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From the Private Secretary

10 September, 1984

FALKLAND ISLANDS:

FURTHER CAPITAL WORKS

The Prime Minister has seen the Defence Secretary's minute MO 5/21 of 6 September about the results of tendering and negotiations for capital works in the Falkland Islands.

Subject to the views of OD(FAF) colleagues, the Prime Minister is content for the Defence Secretary to authorise the PSA to proceed with contract action.

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

(C.D. Powell)

R. Mottram, Esq.,
Ministry of Defence

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MO 5/21



CC PC
Prime Minister
Agree to contract
action, subject to
views of colleagues?
C DP
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PRIME MINISTER

Yes no

FALKLAND ISLANDS - FURTHER CAPITAL WORKS

Following the meeting of OD (FAF) on 14th March 1984 and a re-examination of the proposed programme, I authorised the PSA in mid-April to proceed with tender action for the bulk of the further capital works required, and to enter into separate negotiations with the Laing-Mowlem-Amey Roadstone Consortium (LMA) for requirements related to the operational capability of the airfield, or where to employ a second contractor would be disruptive to work on the airfield contract.

Results of Tendering and Negotiations

2. The tenders were returned to the PSA on 24th July by the six Consortia invited to bid; and the PSA has now completed its negotiations with LMA for Phase I of the works, and also its initial appraisal of the tenders for the Phase II package.

3. LMA has confirmed that it should be able to complete the Phase I work at the same time as the airfield (February 1986), and on the basis of LMA's good performance on the airfield contract PSA is confident that their timetable is achievable provided they are given early authority to proceed with the work. The price agreed for this work is £20.4M, in line with the pre-tender estimates (including contingencies). The PSA believes that this price is fair and reasonable and is unlikely to be reduced by further negotiations.

4. The examination of tenders for the Phase II package (working and technical accommodation, storage and the military port at East Cove) shows that, subject to final negotiations, the offer from Wimpey/Taylor Woodrow is likely to be acceptable both technically and contractually, and is the lowest by a margin of about £6M. Based on Wimpey/



Taylor Woodrow's programme, completion of the work is expected in January 1987. This is the earliest date the PSA believes practicable and economic. Under separate contract arrangements LMA will provide Wimpey/Taylor Woodrow with shipping, offloading and site services at prices which have been agreed by the PSA and incorporated in the current estimate. The total cost of this second stage work (including contingencies) is £100.1M.

5. A number of other items of advance works included in the package of work approved by Ministers earlier in the year have already been added to LMA's existing contract by negotiation. These consist mainly of enhancements to the airfield site services, where incorporation now is much cheaper than providing the facilities in a subsequent contract. They are consequential to Army requirements. In total these requirements will cost £6.4M but are estimated to save at least twice this sum.

6. Finally, while the fundamental requirements on which tenders and negotiations were based remain the same, the Ministry of Defence has made a number of changes to the detail of these requirements since the March estimates were produced. The PSA estimate that these changes will increase costs by about £3.5M.

Estimates

7. Excluding a sum of £3M for MOD supplied equipment, and a £1M contingency for hospital facilities in Port Stanley (which is being considered separately), the £120.2M base estimate approved by Ministers in March compares with the current base estimate of £126.9M for a programme of similar scope. This represents an increase of 5.6%. To this must be added a further £3.5M resulting from changes to requirements, giving a current total base estimate of £130.4M, or 8.5% above the March estimate. For the present the PSA believes it is prudent to maintain the 15% dual estimate which, when added to the *£130.4M gives an upper limit of £150M.

* O3 (FAF) in March agreed
to range £124 - £142m.



Public Announcement

8. At the time of the placing of the contracts it will be necessary to make a public statement; and I propose to do this by means of a low-key press announcement. I will at the same time take the opportunity to update the costs of the airfield contract which have not been publicly amended since these were announced in the House on 27th June 1983; colleagues will be aware, for reasons explained in the reports from the Secretary of State for the Environment, that these have increased. In line with previous announcements all figures quoted will be exclusive of contingencies.

Recommendations

9. Subject to any very early comments by colleagues I propose to authorise the PSA to proceed with contract action on the above basis, so that the contractors might start mobilising in November this year and complete their work in January 1987. I will consult the Foreign and Commonwealth Secretary about the public handling of the contract action.

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

W. S. S.

Ministry of Defence
6th September 1984

Argentina

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Defence of the FI'S

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