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FROM : M A POWER
DATE : 30 JANUARY 1984

cc PS/Lady Young
PS/Sir A Acland
PS/Sir William Ryrrie
Mr Vereker
Mr Lawless
Mr Palmer FID/FCO

APS/Secretary of State (Mr Ricketts)

FALKLANDS : BREWSTER HOUSES

A. J. C. 21/1
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1. In your minute of 25 January, you recorded that the Secretary of State would be grateful for an urgent review of the factors which have given rise to criticism over two projects in the Falkland Islands: the Brewster houses, and the Stanley airport road.
2. In view of the continuing level of media attention to the housing project, we have completed that review as a first priority, and I now attach a short paper by officials. The Stanley airport road has not attracted similar attention, but we shall be proceeding with our review of that without delay, and I will send you the outcome separately.
3. I should stress that Mr Raison, who is as you know in Uganda, has not yet been consulted about this review, and I have no doubt that he will wish to look particularly at the conclusions which should be drawn from it, when the meeting your Secretary of State proposes takes place. I have also to say that in the time available it has not been possible to agree this paper with the Civil Commissioner, nor with the Crown Agents; but we have no reason to suppose that they would dispute the facts.
4. The paper is classified Restricted because of the references to our concerns about the financial position of James Brewster Associates; that apart, material in the paper can be freely drawn upon in answering media or parliamentary enquiries.
5. As I proposed to him this morning, I am sending a copy of this minute and enclosure to John Coles in No 10, as well as to Bernard Ingham.

M. A. Power.

M A Power
PS/Mr Raison
30 January 1984

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THE BREWSTER CONTRACT FOR HOUSING IN THE FALKLAND ISLANDSReview by ODA officialsI. The Origins of the Project

1.1 In June 1982, planning began on rehabilitation priorities for the Falklands, in the expectation that fighting would shortly come to an end. The planning was initiated by the FCO Falklands Unit, which included representatives from other Whitehall Departments. At meetings under Ministerial chairmanship, other Departments were brought into discussion of likely priority needs and financial implications.

1.2 Housing was rapidly identified as a major priority. This was confirmed by the Civil Commissioner, who reported on 14 July that 27 houses were required to replace destroyed or damaged units. This would cover families who had lost their housing and replacement staff for certain personnel who were not expected to return.

1.3 ODA professional advisers were invited by the FCO Falklands Unit to investigate potential sources of supply. As with all ordering of goods under the rehabilitation programme, the Crown Agents were to call for tenders and to place an order in the form of an ODA contract. This particular contract would be beyond the scope of the other procurement contracts placed in this phase, but there seemed no realistic prospect of having the contract placed in the name of the Falkland Islands Government, although this would have accorded with normal aid practice.

1.4 Port Stanley provided an outline specification - in response to a commercial enquiry rather than in reply to promptings from London. This did not provide sufficient detail to enable tenders to be invited. The Civil Commissioner felt unable to accept an early visit from an ODA Engineer to pursue both this question and other civil engineering requirements. But Ministers directed that good quality housing should be sought; that, specifically,

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the immediate post-war UK image of "prefabs" was to be avoided; and that the units were to be supplied complete with all household needs given the local scarcity of all supplies.

1.5 On this basis, ODA advisers prepared a detailed specification, in the absence of one from the Islands. This was telegraphed to Port Stanley, with an invitation to confirm its acceptability or to propose amendments. After some delay, Port Stanley accepted it. The specification assumed that the contractor would be self-sufficient in supplying and erecting the houses, but would have site services provided by the Falkland Islands Public Works Department.

1.6 On 5 August, Port Stanley confirmed that 27 houses would meet the immediate requirement in the Islands, including that for additional personnel then under recruitment. Indeed, the war damage was not as great as had been feared. But Port Stanley also noted that, if additional units proved to be required, it would be more economical to order them in conjunction with the initial 27. In his fortnightly working group, the then Minister of State (Mr Onslow) raised the question of the longer term housing need. Taking account of the extensive programme of recruitment of experts in hand, and recognising the likelihood of immigration and the desirability of having key military personnel on accompanied postings, Mr Onslow directed that the Civil Commissioner be offered 54 houses.

1.8 The Civil Commissioner was consulted by telephone, and endorsed the need for at least 54 houses. He indicated that a second major site would be available for the second group of 27 houses.

II. Contractual Arrangements

2.1 There has been criticism of the selection of James Brewster Associates for the housing contract. In particular it has been suggested that the company was insufficiently experienced in this kind of work; was too expensive; and used foreign houses.

2.2 Before tenders were invited, enquiries were made of over 30 companies, from a number of countries, regarding their ability to supply and erect prefabricated houses. ODA was anxious to ensure that foreign expertise was not overlooked where it might have been helpful in view of the special climatic conditions in the Falklands. European companies were included to enable the government to take advantage of a European Community offer of some emergency assistance for rehabilitation.

2.3 Suppliers from distant countries were eliminated at this stage on the grounds of unacceptable management delays that could have arisen through contract management supervised from long range. 14 companies (including 3 European ones) were invited by Crown Agents to submit tenders on 5 August 1982 to cover:

- (a) 27 prefabricated houses;
- (b) all building materials (excluding sand and aggregate);
- (c) full furnishing requirements for the 27 houses including equipment, appliances, hard, soft and very soft furnishings;
- (d) plant required for the project;
- (e) catering/messing facilities;
- (f) full shipping, and passages for the workforce;
- (g) full erection and fitting out of houses.

2.4 Eleven companies responded by the closing date of 25 August. ODA's engineering and architectural advisers, in consultation with Crown Agents' engineers, evaluated the tenders. The lowest overall price was submitted by a

/British

British company (Hallams) but their tender did not meet the space specifications. The next lowest (Gee, Walker, Slater) was eliminated because of insufficient relevant construction experience. The third and fourth were, respectively, Brewsters, who quoted £2,133,570; and Octagon Constructions, who quoted £2,236,000. Brewster offered a prefabricated house constructed from units imported from Sweden; Octagon offered a unit of Scandinavian design manufactured in the United Kingdom from imported timber.

2.4 The final choice was based on an assessment of the overall quality of the housing unit; the tender price for the supply-and-erect package; the contractor's requirement for scarce local building materials; the requirement for scarce accommodation and other facilities in the islands for construction labour; and construction experience in comparable conditions. Brewsters were stronger on the first four criteria. However, foreign content represented about one quarter of their quoted price, and in view of the higher British content in the other tender, serious consideration was given to this factor. But when Crown Agents' and ODA's professional advisers, between them, were able to examine samples of both types of houses, they concluded that the imported unit from Myersjo (supplied by Brewster) was definitely superior in both finish and detail.

2.5 On the basis of an oral directive to officials from the then Minister of State at the Foreign Office (Mr Onslow) that houses should be of good quality and design, ODA officials recommended to the then Minister for Overseas Development (Sir N Martin) the selection of James Brewster Associates. The Minister endorsed this recommendation on 13 September 1982.

2.6 On 27 September, 1982 the Department submitted to Sir Neil Marten on the handling of the increased requirement for 54 houses, agreed by Mr Onslow. Splitting the contract between Brewsters and Octagon was a possibility, but following consultation and agreement with the Civil Commissioner, and a visit to the Islands by ODA's engineering adviser, the Department concluded that a single contract for 54 houses should be let to Brewsters. The advantages over two parallel contracts, each for 27 houses, included consistent design, a single point for management and supervision of work, and smaller numbers of imported contract labour - an important consideration given the existing conditions in Stanley. The estimated total cost was £3,668,545, plus an estimated £900,000 for shipping costs. On 16 November 1982 the Crown Agents finalised these arrangements in a contract with James Brewster Associates.

III Execution

3.1 Much of the public criticism has been directed at the execution of this project, and in particular at the shipping delays, the unloading difficulties, and the construction schedule.

Shipping

3.2 The tender submitted by Brewsters included arrangements for shipping. Before the contract was finalised, revised arrangements became desirable for two reasons. First, in the face of growing congestion in Stanley Harbour, all shipments from the UK - civil and military - were to be co-ordinated through the Government Freight Agent. Secondly, doubts emerged about Brewsters' financial position. After careful consideration, Ministers agreed that Brewsters should continue with the contract, but that the contractual arrangements would specify direct payment from Crown Agents to Brewsters' suppliers. This meant that only labour and management payments would pass through Brewsters' hands. These decisions were taken in an effort to avoid further delays and on the basis of private understandings that Crown Agents could take over the contract using Brewsters' suppliers should the company be unable to complete the contract. As part of these arrangements, Crown Agents assumed responsibility for shipping and handled it as part of their work as the shipping of all aid-funded supplies.

3.3. The original ship ordered by Brewster, the "Lucky Rider", was due to sail for Sweden on 13 November to collect the first consignment of housing units. However, it caught fire on 3 November and the Kaprifol was chartered in its place. The Kaprifol picked up a cargo of approximately 10 housing units in Sweden on 11 November 1982 and proceeded to Harwich to pick up all contractors' plant. But there it encountered engine problems, and the shipowners decided to tranship the cargo onto the Linne, a sister vessel, at Cadiz. (This was monitored by the CAs and Brewsters' staff). The Linne was delayed by some 5 days due to heavy weather. Severe port congestion in Stanley meant a 22 day discharge for the Linne, which departed Stanley on 7 January.

3.4 A further shipment on the Alsterberg left Sweden carrying the balance of the first 27 houses. There were no sailing delays but unloading delays amounted to roughly 7 days. Acting through the Government Freight Agent, the Crown Agents chartered the Leicesterbrook to carry the second 27 houses. It sailed on 17 December 1982 and ran into force 10 gales around the German Bight. It put into La Corunna for the restowing of its cargo which had shifted. Following a 3 day delay, the Leicesterbrook sailed for the Falklands where it was delayed for 37 days by port congestion. Two further shipments of housing materials were made without incident on the Singularity and the Kirsten Smits. There have since been several minor shipments of food, furniture and on-going spares all without problem.

Unloading

3.5 Delays in unloading were in the main due to port congestion. That congestion, in turn, was due to a combination of factors including delays en route; high demands (both military and civilian) on the Falkland Islands Company jetty; the availability of Mexefloats for transshipment to the slipway; availability of military personnel who controlled the off-loading of ships. In addition, FIC shipping and inter-island shipping, responsible for moving supplies of economic importance to the daily life of the islands, took priority at the FIC jetty. The unloading of military equipment also tended to take priority over the housing materials.

3.6. The cost of demurrage has been estimated by the Crown Agents at £284,000. An additional £500,000 for shipping arose from an examination by the Crown Agents of the figure of £900,000 for freight estimated by Brewster, which took no account of demurrage. Neither did Brewster envisage that Stanley would be unable to accommodate large deep draught vessels. In the event, the contract required 3 main charters and several smaller shipments, rather than the 3 Ro-Ros originally projected in the Brewster calculations.

/Heavy

Heavy Equipment

3.7 In the original tender document, companies were invited to submit for the provision of equipment which they considered necessary to erect the houses. During the September 1982 visit by its Engineering Adviser the ODA was able to identify at first hand something of the limited capabilities of the Public Works Department as well as the paucity of appropriate equipment and machinery, both heavy duty and transportation. Brewster was therefore advised of the need to provide equipment suitable for the transportation of containers from the jetty to the site and adequate crange for container handling at site.

Local Labour

3.8 Certain assurances were given by the Director of Public Works on the availability of labour to carry out infrastructural works on the project eg roads, sewers and main services. Estimated costs, including the cost of materials to be supplies from the UK, were £1.4 million. By February 1983, it became evident that PWD did not have the capacity originally notified and the Brewster team were then diverted (as they continued to be) to undertaking some of this work, on the instructions of the DPW. This has resulted in delays to the actual construction work which are currently estimated at around 8 weeks. (But it has brought forward the occupation dates for some of the houses.) Delays were also occasioned through the contractors staff having to assist the port squadron in unloading the housing units on arrival. This, together with the actual delays on the shipments themselves, amounted to a further 17 weeks approximately.

Housing Sites and Erection

3.9 Originally 3 sites were identified by the Falkland Islands Government. One was at Race Course Road and 2 single plots were identified within Stanley. Once the decision to build 54 houses had been taken, a further large scale site was chosen at Callaghan Road and later a separate, single plot at Race Course Road East. In all, housing is being erected on 5 sites.

3.10 To date, the contractors have completed 53 foundations.

/46 units

46 units have been roofed and made water tight. 25 houses have been handed over to FIG, of which 20 are now occupied by islanders and by expatriate personnel recruited to assist the FIG. Allocations are the responsibility of FIG's Housing Committee.

3.11 The estimated programme completion date for handing over all 54 houses is end of February 1984; But the indications are that this could slip to late April. This represents an approximate housing build of 3.4 houses per month.

Internal Audit

3.12 It is perhaps worth recording that, in view of the difficulties encountered in the execution of this contract, ODA's concern about Brewsters' financial position, and ODA's own position as a party to the contract, ODA officials in January 1983 invited ODA Internal Audit to examine the arrangements. The Internal Auditors completed their examination on 8 February 1983 and were satisfied with the arrangements from an audit point of view.

IV. The Financial Position

4.1 Much of the public criticism of this project has been directed at the increase in the eventual cost over the original price.

4.2 The original contract price was about £3.7m. But shipping, local expenditure and Crown Agents' fees brought the original estimate of the total project cost to about £6.1m. We believe the eventual cost will be a little under £7m. That will include not only the 54 houses and their contents, but also some physical assets used by the contractors - plant, tools, equipment, containers and an accommodation block - which will revert to the FIG on completion. These assets are worth about £800,000.

4.3 The increase in cost is entirely attributable to the factors described in Section III. All payments have been properly documented and no impropriety of any kind has taken place.

4.4 The current estimate is composed of the following elements:

	£m.
Contract with Brewsters:	3.67
Other Expected Project Costs:	
Shipping	0.90
Local Costs (sewers, roads, electricity)	1.40
Crown Agents' Fees	0.20
Unexpected Project Costs:	
Shipping and Demurrage	0.79
Extra payments to Contractors	0.35
Crown Agents' Fees	0.03
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TOTAL (Rounded down)	7.2
Less: Expected saving on local costs	0.3
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CURRENT ESTIMATE	6.9
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V. Lessons

5.1 Experience gained in the execution of the Falklands housing project has been continuously applied to other aid activities in the Falklands, particularly as concerns transport, management, and the availability of local expertise and materials.

5.2 In particular, and with the benefit of hindsight, there are lessons to be learned in six areas:

(i) Initial Appraisal. Proper appraisal by ODA professional advisers, including a site visit, which is normally a crucial ingredient of project preparation, would have alerted ODA to some of the problems ahead. A visit by an ODA Engineering Adviser earlier than September 1982 would certainly have identified the impossibility of using Ro-Ro unloading facilities, and might have exposed the manpower limitations of the PWD in providing the necessary local services. As explained in Section I this was resisted locally at the time, but in retrospect it was even more important under the exceptional circumstances then applying. All subsequent aid projects in the Falklands have been and will be fully appraised by ODA in the normal manner.

(ii) Short-listing of Contractors.

The selection of contractors who were invited to tender was done too quickly to allow for a full investigation by ODA or the Crown Agents into their experience and capability. Such investigation might have cast doubt on Brewsters' capability in system building and on their financial status, although it has to be said that neither of these factors contributed significantly to the delay and extra cost. In an operation of this kind, which is not unknown in the aid programme (the current effort to establish a new programme quickly

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in Grenada is a good parallel) the balance between speed of operation and safety in getting it right has to be carefully drawn.

- (iii) Transport. The likelihood of delay in shipping, and the difficulties of unloading at Port Stanley (which have now largely disappeared), have been taken fully into account in subsequent activities.
- (iv) Local Performance. There is no doubt that ODA's expectations of what support will be available locally, notably from the Public Works Department, have now sharply diminished as a result of the experience of this project. Steps have been taken to improve the PWD's capacity, notably by the appointment of a new Director; but it is still recognised that subsequent projects having a local construction element will have to be resourced largely from the UK.
- (v) Costs. The increase in project cost was just under 15%, due largely to circumstances which are unlikely to be repeated. The lesson of this project lies in the level of cost, rather than the increase. As is clear from Section IV, any project in the Falklands is going to have unusually high elements of transport and management costs. That there was nothing extraordinary about the outcome of this housing project is indicated in the bids received by MOD for 9 married quarters. The lowest bid is £1.57m, and even if this can be negotiated down, the unit cost would still be substantially greater than the eventual unit cost of the Brewster houses.
- (vi) Project Management. It is difficult to judge whether project execution locally would have been smoother if the project management arrangements had been different. But it is possible that the appointment

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of a Crown Agents project manager at an early stage might have led to a more efficient use of local resources and better co-ordination of the various activities involved.

Overseas Development Administration

30 January 1984

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