CONFIDENTIAL & PERSONAL

PRIME MINISTER

PROJECT REPORTING

We are due to meet this Friday so that I can explain the arrangements I have agreed with MOD for regular reports to you on their major projects.

In August I sent you the first of these reports. Attached to this minute is the second, which records progress on projects to September, and is a complete example of what is suggested. Part A - Project Overview - provides cost information; namely, the baseline estimate, comparative current estimates for the latest report and the previous one, and total spend to date. Part B - Milestones Exception Report - indicates target completion dates for the latest report and the previous one, with notes on any slippage. There is also (Annex C) a short note on each project setting out the past history.

The objective is to enable you to see at a glance any significant changes in cost or completion date. I propose that on each occasion the most notable items should be marked on your copy in red.

During the summer, when we discussed the Nimrod project, I undertook to look further at MOD's arrangements for managing complex projects and in particular for monitoring progress on novel scientific and technological aspects. I have had discussions on this with Clive Whitmore and Peter Levene, and the Efficiency Unit has looked briefly at the way the Procurement Executive operates.

We conclude that there has been good progress in tightening up contract procedures within the Procurement Executive. Peter Levene has had a substantial impact in moving to fixed price contracts and in insisting on strict definition at the contract specification stage. In future there should be few, if any, new projects for which scientific and technological problems remain to be solved after the contract has been specified.

However, I am still concerned that MOD's systems, and arrangements for deploying scientific staff, may not be adequate to ensure proper target setting and monitoring of progress up to the contract specification stage, which is the absolutely crucial one if Peter Levene's new system is to work effectively. Similar target setting and monitoring is also needed for any existing projects which remain from the previous way of doing things, and for any new projects which turn out not to be completely specified in time despite present good intentions.

I have discussed this with Clive Whitmore and he has agreed that MOD should carry out a Scrutiny to examine their scientific and technical resources, giving particular attention to the definition and subsequent monitoring of technical risk and the working of the milestones system. I have agreed to put a member of the Efficiency Unit on the Scrutiny team, and the Scrutiny will be carried out with the normal supervision from the Unit.

I hope the Scrutiny will provide a basis for being reassured that the scientific side of projects is well managed in MOD. At this point it is certainly an encouraging and positive response from the Department.

My other concern has been about the effectiveness of the Equipment Policy Committee of MOD which is the main vehicle for approving and reviewing major projects. It brings together all the different interests concerned in this process but was clearly not effective until a very late stage in highlighting the difficulties with Nimrod.

I have discussed with Clive Whitmore how future lapses of this kind can be prevented. The key to the problem is that the Committee must challenge and test all the aspects of a project that comes before it. Clive has agreed formally to remind the Chairman of the Committee, the Chief Scientific Adviser, that it is his responsibility to ensure that all doubts and weaknesses are exposed and that he must not aim merely to arrive at a consensus.

A Value for Money Seminar with MOD has now been arranged for Wednesday 17th December. This is designed to give you an opportunity to find out more about what the Procurement Executive is now achieving. I hope Peter Levene will be able to demonstrate some substantial results from the changes he is bringing about. I shall send you a brief for that meeting nearer the time.

I am copying this to Robert Armstrong.

ROBIN IBBS

21.10.86

SR13:MOD21/10

MOD Project Report: October 1986

Annex A compares the current forecast of key targets against the previous forecasts (ie. 2 months earlier) - and against the baseline forecast. The baseline forecasts represent the most recent relevant approval by the Equipment Policy Committee and are explained further in Annex B.

There are no significant variations in this table this month.

Annex B shows on an exception basis, the milestones targets where the forecast completion date has changed significantly since the last report or where a milestone date has been missed.

The significant changes this month relate to the EFA project.

Annex C. A short note on each project setting out the past history.

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ANNEX A

(A) PROJECT OVERVIEW

DATE: September 1986

PROJECT	BASELINE ESTIMATES DATE	TOTAL COST	UNIT COST	IN SVC DATE	CURRENT ESTIMATES TOTAL COST LAST	TOTAL COST THIS	UNIT COST LAST	UNIT COST THIS	IS DATE LAST	IS DATE THIS	TOTAL SPEND TO DATE LAST	TOTAL SPEND TO DATE THIS
Type 23 Frigate	1/83	N/A	123m	3/91	(167m)	198m	115m	115m	3/91	3/91	44m	52m
Stingray a) b)	1978 1985	1740m	a)311k b)222k	N/A	1638m	1638m	185k	185k	9/83	9/83	943m	957m
LAW 80	3/86	393m	1338	12/87	(382m)	393m	1338	1338	12/87	12/87	71m	78m
MCV 80	4/77	572m	N/A	12/86	489m	489m	467k	467k	3/88	3/88	81m	82m
EFA	No	EPC	Review	to date	5444m	5444m	17m	17m	/97	/97	2.5m	2.5m
Harrier GR5 a) 12/79 b) 7/84	a)1266m b) 523m		15m	/86	1530m	1530m	13m	13m	/88	/88	307m	351m
Nimrod	-	1060m	-	-	Interim £50m 6 month contract				-	-	834m	843m
Trident Sub.	5/86	9869m	1086m	12/94	-	9869m	-	1086m	-	12/94	-	613m

ANNEX A

(B) MILESTONES EXCEPTION REPORT

DATE: September 1986

PROJECT	MILESTONE REFERENCE	COMPLETION TARGET LAST	COMPLETION TARGET THIS	COMMENT/REASON
Type 23 Frigate	-			No changes in plan
Stingray	Surveillance contract	8/86	9/86	One month slippage due to late quote from contractor. Not critical to progress
LAW 80	Freeze data pack	8/86	10/86	Due to late receipt of small number of drawings from prime contractor. Will not impact production schedules.
MCV 80	-			No changes in plan
EFA	Submission to EPC	1/87	3/87	EPC retimed to allow consideration of interim technical & financial information from definition refinement phase.
EFA	NATO charter for IPO	9/86	12/86	Delays in German procedures for signing MOU's and re-estimate of time needed to approve charter
Harrier GR5	Delivery of P1 to A&AEE	7/86	9/86	Delay due to aircraft instrumentation problems (New Sept. date met)
Harrier GR5	First flight of P3	9/86	10/86	One month delay at MOD request to allow wiring modification pre first flight
Nimrod	-			No milestones pending OD decisions
Trident	-			No changes in plan

ANNEX B

ANNEX C

This annex briefly outlines the history of each project and relates the Baseline Estimates in table 1 to the original endorsement for each project.

1. Type 23 Frigate

The Staff Requirement on which the design was based, recommended by the ORC and DEPC and approved by SofS in June '82, was for an average UPC of £90M (at 81/82 prices, which equals £114M at 85/86 prices). This was amended in January 1983 in order to increase the vessels length to 123m, add a 4.5" gun and other improvements learned from the Falklands campaign, leading to SofS's approval of £98M at 81/82 prices (£123M at 85/86 prices) which is the current baseline estimate. There was no equivalent total cost calculated in 1/83.

2. Stingray

The DEPC endorsed full development in 1972 with a forecast ISD of 1979. Technical difficulties leading to unsuccessful trials in 1976 coupled with MOD's dissatisfaction with the contractors management of the project led to CDP setting up an independent review (Charnley Inquiry) in late 1976. A reappraisal of the programme was completed in 1978 with full resubmission to Treasury and ministers. The proposal to proceed with completion of development combined with initial production was approved by ministers and Treasury in September 1978.

Subsequently in 1981 the project was subsumed with the approval for initial production of Spearfish, with a combined fixed price contract. In 1985 Ministers approved the full production proposal and the baseline estimate is a combination of the 1978 and 1985 approvals.

3. LAW 80

The project was originally endorsed for full development in 1978. Following a revision of the threat which the weapon was to be designed to defeat, it proved more difficult to achieve the required capability than had been expected. This led to cost and time overrun and the consequent slippage of the ISD. In March this year a new proposal for completion of development and for production was approved and this resulted in the Prime Contractor recently signing amendments to the development and the production contracts. The baseline estimate represents this recent approval.

4. MCV 80

The approval for project definition was given in 1977, and this remains as the baseline estimate. The 15 month slippage in ISD resulted from the period of financial uncertainty caused by the moratorium on defence expenditure and the 1981 defence review.

5. European Fighter Aircraft (EFA)

Five Air Staffs (including France) signed an Outline European Staff Target in December '83. Investigation of technical feasibility of the 5 nation programme began in January '84, leading to a formal Feasibility Study. It proved impossible to reconcile French views with those of the other 4 nations, which agreed in August '85 (the "Turin Agreement") to proceed with a Project Definition study on the basis of defined aircraft characteristics. Design difficulties emerged earlier this year but have now been overcome. Optimum programmes, to balance risk and cost, for airframe and engine, are being devised. The results will be contained in the industrial reports on the PD phase, expected on 30 September 1986. PD is to be followed by national appraisals and decision on whether (a) to proceed to Development next year or (b) to pursue alternative options (eg national or US) which are currently being evaluated internally.

The project is not scheduled to be considered by EPC until early 1987, so that there are no approved national baseline estimates beyond the indicative costs currently being reported.

6. Harrier GR5

Prior to approval for the initial buy programme (1981)activity wholly concentrated on whether replacement for the Harrier GR3 should be provided by indigenuous development by BAe or as part of a collaborative programme by joining USG development of a second generation Harrier a/c. Development costs have increased largely because BAe did not have sufficient resources to fully examine both the above options and as a result underestimated certain aspects of the collaborative programme that emerged just over a year later. Part of the increase can also be attributed to a subsequent MOD decision to make BAe capable of assuming full design responsibility for the whole RAF aircraft rather than their part of the joint project. The staff requirement was originally for an ISD in 1986 but it was recognised that the target date might have to be adjusted when the procurement method was finalised. The revised ISD is 1988.

The decrease in the Production (Initial Buy), December 1979, estimate has resulted from a reduction in the contingency element of the estimate to reflect greater confidence following contract price negotiations. The total cost now estimated also reflects a reduction of 6 in the number of aircraft, compared to the baseline estimate for the production (second buy) approved in July 1984.

7. Nimrod AEW

The project was first endorsed in May 1977 since when it was re-submitted to Central Committees and Ministers in 1979 and again in 1983 following cost overruns and slippages in planned in-service dates. These were due primarily to significant technical problems with the Mission System Avionics being developed by GEC Avionics and shortcomings in GEC's management. Apart from the introduction of Air-to-Air Refuelling Capability in 1983, the requirement remains unchanged from that endorsed in 1977.

The future of the project depends upon decision by OD this autumn following evaluation of alternative options for meeting the RAF requirement. Until the way forward is decided it is not possible to set a realistic baseline estimate or to report milestones.

8. Trident Submarine

The staff requirement was endorsed by EPC in May this year and the baseline estimates relate to this approval. The build contract for the first submarine was placed in April.