



National Audit Office

MINISTRY OF DEFENCE
Major Projects Report 2006

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SUMMARY

1 The Major Projects Report 2006 covers cost, time and performance data for projects in the year ended 31 March 2006. We examined¹ 20 of the largest projects (**detailed in Figure 1**), where the main investment decision to proceed has been taken by the Ministry of Defence (the Department); and ten projects still in the Assessment Phase (detailed in Appendix 2). Five projects

are new to this year's Report.² One project, the Private Finance Initiative (PFI) deal for Skynet 5 communications satellites, is dealt with separately in Appendix 3 so that account can be taken of its restructuring to build extra satellites as physical assurance to replace the previous insurance provision.

¹ Our methodology is described in Appendix 1.

² Brimstone (Advanced Air-launched Anti-Armour Weapon), Panther (armoured personnel vehicle) and Trojan and Titan (armoured bridge-laying and obstacle breaching vehicles) in the post-Main Gate population and Future Rapid Effect Systems (medium weight armoured vehicles) and Military Afloat and Reach Sustainability (auxiliary ships) of the Assessment Phase projects.

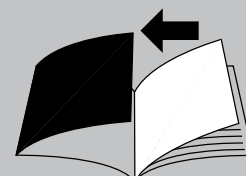






















Figure 1 overleaf

1 Major Projects Report summary of Post Main Gate Project

Project	Description	In-year change on costs to completion (£ millions)	In-year change on in-service date (months)	In-year change in key user requirements	Current forecast cost to completion (£ millions)	Budgeted cost to completion at Approval (£ millions)	Current forecast in-service date	Expected in-service date at Approval
 A400M	Heavy transport aircraft	-28	0	No change	2,616	2,628	March 2011	February 2009
 Astute Class Submarine	Attack submarine	+164	-1	No change	3,656	2,578	December 2008	June 2005
 Bowman	Data and voice communication radios	+10	0	No change	2,017	1,898	March 2004	March 2004
 Brimstone	Anti-armour weapon	-44	0	No change	900	814	March 2005	September 2001
 Beyond Visual Range Air-to-Air Missile	Air-to-air missile	0	+12	No change	1,204	1,240	August 2013	September 2011
 Combat, DBL Infrastructure and Platform BISA	Bowman-related software, hardware and integration systems and tools	0	0	No change	338	343	December 2005	March 2004
 C Vehicle Capability	Vehicle fleet	-7	0	No change	703	674	March 2006	October 2005
 Future Joint Combat Aircraft	Fighter/attack aircraft	+2	In-service date not yet approved	No change	1,916	2,034	In-service date not yet approved	In-service date not yet approved
 Guided Multiple Launch Rocket System	Global positioning system guided rockets	0	0	No change	263	319	April 2007	March 2007
 Light Forces Anti-Tank Guided Weapon	Anti-armour firepower system	-5	-4	No change	305	315	July 2005	November 2005
 Next Generation Light Anti-Armour Weapon	Short range anti-armour weapon	-42	+8	No change	314	377	July 2007	November 2006
 Nimrod Maritime Reconnaissance and Attack MK4	Reconnaissance and attack patrol aircraft	-292	0	No change	3,516	2,813	September 2010	April 2003
 Panther	Armoured vehicle	0	+6	No change	201	229	September 2007	November 2006
 Precision Guided Bomb	All weather 24 hours general purpose precision bomb	-11	0	No change	341	339	September 2007	June 2007
 Sting Ray Life Extension and Capability Upgrade	Life extension and capability enhancement for Sting Ray Lightweight Torpedo	-5	0	1 Key User Requirement forecasted not to be met	594	727	May 2006	December 2002
 Support Vehicle	Cargo and recovery vehicles, and trailers	-24	0	No change ¹	1,338	1,367	February 2008	September 2005
 Terrier	Armoured earth moving vehicle	-3	0	No change	296	295	September 2008	September 2008
 Trojan and Titan	Armoured engineering vehicles	+6	+5	No change	336	348	October 2006	October 2005
 Type 45 Destroyer	Anti-air warfare destroyer	+157	+7	No change	6,110	5,000	December 2009	May 2007
 Typhoon	Fighter aircraft	Commercially sensitive	0	No change	Commercially sensitive	16,671	June 2003	December 1998

Source: National Audit Office

NOTE

1 Support Vehicle is expected not to meet three of its Key User Requirements. This is a correction of an error in the Major Projects Report 2005, which stated that 24 Key User Requirements would be met rather than 23.

2 The Department still expects to meet 98 per cent of Key User Requirements, although performance is marginally worse than recorded in the Major Projects Report 2005. **Figure 2 overleaf** summarises project time and cost performance. Over their lives thus far, projects have been delayed by a total of 433 months.³ Thirty-three months of the total delay occurred within the year 2005-06, a lower contribution to the total than in any Major Projects Report since 2002.

3 The current total forecast cost for the population is £27 billion, an increase of eleven per cent compared with the total budgeted costs approved at Main Gate. During 2005-06, the Department undertook a review of the post-Main Gate projects to control costs better. This Review has reduced the costs of these 20 projects as recorded by the Major Projects Report by £781 million,⁴ some three per cent overall and equivalent to a 21 per cent reduction in the overall cost increases on projects since Main Gate.

4 During its Review the Department paid particular attention to the past recommendations of the Committee of Public Accounts⁵ which have stressed the need for the Department to live within its means. £242 million, that is 31 per cent of the £781 million reduction is from:

- the better management of commercial and contractual arrangements, for example on the Nimrod MRA4 project the Department is negotiating a one per cent cost reduction in the fee it pays to its contractor;
- more cost effective means of delivery, for example on the Astute submarine project the Department made £7 million savings by devising more efficient ways to deliver safety requirements;
- re-assessing quantities required, for example, on the Guided Multiple Launch Rocket System project the Department reduced the numbers of rockets being procured to save £114 million; and
- more appropriate accounting treatments, for example, on the Terrier project the Department is now accruing for future milestone payments resulting in a saving of £3 million on cost of capital charges.



5 A further £448 million, that is 57 per cent, was achieved by either re-classifying expenditure from procurement to support or transferring expenditure to other budgets for procurement or for corporate management where they can be best managed. These re-allocations do not represent a saving to the Department as a whole. By transferring the costs elsewhere the Department potentially may have to forgo other activities, which previously could have been provided, or make corresponding efficiency gains to accommodate the expenditure.

6 While the principles underpinning the review are sensible, due to the basis upon which Major Projects Report is compiled, it would be inappropriate to look at in-year cost changes and trends for 2006. Our cost analyses this year have focused on how the Department has addressed the potential in-year cost increases to live within its financial means.⁶ We report in detail on the in-year performance of five projects which have experienced substantial cost movement or are representative of the Department's management of cost growth in 2005-06.

The future of the Major Projects Report

7 The Department has reported annually to Parliament on its progress in procuring major pieces of defence equipment since 1984. The Major Projects Report is a key accountability document and provides much important information that underpins a number of the Department's Public Service Agreement targets and three of the Defence Procurement Agency's Key Targets.

3 Appendix 4 shows time variation since Main Gate Approval per project.

4 This includes a cost reduction of £91 million due to a rebate and exemption from HM Revenue & Customs.

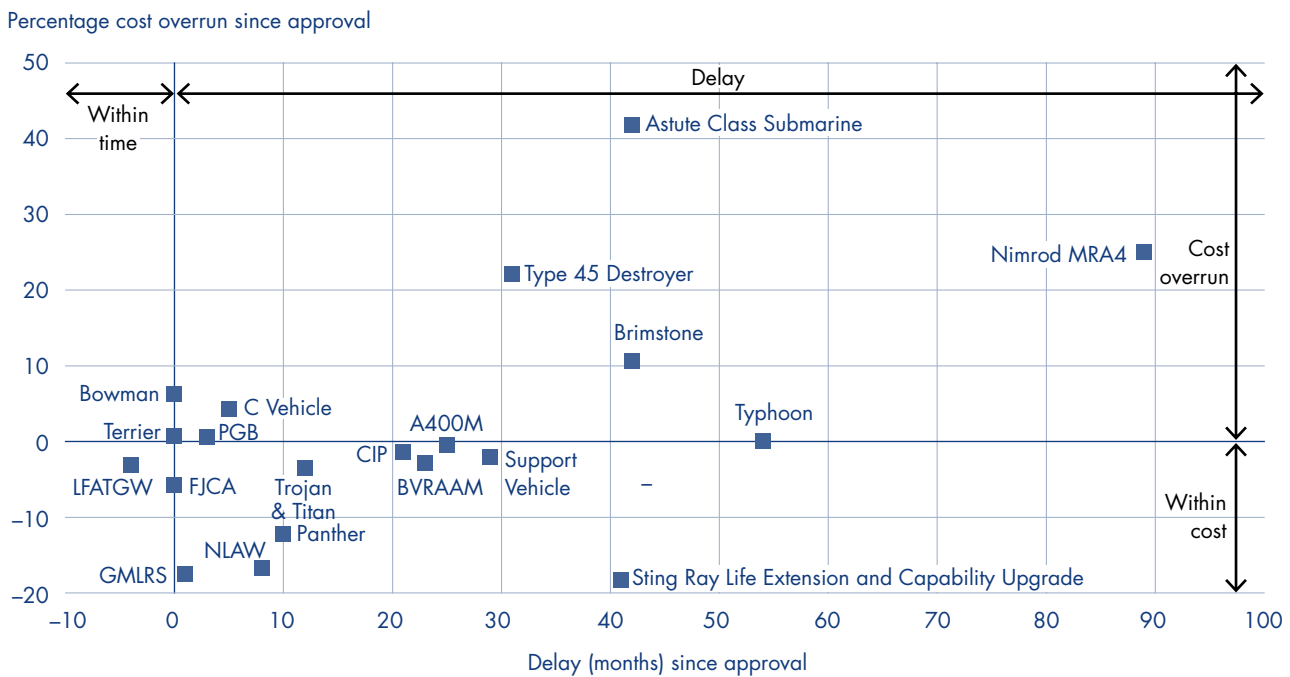
5 C&AG's Report – Ministry of Defence: Major Projects Report 2005 (HC 595, November 2005) and House of Commons' Committee of Public Accounts Report – Ministry of Defence: Major Projects Report 2004 (HC 410, July 2005).

6 For the sake of completeness, we have produced figures which show the cost variation in-year and the consumption of the cost risk differential which are available in Appendix 5. For the reasons stated above, these figures must be interpreted with care.

8 While aspects of the Report have evolved, the methodology for selecting the projects to be included and the basis for reporting cost, time and performance have remained largely unchanged. Over the same period the challenges of defence acquisition and the Department's approach to delivering and sustaining defence capability have changed significantly. Examples of these developments are the use of the PFI; the emphasis on delivery of Through Life Capability Management⁷; more regular use of cost, time and performance trade-offs to enable the Department to live within its budgetary means; the use of incremental acquisition and the planned merger of the Defence Procurement Agency and the Defence Logistics Organisation. The key changes are explored in more detail in Appendix 6.

9 The Report in its current form, focusing on initial procurement activities, does not give a complete account of the Department's performance across the spectrum of acquisition activity as the difficulties this year in providing a balanced assessment of cost performance illustrate. Over the coming months we and the Department will develop proposals for a major overhaul of the Major Projects Report to be submitted to the Committee of Public Accounts in Spring 2007, with the intention of introducing a revised Report from 2008. The review will seek to build on the strengths of the existing format and will be conducted in parallel with a wider review of performance reporting being undertaken by the Department. The result will be to provide better public information to Parliament.

2 Forecast time and cost positions in Main Gate projects as of 31 March 2006



- Key**
- BVRAAM = Beyond Visual Range Air-to-Air Missile
 - FJCA = Future Joint Combat Aircraft
 - NLAW = Next Generation Light Anti-Armour Weapon
 - PGB = Precision Guided Bomb
 - CIP = ComBAT, DBL Infrastructure and Platform BISA
 - LFATGW = Light Forces Anti-Tank Guided Weapon
 - GMLRS = Guided Multiple Launch Rocket System

Source: National Audit Office

NOTES

- 1 No over/underspend is reported on Typhoon as the information is commercially sensitive.
- 2 No time advance/delay is reported on Future Joint Combat Aircraft as the in-service date has not been approved.

7 See Appendix 6 for details in Through Life Capability Management.