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Sir P. Cradock

10 DOWNING STREET

From the Private Secretary

9 April, 1984

FALKLAND ISLANDS: FURTHER CAPITAL COSTS

The Prime Minister has seen your Secretary of State's minute of 6 April setting out the conclusions of his re-examination of the proposed capital works programme.

Subject to comments from other members of OD(FAF) and the Secretary of State for the Environment, the Prime Minister agrees that Mr. Heseltine should authorise the PSA to proceed with tender action on the basis described.

With regard to the second sentence of paragraph 7 of the minute, the Prime Minister has minuted that she sees no need to say anything to the Argentine Government about this matter.

I am sending a copy of this letter to the Private Secretaries to the other members of OD(FAF), John Ballard (Department of the Environment) and to Richard Hatfield (Cabinet Office).

A. J. COLES

R. Mottram, Esq.,
Ministry of Defence

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MO 5/21

PRIME MINISTERPrime Minister.

Content that the PSA should
proceed to tender action as proposed
below?

A.S.C. 6/4.

Yes ms

FALKLAND ISLANDS FURTHER CAPITAL COSTS

At the meeting of OD(FAF) on 14th March I was invited, in consultation with the Secretary of State for Foreign and Commonwealth Affairs, the Chief Secretary to the Treasury and the Secretary of State for the Environment, urgently to re-examine the proposed capital works programme to ensure that every possible scope for economies, including the avoidance of duplication of facilities at Mare Harbour and Port Stanley, had been explored, and to circulate a written report. Following consultations between officials from the Departments concerned, I have scrutinised both the scope of the work and the detailed costs. This minute sets out my conclusions.

Port Facilities

2. There is a clear military requirement for a modest port facility. Even when the new airfield is completed, the garrison will need to be supplied with about 30,000 tons of sea freight a year; and about 500 tons of war maintenance reserves of ammunition will have to be turned over each year to maintain stocks in good condition. I am in no doubt that this port should be at Mare Harbour:

- a. It will overcome the present congestion in Port Stanley and the dangers involved in handling ammunition near the main centre of population.
- b. It will fall within the air defence umbrella of Mount Pleasant and avoid additional expenditure on men, equipment and facilities for this purpose.



c. It would be uneconomic to land freight at Port Stanley 30 miles from the garrison complex. The road to Mount Pleasant would have to be upgraded at a cost of £3-5M and maintained at a cost of £½M a year; and an additional fleet of heavy lorries would have to be purchased, maintained and manned.

3. I have examined the possibility that the Falklands Intermediate Port and Storage System (FIPASS), presently being installed at Port Stanley, might be transferred to Mare Harbour for use there. This might suffice for a further 3 years but is unlikely to be economic for any longer period: substantial costs in moving and reinstalling the system would need to be set against the benefit of this extended use.

4. As regards the civil requirement, the existing jetty in Port Stanley is in a very poor state and will not be usable for much longer. It would be possible to use Mare Harbour for civilian as well as military purposes; and I understand that the consultants appointed by the ODA to study how best to meet the civil requirement (about 2,000 tons a year) will take this possibility into account in their report which is expected at the end of May.

Facilities at Mount Pleasant

5. I have also looked closely at the rest of the Army package which stems largely from the decision to build a major airfield in islands where virtually no infrastructure exists combined with the need to concentrate the garrison at Mount Pleasant to achieve savings on capital works as well as on manpower and running costs. I attach at Annex A a fuller description of the scope of the Army works and a breakdown of costs. To give two examples of the concern for economy, only the Operations Centres will have any measure of hardened protection, and all living accommodation (and sports and recreational facilities) are being built at below the UK scale - which can be accepted for short tours of duty. Following personal scrutiny of each proposal at Annex A, I am satisfied that it would not be cost-effective to make further savings on the Army works package.



Form of tender action

6. I attach at Annex B a note by the PSA about how they propose to proceed with tender action. They would intend to go to competitive tender for the bulk of the contract but to include some items by negotiation in the existing contract. I propose that, as part of this process, at least the first four items at Annex A should be included in Laing/Mowlem/Amey Roadstone's existing contract by negotiation, together with those items which the PSA for their own purposes wish to handle in this way. By splitting the further contract on this basis we should lessen the risk of any public and international controversy on the lines that we were embarking on the construction of further sensitive operational facilities at a time of improving relations with Argentina. From our own point of view of providing all of the military infrastructure we need, we should of course lose nothing by this procedure.

Recommendations

7. Subject to any comments by other members of the sub-Committee by Tuesday next 10th April, I propose to authorise the PSA to proceed with tender action on the above basis. I will consult the Foreign and Commonwealth Secretary about the public handling of the tender action and what should be said to the Argentine Government about it.

? We do not need to say anything. mb

8. I am copying this minute to the other members of OD (FAF), the Secretary of State for the Environment and Sir Robert Armstrong.

vmsmm
 (Approved by the Defence Secretary
 & signed in his absence)

Ministry of Defence

6th April 1984

ARMY WORKS CONTRACT

Serial	Item	Cost (£M)	Requirement and Scope of Major Facilities
	Major Operational Elements		
1	*Joint Headquarters	0.802	To provide working accommodation for HQ BFFI administrative personnel not permanently located in the Joint Operations Centre (JOC). It is adjacent to and integrated with the JOC.
2	*Joint Operations Centre	3.691	To provide the operational Command and Control facilities for all three Services in peace, during reinforcement and in war. A splinter proof self contained bunker; this is the only facility in the contract which provides a measure of protection.
3	*Joint Services Signals Facilities	3.634	To provide facilities for Joint Signal Squadron, Joint Services Signals Unit (JSSU)(Intelligence gathering facility). Includes: Transmitter/Receiver Facilities and aerial farms (£1.9M) and JSSU (£1.43M).
4	*Airfield Ground Defence	2.651	To provide facilities for RAF Regiment Squadron for ground defence of Mount Pleasant complex. Includes garages (£2.09M) and workshops (£.56M).

(*Items directly related to the effective operation of the airfield which it is hoped to have complete by February 1986)

Serial	Item	Cost (£M)	Requirement and Scope of Major Facilities
Major Operational Elements			
5	Infantry Battalion	2.723	To provide peacetime working accommodation and storage facilities for Infantry Battalion. Includes offices, stores and armoury.
6	Army Air Corps	1.764	To provide Army share of joint RAF/Army helicopter facility. Includes hangar for 6 Army helicopters (£1.15M).
7	Royal Engineers (inc Airfield Repair*) ...	8.367	To provide airfield damage repair (ADR) facilities for war and accommodation and storage facilities for RE Squadron. Includes main storage facility for specialist plant and equipment (£3.07M), standing for ADR stockpiles (£2.89) engineer and specialist workshops (£.9M)
8	Joint Port Facility	20.330	A joint port Army/RN facility for routine resupply, turn-over of war maintenance reserve of ammunition, and RN forward repair facilities. Includes Jetty (£9.3M), office and port handling facilities (£2.37M), Fleet repair facilities (£2.13M), external services unique to Mare Harbour (£2.13M), navigational and mooring facilities (£1.2M), harbour defences (£.96M) and hard (£.83M).

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Serial	Item	Cost (£M)	Requirement and Scope of Major Facilities
Major Support Elements			
9	Garrison Logistic Support (inc storage ... of Prestocked War Equipment)	£17.266	To provide logistic support for the Garrison, and facilities for the maintenance and storage of Prestocked War Equipment for reinforcing units. Includes, warehouses for Prestocked War Equipment (£8.74M); foodstore (£3.24M), vehicle store (£2.438M), equipment stores (£1.75M), bakery (£.61M).
10	Army element of Joint Ammunition Depot ...	£ 6.23	To provide storage facilities for ammunition required in peace and war. Includes 9 categories of ammunition totalling 7,500 tons stored in 11 buildings, including storage of RN mines.
11	Garrison Administrative Support	£ 3.23	To provide administrative support for the Garrison. Includes Army share of transport facilities (£1.6M), offices, stores and armoury (£1.04M), Police unit (£.3M), and Garrison post office (£.3M).
12	Recreational Facilities	£ 3.97	To provide minimal recreational facilities on a joint Service basis. Includes 3 all weather pitches, 3 grass pitches, 8 multi purpose courts and 4 squash courts. There is no swimming pool or running track. The airfield contract contains a gym and 2 squash courts.

Serial	Item	Cost (£M)	Requirement and Scope of Major Facilities
13	Accommodation for Officers and SNCOs	£ 6.34	To provide living accommodation for 82 officers, 245 SNCOs, and 8 married officers. Includes Officers accommodation (£1.8M), SNCOs accommodation (£3.8M), and 8 Married Quarters (£.800M). All single accommodation is to be built to 75% of UK scales.
14	RN Fuel Storage	£ 3.5	To provide fuel storage of 20,000Cu metres for RN ships. This allows the release of expensive shipping.
15	Long Term PSA/Contractors Facilities	£6.774	To provide the long term living and working facilities for some 250 contractors and PSA staff. Includes PSA Depot (£1.1M) and Contractors/PSA living accommodation (£5.7M) which is equivalent to Service SNCO's scale. This accommodation will also be used by the Army Works contractor during construction.
	Total	47.310	
	Other		
16	Improvements to Civil/Mil Hospital	£1.0	This is a contingency contribution to the joint civil/military hospital and the exact details have yet to be finalised with FIG. But the MOD contribution is likely to include a prefabricated operating theatre and a mortuary

Serial	Item	Cost (£M)	Requirement and Scope of Major Facilities
	Other		
17	External Works and Services	£28.914	To provide the external works and services for the second contract. Includes additional power and lighting, and mechanical and electrical facilities (£8.779M), roads and hard standing (£8.17M), Army contractors temporary living accommodation and facilities (£7.44M), earth traverses (£1.13M) and sewage (£.3M). The external works and services for Mare Harbour are included under the port costs.
		<hr/> £29.914M <hr/>	
18	Communications and ADP Facilities	£2.989	To provide the communications and ADP facilities for the Joint Operations Centre (JOC) and Joint Communications. Includes JOC (£1.369M) and communications equipments (£1.62M).
	Total incl PSA dual estimates (at 15%)	<hr/> £124.189 to £142.369 <hr/>	

FURTHER CAPITAL WORKS - CONTRACTURAL CONSIDERATIONS

1. The dual estimate for the Army Works Package of £124 - 142M (including £3M for ADP and communications equipment to be managed separately by the Army Department) has been drawn up by PSA using the costs of comparable works in the Airfield contract and takes account of existing infrastructure provided by the first contractor (LMA). PSA confidence in the estimate is recognised by a dualling factor of 15% compared with 20% for the Airfield contract at a similar stage in its design.

2. Although the size and scope of the work involved in the Army Works package make it essential to go to competitive tender for the bulk of the contract, PSA propose to include some items in LMA's existing contract by negotiation. This will apply where particular new facilities are so close to those being built by LMA that the operation of a second contractor would be disruptive, eg hangars and officers/SNCOs accommodation. Should LMA not be selected by competitive tender for this work PSA proposes negotiating with them to provide shipping, off-loading and site services to the successful tenderer at rates agreed with the PSA. This approach would enable full use to be made of LMA's facilities and experience and avoid costly duplication permitting competition for some 90% of the total work. As with the LMA contract, PSA proposes that the tender conditions should specify that UK labour and UK plant, equipment and supplies should be used wherever practical and economic.

16 APR 1984

