is also currently making contractual arrangements with the Integrated Project Teams to create a mobile response team for fixed wing cockpit polishing repairs. This task is not deemed to be financially rewarding enough for the contractors and the original equipment manufacturers.

1.3. The TUs wish to see a system of 'mobile servicing parties' introduced. These parties would move around the Main Operating Bases (MOBs) to carry out minor servicing, modifications and rectifications to aircraft and its components. Currently, these tasks are carried out on a small scale with aircraft needing to be fitted into a pulse line. By eliminating this need the downtime of an aircraft would be reduced and its availability increased. The TUs believe that this approach has a proven track record given the experience of ABRO which, over recent years, has introduced In-Barracks Support arrangements for the vehicle fleet. ABRO offers support at barracks alongside Armed Forces personnel, utilising the facilities on-site. This has three distinct advantages. Firstly, the work is done where the vehicles are located, which cuts down cost and logistics in transporting them to ABRO sites. Secondly, it allows the Department to "sweat its assets", making use of the facilities on site and making them work harder, offering a better return on investment. Thirdly, it means that

inexperienced Armed Forces personnel can work alongside experienced and seasoned craft personnel and learn on the job whilst being supervised and coached by experts, disseminating knowledge and strengthening the skills of our Armed Forces personnel. ABRO has added to In-Barracks Support in the shape of mobile repair teams – “a man in a van”, which operate like AA or RAC roadside patrols, carrying out repairs where a vehicle breaks down in the field. Recently, this has extended to direct support in theatre. We see no reason why a similar approach to RW&C could not be adopted.

1.4. Major servicing, modifications and rectifications require fixed test rigs and extended time in a state of aircraft, or component, strip down. These should remain at fixed centres of excellence, where dedicated teams, hangar space and workshops are readily available. These dedicated sites would be DARA Fleetlands and DARA Almondbank.

1.5. The TUs also believe a dedicated DARA Liaison representative at each of the MoBs would improve the service offered. Their role would be to act as points of contact for the squadrons and coordinate the mobile servicing parties with the customer; thereby enabling the Agency to meet customer requests and expectations.

1.6. The TUs would like to see the reintegration of Service Personnel at the centres of excellence.

1.6.1. Firstly, this would be an important step towards building upon the relationship the Agency has with its main customer.

1.6.2. Secondly, it would enable knowledge transfer between all parties involved with the aircraft platforms. The Service Personnel would gain experience of depth maintenance to take to the front line. The Civil Servants based within the Agency would develop a greater understanding of problems faced on the front line. This could be implemented at DARA Fleetlands with a minimum of disruption due to a number of service establishments in the area. The Service Personnel would replace Agency workers currently employed at the site.

1.7. The Agency should move towards a more supportive role with a change in the way the Agency is funded. The Agency presently has to make a profit on the work it carries out for the MoD. Certain tasks and functions that are vital to support the front line are non-profit making for the Agency and therefore not undertaken. For example, while conducting a service, if parts are discovered that are still within tolerance but will need replacing in a short period of time it makes sense it is replaced while the aircraft or component is stripped down. However, as it is still serviceable, and it is not within the contract to replace the part it will be left in place - even though it may become a major job to replace after the aircraft or component has been reassembled. This also increases the total amount of downtime of an aircraft, and therefore reduces its availability.

1.8. The only exception made to this process is when flight safety implications are involved. The information and associated cost is passed onto the IPT with the decision then being taken whether or not to replace the part – a process that wastes valuable time, and again impacts on the availability of the aircraft.

1.9. The TUs do not believe the current situation of one MoD department having to make a profit for work it carries out for other MoD departments is sensible. The TUs believe moving the Agency away from being output funded to being capability funded would be a more effective funding solution. It would enable the Agency to concentrate on the key issue of servicing the front line. This would involve the MoD deciding what level of capability is required from the Agency. For instance, the number of mobile servicing parties needed across the country and the number of depth maintenance bays and workshops at the centres of excellence over the coming years.

1.10. The TUs are confident that capability funding for the Agency will enable it to offer the best possible support to the front line; with the running of mobile servicing parties solution alongside the reintegration with service personnel solution. DARA would still run on the lines of a commercial organisation covering contracts with non-MoD organisations, for example Boeing and Agusta Westland. Financial responsibility would therefore remain at the heart of the organisation, but not at the detriment to the priority of servicing the front line.

## 2. End to End Review of Logistics

2.1. The TUs are dismayed by the new direction the MoD is now pursuing within the Rotary Wing (RW) Depth aircraft-servicing arena. The work on the Merlin, Apache, and future Lynx platforms would be carried out at the Main Operational Bases (MOBs).

2.2. In July 2003 the End to End Review of Logistics (E2E) was delivered. Recommendation 40 of the E2E Review stated that the MoD should:

*“Put in place a formal, transparent process to evaluate the options to reconfigure support infrastructure in Air. DARA should take an active part in this process both providing alternate options for the provision of Depth support, and competing to manage work on or adjacent to the MOB.”*

2.3. TU attention focused on the decision to roll forward Fast Jet (FJ) work to MOBs, and to roll back RW work to DARA. The TUs disagreed with the FJ side of the E2E study, and whole-heartedly agreed with RW roll back. The rationale that led to the roll back of RW work was correct back in 2003 and remains correct today.

2.4. The ‘End to End Study Recommendation 40 Follow On Work’<sup>1</sup> states it is more cost effective to carry out RW depth servicing away from the MoBs. The figures quoted in the report are; Lynx roll forward cost £10,376,000 compared to a cost of £3,720,000 to roll back to DARA. To roll forward Sea King a cost of £4,146,000 is quoted compared to a roll back cost of £2,058,000. The TUs feel there would be similar substantial savings for new and future platforms<sup>2</sup>.

2.5. The cost of RW flying hours to the depth maintenance hub at DARA was detailed in the same study. Subject matter experts were consulted and concluded that all additional flying time incurred by moving depth support to DARA could be attributed to either training flights or pre-service test flights. This has been discounted as a cost driver for rolling depth support forward.

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<sup>1</sup> End to End Study Recommendation 40 Follow On Work, prepared by Management Accountancy Services (Army), ref D/DASD/35/219 MAS(A), 2<sup>nd</sup> April 2004

<sup>2</sup> Ibid, paragraph 37, page 8

2.6. The issues surrounding the Crisis Manpower Requirement (CMR) were also important contributory factors to the decision. As the outcome of the E2E study was to roll back the depth servicing to DARA this issue must have been taken into account and found to be a non issue in the RW environment.

2.7. The TUs strongly believe that roll back is more efficient for the MoD then roll forward. The TUs have not been consulted or informed of a change of direction in the MoDs thinking in this area, and are concerned that a direction change in thinking can be detected.

### **3. Selling is the high-risk option**

3.1. The TUs have great concerns with selling the Rotary Wings and Components strategic capability. The TUs do not believe this course of action provides the best value for the MoD nor do we feel it is in the best interests of the employees we represent. The TUs do not understand the rationale behind the consideration being given to the sale option, especially given the operational strain on Helicopters and Helicopter Components at this time.

3.2. Helicopters and Helicopter Components are a key battlefield asset and are currently under extreme pressure in Iraq and Afghanistan. DARA have shown commitment to the Armed Forces in the past and continue to improve the equipment services and maintenance to the Helicopters. The TUs find it difficult to believe that at a time of such high demand the MoD is prepared to consider giving control of the serviceability of the RW&C to private industry. What would the implications be of these actions if the private sector failed to deliver their commitments?

3.3. The sale of strategic considerations in this way will leave the MoD in a situation that has been admitted by its Senior Civil Servants (SCS) of having no fall back position. This is extremely dangerous - at least with outsourcing it could be brought back in house if difficulties were to occur. We fail to understand why this possibility could be considered for one of the most strategic battlefield assets the MoD currently possess.

#### **Vector Aerospace**

3.4. The TUs are greatly concerned that none of the original equipment manufacturers (OEMs) are interested in acquiring this capability - leaving an overseas company with no significant track record on this scale in the RW&C field as the only bidder. Vector Aerospace (VA) is a relatively small company - if they were to procure RW&C the company would more than double in size.

3.5. VA comes under the Canadian based Private Holding company, Parkview Capital Partners. Two of the partners are involved with VA: Donald

Jackson is the President and CEO of Vector Aerospace and Randal L. Levine is the CFO and Senior Vice-President of VA. Donald Jackson is also on the Board of the Shotgun Fund – a private equity firm that is set-up specifically to take advantage of deterioration in business relationships.

3.6. VA has a relatively poor track record of competing for contracts in its Sigma Aerospace operating division in Croydon. To the TUs knowledge, the company have been unsuccessful in securing new work since taking over the site from Huntings. The TUs have member reports that there has been no investment in the Croydon plant by Vector Aerospace; staff and members at Sigma Aerospace have grave concerns over their future at the Croydon site.

3.7. The TUs fear that private firms such as Vector Aerospace tend to have a short time-horizon, and that long-term strategic investment will not be made. Instead the focus will be on securing as much of a return on investment as possible, in the quickest possible time. The drive for short-term profit very often leads to cost-cutting which undermines quality. For example, in the TUs experience the terms and conditions of experienced and dedicated staff are always particularly vulnerable in such sales.

3.8. The TUs have visited the RW&C sites to gauge the feelings of the workforce. They were fully briefed in an open and honest manner. It was explained that there are uncertainties with both the in-house and the sale options. Senior DARA Managers attended the meetings and will be able to confirm what was discussed. There was an over whelming consensus from the workforces at both RW&C sites to remain within the MoD.

3.9. Lord Drayson stated during the meeting with the TUs on the 13<sup>th</sup> September that the Senior Civil Servants within the Transformation Team were recommending the sale of RW&C businesses. It was stated they feel this is the only option to guarantee long-term job security. The TUs do not agree with this stance and have asked the Transformation Team and VA to provide evidence to support their position. To date no evidence has been presented.

3.10. The TUs feel the SCS have not fully investigated all available options. They have not answered all the concerns and queries the TUs raised in the Consultation Document response dated 14<sup>th</sup> September (Annex 2) and at meetings. As stated earlier, the equipment and capability under discussion is of strategic importance to the MoD and the Armed Forces. The TUs believe selling is a high-risk option, and as such should not even be considered by the MoD.

## 4. Commercial Environment

4.1. The commercial environment in which DARA currently operates is unusual. It is neither a fully commercial organisation, nor is it a fully Government funded organisation. This leaves the Agency running the financial and commercial sides of the business with one arm tied behind its back compared to private industry competitors. It also leaves the Agency unable to provide the support and flexibility it wishes too when dealing with other government funded organisations. A good example is where contracts have been let by the MoD and basic work has been charged very competitively. However, any required amendment or deviation from the initial contract is then is charged at an extortionate rate. Therefore any emerging work that is carried out - which is part of aircraft servicing - costs much more than the original budgets had anticipated. Our Government funded competitors see the work force and the assets as already funded and therefore do not need to pass on these additional costs. This makes them better placed to deliver the required high quality, flexible support.

4.2. Since its formation, DARA has trod a narrow path between these differing elements of business. The DARA workforce have always tried, and have been successful, in meeting all business targets set by DARA's key stakeholders - HM Treasury and the MoD. Commercial imperatives and the re-directing of resources to achieve this have meant a pulling away from full customer support and simply working to what contracts dictate. This has reduced the vital support previously given to the Armed Forces. The DARA workforce have a "Lets just get it fixed" approach no matter what state the aircraft or component. This has attitude has been tempered over time.

4.3. No-one would argue that the set up before DARA was ideal and many would agree that modernisation was required. The TUs believe, however, that the introduction of commercial considerations has meant the corner stone of the processor organisations has been lost – that the Armed Forces be supplied with their equipment in the best condition possible.

4.4. The TUs understand, and support, finance control being extremely important to the MoD and to the HM Treasury as it is tax payers money. The TUs also believe this should not be to the detriment of servicing the Armed Forces front line. Some decisions taken in the past 7 years during DARA's existence have not always been the best value for defence. A good example of this is the strategic decision taken by DARA to significantly cut the number of service personnel employed within the agency. While financially this may have made sense as it reduced costs, the TUs feel that operationally it distanced DARA from their main customers as DARA no longer worked alongside our service personnel. What is required is to redress the balance between financial and operational considerations.

4.5. The TUs also believe a further difficulty exists within DARA's commercial environment - the original equipment manufacturers (OEMs) would prefer for the MoD in-house Component Repair Capability to be undermined. It is a widely known and held belief within these organisations that being able to sell new components to the MoD is more profitable than supporting a repair system. It is the TUs strong belief that as soon as the MoD loses ownership of this capability it will see an increase in procurement costs of new components.

4.6. The Senior Civil Servants (SCS) advocating the sale of RW&C point towards the success in the Fast Jet arena, no doubt citing the National Audit Office (NAO) report that was produced on rolling forward Fast Jet work. The TUs believe there were several analytical flaws with this report; please refer to Annex 1 to see the TUs response to the NAO report.

4.7. The TUs believe the current ownership of RW&C has led to a more flexible and responsive support arrangement. A good example of this is the surge capability shown on Chinook which has increased its through-put due to operational demands by 150% over and above the standard tasking. If you compare this to the private companies that carry out similar work on Apache and Merlin, the TUs believe it demonstrates that DARA is more responsive to the surge demand by comparison.

4.8. The challenge is therefore to devise a model retaining a large degree of financial control which allows the flexibility and freedom to fulfil the important role of servicing and supporting the Armed Forces that DARA has. It must also fit with the current partnering contracts with the OEMs that DARA has. The aim is to guarantee capability for sustained support to the Armed Forces front line as its first priority. The TUs believe our proposal delivers these goals. The TUs firmly believe that keeping DARA within the MoD offers the best value for defence. Keeping DARA within the MoD will enable this capability to be structured in a way that strikes the correct balance between fiscal control, surge capability and flexibility.

## **5. Areas that need Ministerial input**

5.1. The success of the Trade Unions proposal does require direct Ministerial input, particularly in a few key areas outlined below.

5.2. The fundamental change that needs to be driven from a Ministerial level is future aircraft platforms. Without access to work on Puma, Merlin, Apache and Future Lynx, the Agency has no future. For the Agency to be in a situation to support the front line as effectively as possible it needs a Ministerial mandate which takes into account each of the individual platforms above and looks at the whole arena. Work off these platforms needs to be directed into the Agency, and going forward to secure the long-term future of the RW&C capability within the MoD's control. Clear instructions should be issued to the Chief of Defence Materiel and the IPTs that the RW&C business should be the primary provider for MRO support, and that where a possible decision to outsource work arises this should be subject to a decision-making process above IPT level which balances potential financial savings with the long-term viability of the RW&C business, and with the preferred option to retain work in-house wherever possible. In this way a consistent and coherent approach could be applied which delivered the support envisioned by the Minister in setting up the DSG.

5.3. As explained in previous sections, the TUs believe the funding of the Agency must change from focusing on outputs to the delivery of capability as the most effective way of engineering the Agency to best servicing the Armed Forces. This change requires a Ministerial mandate.

5.4. There needs to be a culture change within the MoD, especially amongst the Senior Civil Servants and top level Officers. The new Agency must be recognised as an asset; the TUs believe that in time, with the changes proposed in this document the benefits would speak for themselves. However, to get these changes off the ground requires the support of the Minister.

## 6. Summary

6.1. The TUs believe the proposal put forward in this document is in the best interest of the MoD, the Armed Forces frontline squadrons and our members. The TUs are confident this solution will lead to increased aircraft availability and overall cost reductions compared to placing this capability into the private sector.

6.2. The recommended changes are:

- i) Mobile working teams.
- ii) Reintegration with service personnel.
- iii) Liaison representatives at main operating bases.
- iv) Change Agency funding arrangements.
- v) Ministerial direction on future platforms and outsourcing decisions.

6.3. It is the TUs belief these measures will improve efficiency with the Agency striving to meet all the demands and challenges that lie ahead in this time of high operational demand.

6.4. With the support of the workforce we represent, the TUs are confident that partnership working can deliver the capabilities within the new Agency. The Agency will therefore be in a position to deliver the best possible support to the Armed Forces frontline.

6.5. The TUs have welcomed this opportunity to put forward this counterproposal for your consideration and look forward to discussing this with you before a final decision is made.

6.6. In closing we believe that these proposals will:

- Secure critical supply of helicopters and components to the front line,
- Improve the flexibility of the servicing response,
- Keep this important strategic capability within direct MoD control,
- Guarantee longevity of employment for the workforce.

## **Annex 1: Trades Unions response to the NAO Report on Transforming logistics support for Fast Jets**

A.1. We believe that there are fundamental inaccuracies in the National Audit Office (NAO) report. Whilst we agree that significant savings have been made by the MoD, in the last decade on the logistics support of Fast Jet, these savings have also been of benefit to the front line troops and the taxpayer as a whole. However, we do not agree that moving the fast jet work to the Main Operating Bases (MOBs) was the main driver for financial savings, but was driven by the long overdue partnering with industry for the supply chain and design authority. This link has always been problematic due to IPR and design rights not being held by the MoD.

### NAO financial issues

A.2. Part two of the NAO report is of special interest. A number of the claims and financial claims made against DARA we feel need to be looked at in more detail. To do this the bigger picture needs to be seen in the first instance.

A.3. The main decision to move work away from DARA came from the End-2-End study. One of the main costs the study looked at was the Crisis Manning Requirement (CMR), which reflected the need for depth repair to be carried out by this manpower, to save the RAF having to pad out the front line squadrons. It has now transpired that the depth work at the MOBs has not been carried out by the RAF personnel but by industry, mainly BAES and Agency staff. This, we feel, was always the intention, due to the falling personnel numbers in the RAF and can be seen in the NAO report figure 9.

A.4. Next, let us look at the key issues around the Tornado platform. Firstly some background, the last Tornado GR4 left DARA at the beginning of March 2007. The main draw-down happened in September / October 2006. DARA had gone through a trial to look at implementing full Lean processes on the Tornado in July / August of 2004. However, due to the publication of the End-2-

End report and recommendation 40 in September 2004, many of the resources moved on to platforms that DARA had security on, for instance VC10 and Hawk.

A.5. When you look at the large saving of £1.3 billion made on the Tornado platform between 2001-2002 and 2006-2007 in figure 6, over 93% (£1.2 billion) of the savings were made up to financial year 2005-2006. Therefore, before the run down of Tornado servicing at DARA, the main savings must have been made in partnering arrangements made by the IPT and DARA along with industry on the supply chain and technical support from the design authority. This can be seen in the cost reduction in Capital spares and Traditional contract costs.

A.6. The next issue of concern refers to figure 16, the time taken to carry out a minor on a Tornado. This is a strange comparison to make when DARA were doing minors, it was the high work loaded aircraft, whereas the minor line at RAF Marham would only take the lightly loaded aircraft. DARA were servicing the minors with Life Extension Programs (LEP) 1, 2 and 3 and not any standalone with just small modifications. The pulse line at RAF Marham only serviced standalone with small modifications. This is not to be seen as an attack of our colleagues at RAF Marham but as an observation. The workload needs to be broadly comparable before any statistics are compiled and seen to be comparable.

A.7. The next point we would like to look at is the cost per flying hour for the Tornado aircraft (figure 8). Again, this has been reduced and this is to be applauded. The main saving, however, was made before financial year 2005-2006 so again, before the Tornado depth servicing had left DARA. DARA cannot take the credit for all of this reduction as the aircraft servicing intervals were extended in financial year 2004-2005.

A.8. We now wish to draw your attention to claims regarding Harrier work. First we look at Harrier's background. The last Harrier left DARA in January 2005. The main draw-down took place in May / June of 2004. The main programme DARA was carrying out for the last 18 months was the Harrier

maintenance program 4 (HMP4), which was contracted to a 140 day Turn Round Time (TRT) but was completed with an average TRT of 136 days. This was the major modification program for upgrading the Pegasus Engine.

A.9. The first part we would like to look at is the claim in par 2.11 of the NAO report, which makes reference to the trial. This states that the first trial major at RAF Cottesmore was completed in 91 days. If you look at the 4 standard ways to work out the TRT of aircraft servicing none of them come anywhere close to the claimed 91 days. When you look at the 4 main ways of working out TRTs you find the only aircraft at RAF Cottesmore for a major was ZD463. Below is a list of the 4 common ways to measure TRT and how long it has taken.

a). Card duration: This is the length of time that the aircraft maintenance job card is active = 141 days

b). Card raised to flight test: This is the length of time between the maintenance job card being raised and the first aircraft flight test = 142 days

c). Card raised to delivery: This is the length of time between the maintenance job card being raised and the aircraft being returned to its user = 147 days

d). Operational flight to delivery: This is the length of time between the last operational flight and the aircraft being returned to its user = 151 days

\* Info from the RAF LITS system

The major is broken-down into 11 distinct parts:

1. Paint strip
2. Aircraft strip
3. Inspection
4. Rectification
5. Re-build
6. Paint

7. Static test
8. Engine ground run
9. Flight test
10. Rectification
11. Delivery

A.10. It would be interesting to find out at what point RAF Cottesmore class the aircraft servicing to be complete. Which of the processes above did they carry out to obtain a TRT of 91 days? If using the same processes that DARA used for their TRT, which is last operation flight (input delivery flight) to delivery flight, they did this in 151 days compared to an average of 136 days for a major in DARA. Therefore, this needs to be examined to ensure that when there is a comparison, it is like for like or it is easy to get a misleading view.

A.11. The next issue to look at is cost per flying hour for the Harrier. Again this is reducing and good news to the MoD. The fall appears to coincide with the work being removed from DARA. The drop off begins in financial year 2004-2005. On further investigation you will note that the aircraft servicing intervals were extended by 44%. Therefore a minor servicing went from every 500 hours to 720 hours. This would have a drastic effect on cost per flying hour. As the cost of servicing is relatively high, with the extension it can fly more often. Thus, providing more hours between servicing. This will have a positive effect on aircraft availability, the reason being that the aircraft coming up to a servicing point would get extended flying time. This can be seen in Fig 12, where over a four-month period, the number of aircraft in depth maintenance fell from 19 to between 3 or 4.

A.12. The next issue to look at is the fact that DARA bid for the GR7 to GR9 conversion work. Part of the bid was to reduce TRT to 140 days. This was with any servicing level the IPT wished, however due to the End-to-End study this contract never came to fruition. Anecdotal evidence at the time indicated DARA was the lead runner for the contract. Partnering talks for the spares had already commenced with BAES. Due to the CMR issues that were the key to the End-2-End study, this was ruled out at the final stage.

## Current Contracts

A.13. We have spent a lot of time going over the NAO report and looking back over the past. We would now like to take the opportunity to look at the successes and great achievements DARA have accomplished on the platforms that the MoD announced would remain with DARA at the St Athan Site. The first being VC10's, which we currently work on. The second is the Hawk, which due to further decisions has now been relocated to RAF Valley.

A.14. The first platform we would like to bring to your attention in more detail is the VC10. This platform currently has minor, minor star and major servicing work carried out at St Athan. This is under a partnership agreement with BAES (Javelin contract). The VC10 is a legacy platform that has been in service with the RAF since the 1960's. The current forecasted out of service date (OSD) is 2014 and the fleet currently consists of 16 aircraft.

A.15. I mentioned earlier that DARA had been looking at lean servicing systems for Tornado. The resources were reallocated (paragraph 4). VC10 is one of the platforms that benefited from this reallocation. When you look back at the TRT times, in the financial year 1999/2000 the TRT stood at 125 days for a major. Now, after implementing lean servicing techniques and going into partnership with BAES, the TRT has been cut to 90 days. If you look at the TRT for a minor it has reduced from 33 days to 25 days. As you will no doubt agree, these are a significant reduction. We feel the minor star servicing best describes the great strides DARA has made. When the minor star was carried at the MOBs the TRT was 77 days. DARA took over this servicing in partnership with BAES in 2005 and was contracted to a TRT of 60 days. All lean processes continue to strive for reductions. As we speak, and with only 4 aircraft completed at this servicing level, we have cut the TRT by a further 10 days. Therefore, a minor star servicing now only takes 50 days, a reduction of 27 days over the old support system for this platform.

A.16. Looking at the success of this platform you will note that for the last 18 months we have met our 100% delivery targets, which we hope you agree is a phenomenal achievement. In the time scales available we have looked at the

repair and overhaul (R&O) of the components. We are in partnership with BAES and we are pleased to say that this sector has also achieved 100% delivery time. The success in this area has led to a doubling of the work content.

A.17. In the last two years we have won BAES Chairman's award bronze and silver. We were also nominated for the gold for initiative and our problem solving capabilities. We mentioned earlier that the VC10 is an ageing aircraft and therefore parts are beginning to fail for the first time. DARA has used its expertise in aircraft servicing to come up with repair schemes and solutions. The unforeseen faults have been rectified, whilst keeping aircraft production on track. This enables DARA to meet agreed delivery dates overall.

A.18. Looking at the productivity of the VC10 platform at DARA, you will see that even with the 50% turnover of staff which was due to the closure of Fast Jets, it has remained steady. This is a great testament to the employees and training within Dara.

A.19. You can see the achievements attained in VC10's have been substantial. This has been based on the lean processes and the expertise within the organisation. We are pleased to say that DARA is now recognised as the most improved supplier to BAES. DARA has been invited by BAES to attend their awards ceremony and in partnership, and present the awards.

A.20. The next platform we would like to look at is Hawk. This again is an ageing platform. DARA used to carry out major maintenance and modifications on this platform, until the closure of Fast Jets. We started to lean this platform, and up until the announcement of the work being moved, continued working on substantial improvements.

A.21. The TRT for Hawks was 80 days in the financial year 2001-2002. This was cut to 65 days in the financial year 2003-2004. Yet another substantial reduction to 45 days was made in the financial year 2006/2007. As you can see using the lean processes, we managed to cut 35 days off the major servicing.

A.22. The Hawk platform was a great success in partnering with BAES. This success was based on the Fuselage Replacement Programme (FRP), which was Modification Number 2010. This programme consisted of splitting the aircraft at the rear of the cockpit and completely replacing the fuselage and subsequent wiring. The programme was completed in three distinct parts. Part one was dismantling and removing all parts and wiring rear of the cockpit and this was carried out at Dara. The second part was building and fitting the new rear fuselage. This was carried out by the BAES plant at Brough. The third part was refitting all parts and rewiring the rear fuselage, then returning the aircraft back to a serviceable condition. This was carried out at Dara. This modification programme was a great success, came in on time and within budget, even though the original plan was to carry out this modification without any routine maintenance. This changed after the first few aircraft and most aircraft received a level of depth maintenance. This was carried out at the same time.

A.23. You can see the work carried out at DARA has been substantial. It has been built on the principles of lean processes. This success could have been rolled out across the other Fast Jet platforms, if not for the End2-End review, which used the questionable argument of the CMR as mentioned in Para 3.

A.24. As you can see from the success that has been detailed above, we feel that if DARA had been successful in winning the Harrier GR7 to GR9 conversion as mentioned in para 12, we would have met the TRT in the bid. Furthermore, the bid contained a reduction of the aircraft in servicing at any one time. The Harrier Maintenance Facility would have gone down from 12 aircraft floor loaded to 8 therefore making more aircraft available to the front line, where we all agree they are most needed.

A.25. Not only has DARA St Athan taken on board the lean processes and partnering, with the key industrial leaders, the whole of DARA has adopted this approach. Take a look at DARA Sealand (Electronics). It has partnering arrangements with the main Electronic Original Equipment Manufacturers. It has also gone through the lean process, to streamline the supply of electrical and avionics spares to the IPTs. If you look at DARA Almondbank you will see they have the same systems in place, a good example being the Blade-to-Blade

contract. This is in partnership with Agusta Westland. All of these examples and many more within DARA are continuing to reduce costs to the MoD, thus improving availability of key parts and platforms.

## Summary

A.26. No one will argue that the support for Fast Jets did not need to change. However, going into a partnership with the companies that own the design authority and intellectual property rights of the aircraft along with spares, we believe, was the more appropriate route to take. The partnership approach has brought the private companies on board. The MoD has stopped a lot of the upward financial pressure that was going on. It has also helped to make the supply chain more effective. Lean processes have become streamlined and the servicing procedures have taken out a lot of non-value added tasks, but we believe that the partnering has gone too far. We would argue that the industrial partners need to be on board, but not to the level that the MoD have lost most of the control and should insist that key parts are kept in-house even if this is by sub contracting.

A.27. The financial savings that have been made in the Fast Jet arena come as a benefit to both front line troops and the taxpayer. However, we feel that further questions need answering, before the claims in the NAO report can be fully justified.

- Q.1. How much of the savings were made whilst DARA were still carrying out Fast Jet servicing?
- Q.2. How much of the savings were down to extending the servicing intervals?
- Q.3. How much of the savings were made by reducing active aircraft squadrons?

A.28. Looking at the recommendations in the NAO report we agree with all of them, especially recommendation 3. Recommendation 3 refers to the value

benchmark and states this should be set against an in-house solution. This could bring realistic efficiency improvements when used. This would move the benchmark from the Value for money benchmark (VfMB) to a Value for Defence Benchmark (VfDB).

A.29. We do not believe moving Fast Jet work away from DARA was the best value for defence. The decision was more of an internal political decision within the MOD than a financial one.

A.30. Statistics used in the NAO report are misleading as they do not compare like with like. All statistics can be used to demonstrate whatever the presenter wishes them to say. An example of this is shown below. Using facts and figures from this report, it could be argued that it was more cost effective in the long run to keep fast jets at DARA, using the fact that the forecasted saving is incremental between financial year 2006-2007 and 2010-2011 and will peak at £8m. As history has demonstrated to us, the last years of a platform's life are some of the most expensive. This is due to the age and fatigue of the components. The out of service date is 2025 for the GR4 Tornado. So, if this £8m saving was made from today the MoD would save £144m over the lifetime of the Tornado. The closure of Fast Jets and the setting up of the depth hubs has cost £140m and £18m respectively. It would therefore have been £14m cheaper to leave the Fast Jet work at DARA. So, as you can see the same facts and figures can be used to put a different perspective on the same argument.

A.31. The decision to move the Fast Jet work has been taken and this work has left DARA. There is little possibility of the work returning to the site. We hope that the great successes demonstrated across the whole of DARA are taken into account when new platforms come on line. The DARA sites have a proud history of servicing all types of aircraft and components for the MoD. We have gone through a period of unprecedented modernisation. This has made us more customer focused and in key parts, industry leaders. This resource is part of the MoD and we believe it should be used in partnership with industry and the IPTs. The IPTs are currently making financial savings for the MoD. In the long term, if the MoD gets to a situation where new platforms have the design authority and IPR is held within the MOD, the agency could be used by the IPT

as the lead contractor instead of a sub contractor, therefore keeping more of the function within direct MOD control.

### Criticism

A.32. There are only two parts of this NAO report that we feel should scrutinise further. The first being very few of the comparisons used throughout this report have been looked into at the required depth, thus not comparing like for like. If the comparisons are not measured correctly and are not on broadly comparable subjects, the findings become questionable.

A.33. All issues have two sides. We feel this report has completely ignored one side. For a report to even suggest moving work from DARA has saved £1.4 billion over the last 6 years, when the majority of that time the work remained at DARA calls the conclusions drawn into question. It is also a concern that the NAO did not discuss their report with anyone within DARA or even to visit the site to obtain a balanced picture. This is quite frankly disappointing and could lead the perception of a predestined outcome. If this visit had been carried out the NAO would have had a clearer picture. The comparison of dissimilar information could have been avoided and the whole report would have had more credibility.

## Annex 2: Letter from Joint Trade Unions to Keith Norris, 14<sup>th</sup> September 2007



Our ref:

Your ref: DGFM/DTT/8/1

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14<sup>th</sup> Sept 2007

### **DIWC/CCSU CONSULTATION: DARA ROTARY WING AND COMPONENTS BUSINESSES SALE PROCESS – CONSULTATION DOCUMENT**

Dear Keith

Please accept this letter on behalf of the Joint Trades Unions (Unite the union, PCS and Prospect). In response to your letter dated 26 July 2006 (ref: DGFM/DTT/8/1)

We the fore mentioned Trades Unions are opposed to the sale of the Rotary Wing and Components (RW&C) Business Units. We do not believe the avenue the MoD is pursuing is best value for Defence and the taxpayer. Neither is it in the best interest for the employees we represent. We are also yet to be convinced that all the possible options have been explored or fully investigated.

The CD is a summary document of a fuller business case and Investment Appraisal. To enable full and meaningful consultation, the Trades Unions ask for sight of the Business Case/ Investment Appraisal, on a confidential basis, to facilitate full and meaningful consultation to affect outcomes.

This proposal does not reflect the meeting held between the Minister (Defence Equipment & Support) Lord Drayson and the Joint Trades Unions delegation on the 21 May 2007. In this meeting, it indicated that the policy was to keep key defence assets and IPR issues within MoD control. The proposed sale is likely to have a negative effect on the critical mass of the new Defence Support Agency.

The proposal to sell RW&C Business Units to Vector Aerospace (VA) is of considerable concern. It speaks volumes that the aircraft OEM's were not tempted in purchasing these businesses themselves and yet the MoD is still looking to offer these businesses for sale. The Joint Trades Unions have difficulty in seeing how the sale will give the current workforce the best chance for future job security. VA has offered no track record of procurement of this size and has provided no examples of potential future work. It is also of concern that Vector Aerospace is only a sub contractor working on legacy platforms. This is an identical position of the business proposed for sale and there is no evidence that VA can deliver improvements over and above the Trading Fund.

A general investigation into VA financing has highlighted what the TUs believe to be questionable links. These links are between VA and two Private Finance Initiative Companies, Parkview Capital Partners and the Shotgun Fund. Both of these companies having, Donald Jackson the VA Chairman and Randal Levine the Finance Director as major shareholders. Statements by both these companies and Vectors own Risk Declaration state that the acquisitions process being undertaken by Vector, at best carry a high risk.

The TUs do not understand the automatic assumption that the trading fund will be unsuccessful in obtaining new work for the sites whereas VA will be. No evidence has been provided unless key decisions have been made but not disclosed to the TUs. The MoD still retain the ability to determine preferred sub contractor to the OEMs. This means that the Trading Fund may yet earn such status.

In addition, on 13 September at our meeting with him, Lord Drayson suggested that the unions discuss with DARA and others whether there might be other possibilities for the future of the Rotary and Components businesses. In particular, the Minister was keen to explore whether a different support model could be encouraged for helicopters that, combined with changes within DARA, would deliver real operational benefits for the department. In short, to look at an option not explored in the CD: a different way of doing things, which is consistent with the vision for the new support agency that he outlined when we met him in May. We are very keen to pick up this suggestion and to work with all relevant parties to deliver something attractive. We will be in touch with Archie Hughes to take this forward shortly.

Attached is a paragraphed by paragraphed breakdown of comments and concerns on the Consultation Document.

In closing we would like to reiterate that the proposal to sell the RW&C businesses of DARA to VA is not supported by the Trade Unions. Furthermore, the proposed sale would leave the MoD dependent on an untested foreign

company with control over key battle field asset that needs, short term profits to continue to exist.

Yours sincerely

A handwritten signature in black ink, appearing to read 'H Taylor', with a stylized flourish at the end.

Helen Taylor  
Secretary on behalf of the DARA Joint Trade Unions

Distribution:

Warren Bayliss Assistant Director HR, TUPE & Pensions  
Alan Wood MoD CCSU Chairman  
Peter Berry MoD CCSU Secretary

# Annex 3: Consultation document, 26<sup>th</sup> July 2007

D/DGFM/DTT/8/1

26 Jul 07

## **CCSU/DIWC CONSULTATION - DARA ROTARY WING & COMPONENTS (RW/C) SALE PROCESS CONSULTATION DOCUMENT**

### **INTRODUCTION**

1. A parliamentary statement was made on 25 July, announcing that work continues to progress the sale option for DARAs RW/C businesses with Vector Aerospace (VA) as the Preferred Bidder. This Consultation Document (CD) provides a summary of the business case, which was submitted to the DARA Owners Advisory Council, chaired by the Minister (Defence Equipment & Support) and forms the basis for consultation in relation to the potential sale and impact on the workforce. HM Treasury supported the business case. A final decision on sale/no sale will not be taken until completion of substantive negotiations with VA and consultation with the trade unions.

***We welcome the decision that “sale/no sale will not be taken until completion of substantive negotiations with VA and consultation with the TUs”. We seek clarification of this statement and assurances that the TUs will be fully engaged throughout the process of negotiations as they develop with VA.***

### **BACKGROUND**

2. DARA became a trading fund in Apr 01, just as the DLO began to look at transforming logistics support to the front line. The main statutory tests of introducing hard charging and delivering efficiency improvements were met with some early success, but the need to retain an in-house Rotary Wing provider has significantly diminished. In addition, Defence Equipment and Support (DE&S) support strategies are moving progressively to partnering directly with Original Equipment Manufacturers (OEMs) to drive through new efficiencies and savings through the compression of the support chain and migration of depth support to the front line. This has already led to the demise of DARAs Fast Jets business at St Athan.

3. The original rationale for DARA has therefore been significantly eroded and the MOD concluded that the Agency (with the exception of the Electronics business) was no longer a strategic asset or providing an effective competitive spur to industry. Conversely, the cost transparency provided through trading fund operation has effectively halved the value of DARAs order book, following

the closure of the Fast Jets business at St Athan and Engines business at Fleetlands and led to the introduction of more cost efficient Integrated Operational Support (IOS) support strategies with OEMs. The Owners Advisory Council therefore initiated a transformation programme and directed that a sale option be explored for RW/C, which should aim to mitigate the decline and reposition DARA as a resilient commercial sub-contractor operating in an IOS environment.

4. Consequently, on 8 Nov 2005 Minister (AF) announced that, subject to TU consultation, the RW/C businesses would be taken to the market to test whether sale might deliver improved effectiveness, value for money and a better long-term future for the workforce. On 2 Feb 2006, Minister (AF) announced that consultation had been completed and confirmed that the businesses would be taken to market. Following the Nov 2005 Owners Advisory Council, initial assessment work indicated that a sale was feasible.

5. The RW/C business units support certain legacy platforms (Chinook, Sea King and Lynx) and DARA has not been able to secure compensating, supplementary non MOD (UK) business in a competitive market place. The long-term viability of the Rotary Wing business is fundamentally linked to the legacy platforms where DARA provides depth support, but future depth maintenance for new helicopter platforms will be forward under IOS arrangements placed with OEMs. Accordingly, the DE&S customer has no current plans to place or direct future support arrangements to DARA.

***DE&S have no plan's to place future work to DARA. Ditto for VA. The TUs are surprised that any weight is attributed to this statement. Under the tendering process and Defence Industry Strategy, all work would have to be competed for. VA will be in exactly the same position as DARA.***

6. The Components business unit at Almondbank is primarily dependent on the Rotary Wing legacy platforms. In the longer term the business would be unable to sustain its viability beyond the Out of Service Dates (OSDs) of legacy platforms, resulting in increased unit costs, loss of competitiveness and subsequent closure.

***The only difference between Components Business Unit and VA on this statement would be the possibility of VA achieving access to commercial work to offset the OSD's for legacy platforms, which apply equally to VA. The amount of commercial work required to offset loss of MoD work would be significant, in what is already a very competitive marketplace. Information available to the TUs would indicate that VAs current activities do not look much beyond a 3 to 6 month horizon of work against some fairly short term contracts (3 Years or less). Previous examples of VA or its subsidiaries failing to win or extend contracts has resulted in some substantial redundancy programmes, with the indication that head count reductions was a preferred option against maintaining capacity while new work was sought. This is an example of the precarious state VA's business and the need for short- term profit.***

## CRITERIA FOR SALE

7. Value for defence and longevity of employment for the workforce were the key criteria for sale, announced by Min (AF) on 2 Feb 2006. Senior MOD stakeholders also developed a further tranche of more detailed supporting evaluation criteria to test the operational, economic and commercial value of the bids, along with key HR issues. Further details are at **Annex A**.

## SALE PROCESS

8. The sale process has been taken forward on a competitive basis albeit it is recognised that some Original Equipment Manufacturers (OEMs) dominate as prime contractors, design authorities, Intellectual Property Rights (IPR) holders and spares providers for the bulk of DARAs order book.

9. Over 20 parties responded to the Invitation to Tender. Following the second round, most bids were heavily caveated and risk adverse. Key concerns centred on environmental and pension costs, provision against which some bidders sought substantial indemnities against future liabilities arising out of declining business prospects. However, following submission and detailed evaluation of their second round bid, VA, supported by Agusta Westland (AW), significantly increased the offer value and were down selected as provisional Preferred Bidder.

10. DARA TT expended considerable efforts to successfully ensure OEMs were not able to use their dominant position as IOS prime contractors to prejudice the competitive process. VA has satisfied MOD that it can secure access after sale to the IPR rights currently available to DARA. This will require further clearances from the relevant IPR holders during the Due Diligence phase.

***We seek clarification on all IPR issues including IPR issues on US provided military equipment.***

## OPTIONS/INVESTMENT APPRAISAL (IA)

11. The following options have been considered in the Business Case:

a. Option 1 – Do Nothing (Retain DARA and close at Chinook OSD). This option assumes that DARA continues to perform the depth repair and maintenance of Sea King, Lynx and Chinook at the existing Fleetlands and Almondbank sites until all reach their OSDs, with no further work being either won or directed to DARA. The sites are then closed down.

b. Option 2 – Retain DARA, Close earlier and outsource Chinook work. This option assumes that DARA continues to perform depth repair and maintenance of Sea King and Lynx at existing sites until OSDs, with no further work being won or directed to DARA. Sites are then closed down and Chinook work outsourced.

c. Option 3 – Sell DARAs RW/C Businesses. This option assumes that RW/C is sold to industry in FY 07/08, with remaining legacy depth repair and maintenance work currently performed by DARA transferred to the new owner. All contracts would novate, under existing pricing arrangements, to VA. It is assumed that all liabilities also transfer to VA unless final negotiations determine otherwise.

***We would like to see Option 1 and Option 2 investigated further. With consideration given to inclusion within the merger.***

***In consideration of the in house options, we note under option 1 and 2 the assumption that no further work would be won or directed to DARA. Why would this be the case? Whilst the DE&S ethos has historically led DARA to closures, Lord Drayson at his initial meeting with the TUs clearly stated that new platforms would be developed and a committed to ensuring more steady work streams. Given the existing work in RW&C is estimated to be cost effective at least until 2014 – 2017, this would enable a short to medium term flow of work for the remainder of DARAs life and into the new agency while new platforms were being developed. Importantly it may potentially also provide longer term work for the existing staff than that indicated by VA.***

***Under option 2, we seek clarification to the assumption that, at reaching the Tipping Point, DARA would be closed down and the sites disposed of. Is it not possible a sale or transfer could be investigated at this point. We wish to know whether this option has been explored and if so to what outcome. Additionally, had it been investigated what would the situation be with a private sector faced with the same “Tipping Point”? Would they go into administration? Cancel the contract and close the site? Would they seek to renegotiate the contract?***

***Under option 3, we seek clarification regarding the transfer of liabilities to VA, and whether this includes employer overheads such as underwriting pensions and/or redundancies.***

***We request details of any forecasts regarding reduced activity and staffing levels across all three options.***

***We feel a fourth option should have been included in the investment appraisal. This option would be “To retain DARA and for DARA to be given preferred sub contractor status for the future Lynx’s work by DE&S”. This would be beneficial to the MoD on a number of fronts.***

- 1. It would retain a strategic Helicopter repair organisation within the MoD.***
- 2. It would retain a value for defence benchmark for future Helicopter work.***
- 3. It would retain the principles of IOS with the OEM’s.***
- 4. The MoD would retain control of the maintenance for, key battlefield assets for Sea king, Lynx, Future Lynx and Chinook to at least the OSD of Chinook in 2035.***

5. *It would give the MoD a fall back position if the contracts with the OEM's were not being met and furthermore the negotiating power with the OEM's if it was working.*
6. *It would help give critical mass to the new Defence Support Group announced by MINISTER (Defence Equipment & Support) on 22 May 2007.*

***We therefore wish for this option to be investigated further.***

12. Despite the assumptions regarding activity levels and OSDs used in the IA, it remains difficult to determine the longevity of DARA's business given its increasing dependency upon IOS primes in a competitive environment. The unplanned and sudden closure of the engines business at Fleetlands, as a result of failure to win business in this changed environment presages a likely eventual outcome for the RW/C businesses. In addition, there is no DE&S intent to programme new platform repair business to DARA.

13. A comparison of the fully adjusted VA bid against the retain options demonstrates that the sale option provides best value for money. However, the sale value cannot be finally determined until negotiations have been completed. A summary of the options and IA is at **Annex B.**

## **AFFORDABILITY**

14. The IA includes an affordability assessment of the options and also concludes that sale offers most benefit.

## **SUMMARY OF THE VA BID**

15. DARA TT and MOD stakeholders have thoroughly assessed VA's bid and concluded that it meets the sale objectives and evaluation criteria. Lead TU representatives (Bryan Godsell, Amicus and Jim Cooper, Prospect) also participated in the evaluation process on people issues. VA is a Canadian/UK business with considerable Rotary Wing and IOS experience and Price Waterhouse Coopers has confirmed their financial integrity. From an operational perspective, VA already services Hercules engines successfully under IOS arrangements. VA's bid also confirms that they intend to sustain and grow the businesses and do not anticipate any redundancies, which the retain options do. The key aspects of the bid are summarised at **Annex C.**

## **DEFENCE INDUSTRIAL STRATEGY**

16. DIS highlights changes in the helicopter industry, which is increasingly moving away from the provision of equipment to contracting for services and involving industry in support of operations. Contracting for availability under IOS solutions will require new competencies to respond to capability requirements. These arrangements do not significantly change the technical demands to support platforms, but do require industry to transform to new business models, which improve availability and through-life reliability.

17. DE&S strategy is to develop a closer, more transparent relationship with industry to deliver a more coherent and cost-effective through-life capability. In managing the current fleet better in the future, MOD intends to further develop IOS arrangements towards a common approach with industry in meeting broad capability needs over time. The proposed sale of RW/C would also provide the opportunity to create a more robust UK support base.

18. Present MOD ownership provides greater operational control to direct DARA, but DIS assessed that operational needs are better addressed through partnerships with suppliers. IOS now seeks to focus output responsibilities on prime providers and the retention of an IOS sub-contractor within MOD erodes competitive tension and the risk returns, effectively undermining one of the principal IOS objectives. A sale potentially offers increased competitive tension and would properly lodge the output/availability risk with the IOS provider.

***The TUs agree that partnerships with the OEM's are needed until the MoD has control over the IPR and Design authority. We do not agree that retaining an in-house sub contracting capability erodes competitive tendencies, we would stress that we believe it increases tendencies as it highlights to the prime contractor that the MoD have a fall back position.***

## **IMPLICATIONS FOR MOD/DARA EMPLOYEES**

19. The DARA TT Team Leader has continued to keep TU representatives fully engaged in the sale process through attending numerous working groups, which have particularly focused on people issues. In addition, lead representatives recently met VA officials to discuss their key proposals for the workforce. The emphasis going forward will be to develop a suitable forum for MoD, the trade unions and VA to discuss workforce matters for the remainder of the sale process and the DARA Transformation Team Leader met the lead representatives (Bryan Godsell and Jim Cooper) on 26 July to start making appropriate arrangements.

***We wish to seek assurances that the TUs will be consulted on any decisions in the event of the Sale going forward. Prior to a sale the TUs are totally opposed to.***

20. Rotary Wing currently employs 979 workers with a further 283 at the Components business. All MOD employees (including guards, fire fighters & nurses) will transfer to VA under the Transfer of Undertakings (Protection of Employment) Regulations (TUPE). A small number of military personnel are embedded at the Fleetlands site and will continue working for VA under Government Furnished Personnel arrangements. The intention is that Agency staff will continue to work under existing contracts, which would novate to VA.

***The CD states that all the MoD employees would transfer to VA under TUPE regulations. However, it is our understanding that rationalisation would occur amongst staff based in Corporate, Personnel, IT and Finance.***

***The TUs request clarification of this point and if accurate, a breakdown of existing staff numbers by grade, department and location.***

21. VA's bid clearly demonstrates that sale offers the best prospect for future job security in that VA has a track record of acquiring and growing businesses and has already stated their intention to revitalise engines work at Fleetlands. They also have a successful employee relations record, which includes working with trade unions. Further details are at **Annex D.**

***In the event of a sale going forward, we seek every assurance that every effort will be made to avoid compulsory redundancies by DARA and VA.***

***We question the above statement made by VA offering the best option for employment. VA to the best of our knowledge has a poor track record in acquiring and growing businesses. For example the transfer of Hunting Airmotive to Sigma where the work reduced and redundancies became prevalent. We strongly believe job security would be better protected under the MoD umbrella.***

## **RETENTION**

22. If final sale terms cannot be agreed, retention remains the fallback strategy and RW/C would form part of the new Defence Support Group, announced by Minister (Defence Equipment & Support) on 22 May. This has been the subject of a separate TU consultation exercise, which recently concluded.

23. Given the decline of DARA's overall order book since it began trading; its increasing exposure to a competitive market as sub contractor to IOS primes; the absence of IPR and a design authority role and its spares dependency on OEMs; no future re-generative investment and an order book essentially tied to Chinook and legacy Sea King and Lynx platforms, the long term prospects for RW/C under the retention option will be very challenging.

***This statement is misleading in its generality. Fundamental parts of the Business have increased over the last three years.***

## **CONCLUSION**

24. Sale provides the best opportunity for longevity of employment for the RW/C employees as VA has clearly stated their intention to grow and develop the business and has a proven track record of acquiring new businesses and making them a success. Sale provides best value for money when compared against the retain options and also creates the best prospect of securing a resilient and competitive repair, maintenance, modification and overhaul facility at both Fleetlands and Almondbank.

***The TUs strongly disagree with this conclusion as it is based on flawed, or skewed, assumptions. It is not sufficient to base such a conclusion on stated intentions. The evidence to support the company's track record of "success" is very limited. There is definite evidence that VA's business acquisitions have got smaller under their management and it is hard to understand how the document writers have come to their conclusions.***

## **CONSULTATION PROCEDURES & TIMETABLE**

25. The aim is to make a definitive sale/no sale decision later in the year on successful conclusion of negotiations with VA and consultation with the trade unions. Comments from TU representatives on this CD should be sent to the appropriate MOD CCSU/DIWC TU Secretariats by Monday 10 September for onward transmission to:

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DGFM DARA-Transformation Team Leader  
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Copy to:

Keith Knight  
AD Employee Relations  
DGCP EF, Level 6, Zone N  
MOD Main Building,  
Whitehall  
London. SW1A 2HB.  
Tel: 020 7218 1960

Annexes:

- A. Bid Evaluation Criteria.
- B. Summary of the Investment Appraisal.
- C. Summary of VA's Bid.
- D. Implications for DARA's Employees

**SUMMARY OF THE KEY EVALUATION CRITERIA FOR POTENTIAL SALE**  
**OF DARA'S RW/C BUSINESSES**

- **People**
  - Bidder intentions for DARA / MOD employees
  - TUPE compliance
  - 'Fair Deal' for staff pensions compliance and pension transfer calculation methodology
  - TU obligations & Employee Relations Proposals
  - Location commitment and longevity of employment for workforce
- **Operational**
  - Continuation of capability
  - Operational availability of aircraft
  - Ability to meet surge requirements
  - Quality
  - Airfield management
- **Economic**
  - Total value
  - Overall economic advantage
  - Treatment of assets
  - Liabilities
  - Indemnities and Warranties
  - FRS17 implications / Pension transfer value
  - Future operational costs
- **Commercial**
  - Business Plan
  - Arrangements with OEMs and IPR holders
  - Arrangements for Technical Assistance Agreement
  - Adherence to IOS principles and DLO Transformation Programme
  - Integration into Business Strategy and growth prospects
  - Assured contract performance.

**SUMMARY OF THE INVESTMENT APPRAISAL: DARA ROTARY WING AND COMPONENTS (RW/C) SALES PROCESS**

**Aims and Objectives**

1. The aim of this paper is to provide the trade unions (TU) representatives with a summary of the Investment Appraisal (IA). Due to the commercial sensitivity of VA's bid, it is not possible to provide details of their financial proposals, which are still subject to negotiation.
2. The objective of the IA is to provide a value for money (VFM) assessment and recommendations against the options under consideration for the future of the RW&C businesses. It does not address wider value for defence issues, which will be considered by the Owners Advisory Council and Min(DE&S). The MOD Economic Advisor is content with the approach and financial model used by the DARA Transformation Team (DARA TT).

***We are glad to know that, in their consideration of the sales process, the Owners Advisory Council and Minister will take into account "value for defence" (annex B). We are however disappointed, in the limitations of this consultation document in that it excludes us from commenting on the sale process in its wider context. Also in the context of the impact of a potential sale on members in the DARA/ABRO merger.***

**Scope**

3. The following options are considered for the RW/C business units:
  - a. Option 1 – Retain until Out of Service Date (OSD) Chinook (Do Nothing). This option assumes that DARA continues to perform depth repair and maintenance of Sea King, Lynx and Chinook platforms at the existing Fleetlands and Almondbank sites until all reach their OSDs, with no further work being either won or directed by/to DARA. The sites are then closed down and disposed of.
  - b. Option 2 – Retain, close early and outsource Chinook work. This option assumes a DARA 'Tipping Point', an assumed economic indicator to demonstrate that retention of DARA is no longer cost effective. At the latter of the 'Tipping Point' or the point at which Sea King and Lynx platforms have been taken out of service, DARA is then closed down, the sites disposed of and the residual legacy work is outsourced to industry.
  - c. Option 3 – Sell RW/C. This option assumes that both RW/C are sold to a New Company in FY 07/08, with the remaining legacy depth

repair and maintenance currently performed by DARA transferring to the new owner.

**Response covered under OPTIONS/INVESTMENT APPRAISAL CD  
para 11**

**Approach**

4. The approach within the IA has been to identify the cost to MOD of delivering the capabilities for depth repair and maintenance of legacy RW platforms through to their OSDs.

5. The IA has been completed in full consultation with DARA and its key stakeholders, the assumptions underpinning the financial model have been agreed by DARA, the Defence Equipment & Support (DE&S) helicopters customer, Director General Helicopters, Director Equipment Capability (Air and Littoral Manoeuvre) and the MOD Finance Director.

6. The IA is based on the DARA Strategic Plan (DSP) for the financial year 07/08, which provides a forecast of DARA's costs and revenues for the next five years. The assumptions underpinning the DSP are used to extrapolate the costs to the OSDs of the platforms maintained by DARA.

***We are disappointed that the DARA Strategic Plan is not incorporated for us to see. Therefore we request a copy of this document.***

7. The rationale for applying a 'Tipping Point' as an economic indicator is based on Treasury guidelines, which state that trading funds should "manage the funded operations so that the revenue of the fund is not less than sufficient, taking one year with another, to meet outgoings which are properly chargeable to the revenue account". The guidelines clarify this by stating that "The main purpose of charges made by trading funds is to provide the "price signals" that will ensure that efficient resource allocation takes place within the public sector and between the public and private sectors. Charges should normally be set to recover full costs and to achieve the required rate of return". The use of the 'Tipping Point' highlights when the allocation of resources to DARA is no longer efficient.

8. It is assumed that DARA services the platforms in the Retain Option until either the OSD of individual platforms or as a 'pricing signal', the point at which servicing the platform becomes economically unviable, i.e. where DARA's total cost per hour (including allocation of indirect costs) for servicing a particular platform is higher than the cost of contracting with industry. This point is likely to be affected by Integrated Operational Support (IOS) contracting arrangements; as the support strategies being pursued by the DE&S will present DARA with greater direct competition from industry for the support it provides. This increased decline in DARA activity will be demonstrated by applying different levels of activity based on:

- a. the baseline current forecast of workloads; and

- b. an assessment of the likely decline in work based on DARA losing work in competition.

***Surely the statement here is the same for DARA or VA. They will be subject to the same effects of the IOS contracting arrangements as they are not an OEM and will be playing the role of sub-contractor the same as DARA.***

9. Beyond the Tipping Point it is assumed, following discussion with the DE&S customer that MoD would be able to contract out the servicing of platforms to the private sector at commercial rates. These rates are not readily available and are likely to be subject to negotiation once the work is put out to tender.

***We believe this is contrary to the DIS. If there is no commercial capacity to do the tasks done by Rotary and Components then why increase the risk to the MOD? If Vector becomes financially unviable due to the Tipping Point then who would do the work?***

10. An assessment has been made of the effect on the cost base and apportionment of DARA's corporate overhead costs as a result of a reducing level of work in the retain options and the separation of the other business units within DARA in a sale scenario.

***It cannot be assumed that if the workforce is halved then the corporate overheads will halve. The two separate organisations may actually increase Corporate overheads.***

11. The sale option figures are based on the final bid received from VA, with the cost of servicing in the future using the same underlying data as the retain options, this assumes that all existing legacy contracts novate to VA on the same terms.

***What if the contracts don't novate to Vector on the same terms?***

## **Assumptions**

### 12. Generic Assumptions

- a. OSD's

Chinook	2035
Sea King	2017
Lynx	2014

- b. RW Hourly rates set at DARA's existing hourly rates and then increased to reflect differential inflation.

- c. DARA's total redundancy costs are based on a Principal Civil Service Pension Scheme (PCSPS) forecast with different averages for both RW/C, uplifted with annual increments for 5 years. Liabilities are

assumed to crystallise in line with the reduction in activity levels at the sites, to the point where the business closes and remaining staff will be made redundant.

***We are deeply concerned that redundancy costs are being factored in. This could lead to the assumption that MoD is willing to sacrifice its employees to circumvent the redundancy agreement.***

d. Activity Levels (currency for the volume of depth repair and maintenance required) for DARA, on the basis of advice from the DE&S customer, assume no new commercial or MOD directed work beyond that already included in the DSP.

***The same statement will therefore apply to Vector. This is based on the assumption that Vector will not allow the cost of Military work to effect its commercial work and vice-versa. It also works on the flawed assumption that DARA would be unsuccessful in securing further contracts. We believe that the MoD could if they so wished secure future contracts by making DARA a preferred sub contractor.***

e. Site Valuations for disposals are based on an independent survey provided by Defence Estates.

f. Both businesses, which are closely aligned; some eighty percent of Components work being related to Rotary Wing would be the subject of a single sale transaction to create a critical mass and reduce transaction costs.

g. If RW business closes then Components will also close.

***We believe this is a flawed assumption. Components would still be capable of working with whoever took over the Rotary's remaining work, plus non Rotary linked contracts.***

h. Land Quality Assessments (LQAs) have been completed on the Almondbank and Fleetlands sites. The reports provide estimates of the levels of contamination and remediation costs. MOD has given assurance to potential buyers that it will (irrespective of sale or retain) remediate as per the LQAs. However, there is a risk of contamination being discovered in the future, under a retain option MOD will bear this risk in full, with the sale option VA has agreed to take some risk for any future contamination costs at the Fleetlands site.

13. Option 1 - Retain until OSD Chinook (Do Nothing) Specific Assumptions

- a. No site rationalisation prior to disposal.
- b. Staffing levels are reduced to reflect reduced activity levels.
- c. One year timeframe to allow for decommissioning & site closure.
- d. Full cost of terminal redundancy payments is retained by MOD.

**Refer to Annex B para12c for TU comments**

- e. Corporate overhead efficiencies are included to reflect the reduction in the overall size of the business.

***We are keen to ensure that all the RW&C options detailed in the CD are fully explored. As such we request details of the impact on DARA Corporate overhead efficiencies in terms of staffing levels and timescales across all three options.***

14. Option 2 – Retain, Close earlier and Outsource Chinook Specific Assumptions

- a. The ‘Tipping Point’ principle is that when DARA’s hourly costs exceeds the current hourly rate charged to the customer, increased for differential inflation only then DARA is no longer cost effective. It is assumed that at the latter of this point or when both Sea King and Lynx activity ceases the decision would be taken to close DARA and outsource the remaining legacy work to industry.

***This risk also applies to Annex B Para 14 and 15. How can the report writers be confident when the “Tipping Point” will be?***

- b. Full cost of terminal redundancies is retained by MOD.

15. Option 3 – Sell RW& C Specific Assumptions

- a. All redundancy liabilities pass to ‘NewCo’ unless final negotiations determine otherwise.

***We were concerned to see this option included. We asked at the beginning of the sales process if the MoD would underwrite any of the cost liability the assurance was made they would not.***

- b. NewCo will remain on existing sites.
- c. All existing DARA contracts will novate to NewCo.
- d. Activity levels under this option are the same as under retain.
- e. RW business is currently scheduled to work at full capacity in the short term, however over the longer term it has irreducible spare infrastructure capacity (buildings/equipment etc). This spare capacity may provide an opportunity for a perspective purchaser to win new commercial work at the site, or to relocate some of its existing contracts, either of which would prolong the employment of the workforce or possibly reduce MOD’s long term liabilities (redundancy costs, etc). Although it is recognised that a NewCo will aspire to grow the business and win new work, the benefits of

this are assumed to belong solely to the NewCo and are therefore not factored into the IA.

- f. All short listed bidders have demonstrated the extra cost of providing a broadly comparable pension scheme in accordance with the HM Treasury “Fair Deal for Staff Pensions” guidance (2004). On advice from Treasury, the Cabinet Office and the MOD Senior Economic advisors office it is not possible to reflect this additional cost within any of the retain options, it is however, reflected in the sale option as a reduced sale receipt.

## Findings

16. The options under consideration have been assessed and ranked as follows:

Ser	Option	Ranking
1	Option 1 - Retain until OSD Chinook (Do Nothing)	3
2	Option 2 – Retain and Outsource Chinook	2
3	Option 3 – Sell RW/C	1

***We feel all options have not been documented and thoroughly investigated.***

17. Option 1 - Retain until OSD Chinook (Do Nothing). This option presents the highest cost; this is due to MOD retaining DARA beyond its economically viable point. Post the ‘Tipping Point’ the cost of operations is no longer covered directly by the current level of funding provided to the customers. DARA would in a commercial context be ‘loss making’. DARA’s hourly costs therefore begin to increase rapidly with the decline in both Lynx and Sea King activity. Furthermore the full cost of redundancies would be retained by MOD.

18. Option 2 – Retain and Outsource Chinook. The total cost per hour (including allocation of indirect costs) for servicing any particular platform, (based on DARAs latest estimate of activity levels for RW/C and assuming current hourly sales price) is expected to exceed the estimated cost of contracting with industry from FY 2014/15 onwards. The assumption is as soon as possible after this point, allowing for completion of residual Sea King and Lynx work, MOD would close both RW/C businesses and contract direct with industry for the remaining work until the OSDs of the platforms concerned. Components closure is driven by a specific vulnerability related to RW business because of the direct relationship in rotary-craft business. Both sites would then be disposed of. This option presents cost savings when compared against the ‘do-nothing’ option.

19. Option 3 – Sell RW/C. This is the preferred option and provides the biggest cost saving when compared to the ‘Do Nothing’ option. It also presents better value for money than the alternative retain and outsourcing option. The offer price includes the transfer of employee costs to VA, who also undertakes to partially indemnify MoD if any future contamination is discovered post completion of the current remediation programme.

***The TUs strongly oppose this option. If the transfer of employee costs to Vector is negotiated, what are the cost savings?***

### **Affordability**

20. DARA currently has liabilities on the balance sheet for Public Dividend Capital and loans, which are published in the annual report and accounts. Short Term Planning (STP) 07 work assumed that the RW/C businesses were sold, with full repayment of PDC and Loans and a small surplus receipt.

21. The retain options present an affordability challenge in relation to the Capital Departmental Expenditure Limit (CDEL) in FY 07/08 due to PDC and loans not being repaid to MoD immediately (insufficient assets); DARA would revert to annual capital repayments and loan interest instead. In addition, both retain options would leave MoD with future redundancy liabilities in the longer term. These would need to be met by making a provision in indirect Resource Departmental Expenditure Limits (RDEL) and releasing cash as required.

***Refer to OPTIONS/INVESTMENT APPRAISAL CD para 11 for TUs Response***

22. The sale option is affordable, subject to minor programming adjustments in PR08 to take account of the final sale price following negotiations and timing: STP07 was programmed on the basis of a phased payment and current assumptions are for a single 07/08 payment.

### **Conclusions**

23. The comparison of the Public Sector Comparator (PSC) (the retain options) including long term liabilities against the likely valuations of a sale continue to demonstrate the possibility of increasing value for money for Defence by proceeding with the sale option. This is achieved through the transfer of the greater part of long term liabilities to the purchaser.

***As we read this, the department is saying that the rationale for the sale is simply the transfer of financial risk (in terms of long-term liabilities ... in large part, the staff ... our members). This is a less than compelling case and neglects what are in our view much more significant risks: security of supply, the potential loss of capability, including surge capability, and the loss of key skills and knowledge from the MOD.***

24. If DARA is retained it is unlikely to be able to reduce the long term liabilities or recover the MOD investment in PDC and loans. It is also unlikely that MOD would be able to sustain the business resulting in certainty of unit price increases to the customer. A sale also offers a chance to mitigate the liabilities by transferring inherent risks to a new owner, who will have the potential to sustain the business for a longer period than DARA under MOD ownership. On the basis that sale offers the best value for money for Defence and future prospects for the rotary and components employees; it is recommended that the sale process continues.

The same will apply to VA as to keeping in-house. If they can't build on workloads for the sites then VA will have to make a commercial decision to either increase their charges to the MoD or close. If the MoD won't negotiate then VA closes the MoD will have lost their Comparator.

**SUMMARY OF VA's BID – KEY POINTS**

- Confirms that VA will transfer DARA/MOD employees on TUPE terms, will meet HM Treasury 'Fair Deal' for Staff Pensions obligations and the requirements of the Cabinet Office Code of Practice on Workforce Matters;

***The TUs have been provided with a list of “significant terms that cannot be directly transferred from MoD in their current form”. The preamble to the list of such terms and conditions states that these may be inappropriate to transfer to a private sector employer. We do not hold this view and believe that all the listed terms and conditions (with the exception of Pensions which are not covered by the TUPE regulations) are capable of transferring to a private sector employer. Please note we do accept that procedures, which include recourse to senior level MoD/HMG personnel, will have to be amended to suit the new circumstances.***

- States intent to sustain and grow the business at the existing sites. Has proven track record of acquiring and growing businesses. Plans to revitalise engines business at Fleetlands;
- Provides best prospect of longer term job security for workforce;

***We seek greater and more qualified assurances regarding job security for staff under a TUPE transfer to VA (Annex D 2;8). Whilst we welcome the fact that VA wish to grow the business by revitalising engine work at Fleetlands, the future for staff at Almondbank is less obvious, as is the future of staff working in corporate functions but lodged at Fleetland or Sealand.***

***At the DARA TUs meeting it was reported that VA may be able to commit to retaining transferred staff for 2-3 years. The TUs requests confirmation of this assurance.***

***Assuming the above time line is correct and giving existing work on Lynx and Sea King are expected to extend to 2014 – 2017, how is it that -VA, with a potential expanding engine business to boot, can only give assurances of employment for 2-3 years hence. The TUs remain too be convinced that the VA sale offers greater longevity of employment than an in house option. Moreover, staff retained in house may face later efficiencies would continue to have the benefit of access to redeployment in MoD and across the Civil Service through the Cabinet Office Protocols, thus extending continued employment and reducing potential redundancy***

- Undertakes to work closely with the trades unions and consult over any changes to business after sale;

***If the opposed sale goes ahead we seek assurances that every effort will be made to avoid compulsory redundancies. We would ask Vector to work closely and meaningfully with all the TUs on all changes to the Business after the sale.***

- Indicates that VA's primary goal will be to maintain capability in support of MOD requirements with a long term strategy to stabilise and grow capability across all lines of development;
- VA will seek to maximise capacity planning and encourage agility in response to change in plans through improved cross-training of technical staff to enable re-deployment between product lines;
- Indicates that under private ownership, VA will seek wider growth opportunities in respect of improved relationships with IOS primes and from similar or new civil or military platforms;
- Confirms that VA will continue to develop a partnering arrangement with Agusta Westland to enhance future business opportunities. VA also has established relationships with other OEMs;
- Highlights that VA already hold other Technical Assistance Agreements from OEMs and their existing IOS arrangements provides them with the relevant experience to undertake existing DARA work; and
- Demonstrates how they will support the key principles of the Defence Industrial Strategy (DIS).

## IMPLICATIONS FOR DARA EMPLOYEES

1. Trades Unions Consultation. DARA's TU representatives have been fully engaged in the sale process and have attended numerous DARA TT working groups, which have particularly focused on employment issues. In addition, lead TU representatives (Bryan Godsell, Amicus and Jim Cooper, Prospect) recently met with VA and reported positively to their membership on VA's proposals for the workforce. Lead TU representatives were also invited by DARA TT to participate in the bidder's evaluation process in order to assess key people and employment issues and provide early feedback on any concerns. DARA TT found the TU input extremely helpful, particularly in relation to pensions and 'two-tier' workforce matters. DARA TT also provided information on the methodology that was used for the public sector comparator.

2. Transfer of Undertakings (Protection of Employment) Regulations 2006. VA has confirmed that they will fully comply with the UK's TUPE regulations, which take effect when a public sector workforce is transferred to the private sector. Following legal advice, all MOD employees in DARA's RW/C businesses will transfer to VA if a final sale is agreed. This includes guards, fire-fighters and nurses. Those employees who do not want to be subject to TUPE would either have to seek alternative employment elsewhere in the MOD before sale completion day or resign. Applying for voluntary early release or to be placed in the MOD re-deployment pool would not be an option. DARA TT intends that DARA's existing contracts for Agency Workers be novated to VA. A summary of the RW/C workforce as at 30 June 07 is at Appendix 1 to Annex D.

***It has been reported there are a number of Corporate employees that work 40% of their time or less and who are not included in the TUPE agreement. The Trades Unions requests a break down of the number of such employees in terms of grade, department and location. We ask for clarification as to how these employees will be redeployed in MoD and/or what other options will be made available to them.***

***The TUs seek assurances that every effort will be made to avoid compulsory redundancies and that DARA will work closely and meaningfully with the TUS to ensure staff are found suitable alternative posts.***

3. Pensions. As pensions are currently outside of the coverage of TUPE, MOD has an obligation to ensure that bidders comply with the HM Treasury 'Fair Deal' for Staff Pensions (2004) guidance in relation to those employees being transferred to the private sector. The guidance stipulates that MOD employees in the RW/C businesses must become early leavers of the Principal

Civil Service Pension Scheme (PCSPS) if a sale takes place. Bidders are required to provide transferring employees<sup>3</sup> with future pension arrangements that have been assessed by the Government Actuary's Department (GAD) as broadly comparable to the PCSPS. Bidders also need to provide bulk transfer terms, to enable staff to transfer their accrued PCSPS benefits to the new scheme being provided by the winning bidder if they opt to do so.

4. VA has stated that they will comply with the obligations of 'Fair Deal' and have already presented their initial proposals to the GAD. To be broadly comparable the scheme must satisfy the condition that there would be no identifiable employees who would suffer material detriment overall in terms of their future accrual of pension benefits under that scheme. The GAD has undertaken a rigorous scrutiny and comparison of VA's proposed pension scheme and has considered the following aspects:

- The value of the scheme
- The value to different types of individual
- Level of Contributions
- The range of benefits that the new scheme provides
- The retirement age and effect on benefits payable
- Membership – who is eligible to join
- The administration of the scheme
- The type of pension scheme
- The adequacy of contributions

5. GAD recently confirmed to DARA TT and the Treasury Pensions Team that they are content with VA's proposals at this stage of the sale process. If sale proceeds, DARA's TU representatives will receive further information on the GAD's final assessment of VA's pension proposals.

6. Those MOD employees leaving the PCSPS will be given 3 months in which to decide what to do with their past PCSPS pension contributions. They will receive a letter from the MOD's People, Pay and Pensions Agency (PPPA) summarising their options and DARA TT will arrange a series of workshops to provide appropriate information. DARA TT will also work closely with VA's pension advisers during this period and ensure that the trades unions are kept informed and involved in the process. Those employees who do not make a decision within 3 months will have their past PCSPS contributions automatically retained.

7. Code of Practice for Staff Transfers in MOD Contracts. VA has stated that they will fully comply with the requirements laid down in the Code and will wish to start discussing the specific HR working practices that cannot be directly transferred to VA with the trade unions as soon as possible, if a final sale is agreed.

8. Future Growth Plans and Location of Workforce. Throughout the sale process, VA's bid has clearly highlighted their intent to grow the RW/C businesses. During a recent meeting with lead DARA TU representatives, VA

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<sup>3</sup> Transferring employees include two nurses at Fleetlands, who are members of the NHS Pension Scheme and are being treated under separate arrangements.

clearly demonstrated that it has a proven track record of acquiring new businesses and growing them. VA also stated that they intend to revitalise the engines business at Fleetlands. VA therefore meets the criteria laid down by the Minister (Armed Forces) that any purchaser must demonstrate longevity of employment for the workforce. VA has also confirmed that it has no intention to move existing work away from DARA's Almondbank and Fleetlands sites.

***In the event of a sale going forward, we seek every assurance that every effort will be made to avoid compulsory redundancies by DARA and VA.***

***We question the above statement made by VA offering the best option for employment. VA, to the best of our knowledge have a poor track record in acquiring and growing businesses. For example the transfer of Hunting Airmotive to Sigma where work reduced and redundancies became prevalent. The TUs strongly believe job security would be better protected under the MoD umbrella.***

***Given existing work on Lynx and Sea King is expected to extend to 2014 - 2017, how is it that, Vector, with a potential expanding unproven engine business, can only give assurances of employment for 2 – 3 years. We are not convinced that the Vector sale offers greater longevity of employment than the in house option. Moreover staff retained in house who may later face efficiencies, would continue to have the benefit of access to redeployment in MoD and across the Civil Service through the Cabinet Office Protocols, thus extending continued employment and reducing potential redundancy.***

9. Re-structuring. VA believes that the existing businesses need to become more competitive and efficient, if they are to win new work and grow. VA has also stated their intention to undertake a detailed review of the existing business structure should sale proceed and will discuss and consult the trades unions on any future re-structuring proposals. VA has noted that the MOD's current redundancy agreement is in the process of being re-negotiated with the national trades unions.

***We seek assurances that there will be no compulsory redundancies and that VA will work closely and meaningfully with the Trade Unions.***

10. Employee Relations. VA has an outstanding employee relations track record and recognises trades unions. VA is aware of the DARA Partnership Agreement and intends to continue working closely and constructively with the existing trades unions. However, new arrangements will be required for collective bargaining and consultation with the 'break up' of DARA and VA is keen to start talks with the DARA TU representatives at the earliest opportunity if a sale is agreed.

***We welcome VAs commitment to continue working closely and constructively with the existing trade unions.***

***We are concerned however, by the assertion that "new arrangements" will be required for collective bargaining and consultation. Should the opposed sale proceed we wish to engage with VA to ensure that our***

***existing recognition rights are retained and extended within the organisation.***

11. Training and Development. VA has stated its commitment towards developing employees with a particular emphasis on skills based, technical training. VA would also like to develop cross-training and is a supporter of apprenticeships.

***If the sale goes ahead we have concerns over the commitment of VA to employee development and Apprenticeships. VA has made assurances to skill based and technical staff. We ask what consideration and/or assurances have been made towards staff in non-technical/industrial roles for their development.***

12. Cabinet Office Code of Practice on Workforce Matters ('two-tier workforce). VA has confirmed that they will comply with the requirements of the code.

13. Equality & Diversity Impact Assessment. VA has stated that it will comply with the UK's equal opportunities regulations and has no plans to change DARA's current arrangements. DARA TT has therefore concluded that any sale of the RW/C businesses would have no impact on equality and diversity for the workforce.

***We believe it is the responsibility of MoD to conduct an Equality and Diversity Assessment prior to a sale in order to gauge its' potential impact on staff, particularly women, ethnic minorities and disabled staff members, before implementation of whatever option is agreed. Should the opposed sale proceed, it is probable some staff will not be covered by TUPE arrangements. We would wish to see an impact assessment carried out as is required.***

14. The Way Forward. No final decision on sale/no sale will be made until substantive negotiations with VA have been completed and TU consultation has concluded. If a sale is agreed, DARA TT will issue a TUPE Consultative Document and commence 3 months of consultation on specific TUPE issues between MoD, the trade unions and VA. In the meantime, DARA TT will continue to keep the lead trade union representatives and local DARA TU representatives fully informed through their regular meetings with the DARA Transformation Team.