

NAO VFM study on contracting practices at the Defence Procurement Agency and the Defence Logistics Organisation

## CASE STUDY WRITE UP ON WATCHKEEPER

Project Title: Watchkeeper

Value of contract: Forecast assessment phase spend £65 million; Forecast Demonstration and Manufacture costs £907 million

Planned In Service Date: 2010

IPT name: Tactical Unmanned Air Vehicle



### Background to the project

The Watchkeeper system comprises an unmanned air vehicle with sensors for the detection, recognition and identification of ground targets and the necessary ground control stations. It will also contribute to the Department's development of Network Enabled Capability.

Towards the end of the 1990s the army's Intelligence, Surveillance, Target Acquisition and Reconnaissance capability lacked an unmanned air vehicle. Research nevertheless demonstrated that an unmanned air vehicle capability was desirable.

During the Assessment Phase of the project, the team assessed the capabilities of four companies - Thales UK, Northrop Grumman ISS International, Inc, BAE Systems and Lockheed Martin. This was done on the basis of four contracts worth £2.5 million each. From this group, two firms - Northrop Grumman and Thales UK - were selected in February 2003 to **undertake further risk reduction work and** to provide bids for the Demonstration and Manufacture Phase. Contracts for this work were let at £8 million each. Thales UK was selected as preferred bidder in July 2004. Thales is an international company whose Watchkeeper team includes Elbit Systems Ltd (Israeli), Cubic Defence (US) and Boeing (US). The Demonstration and Manufacture contract was placed on 31 July 2005.

### Good practices

The project team spent a lot of time ensuring good communications with all stakeholders, including contractors and departmental scrutineers. The selection criteria for each phase were spelled out in the invitation to tender.

The project team had staff with a good degree of unmanned air vehicle experience, including several with experience on Phoenix, the only unmanned air vehicle in service with the Armed Forces. There was also a low turnover of staff within project team.

The IPT has always been open and honest with its contractors and work to an agreed Code of Conduct. Clarification questions were always given high priority and answered as soon as possible. A workshop to examine issues under the Supply Chain Relationships in Action initiative was held after down-selection.

It is intended that Watchkeeper support will be provided using Contractor Logistic Support. There has been close contact with the DLO about support from the outset. There is currently an outline statement of work for Contractor Logistic Support, with a maximum price attached. This is a contractual option. Both the statement of work and the price will be refined during the course of the Demonstration and Manufacture contract.

### Good contracting practices

The main good practice features of the Watchkeeper contract (TUAV/00026) are:

- a. Developing a good relationship with the contractor at the start allowed the team to negotiate a good contract.
- b. Because the team decided on its preferred bidder early, it allowed both parties to negotiate the contract before the Main Gate approval point, and thus get the contract in place quickly and to the satisfaction of both parties.

- c. Payment against milestones.
- d. Two anchor milestones, which constitute "Exit Points".
- e. Earned Value Management (for Project Management only, not payment). A review of the Thales Earned Value Management system will take place in Feb 06.
- f. Code of conduct (although this was not a formal part of the contract).
- g. Standard IPR DEFCONs (14, 15, 16, 21, 90, 91, 126 & 632).
- h. Gainshare.
- i. Max price options for Contractor Logistic Support (to be converted to Firm Price).
- j. Security of supply - Technical Data Pack and licence to use it.

It should be noted that the good practices noted above relate to the design and negotiation of the contract. The equipment has not been delivered and is not due to be in service until 2010.