Understanding the true cost of delaying MOD major programmes

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Why is Cost of Delays Important?

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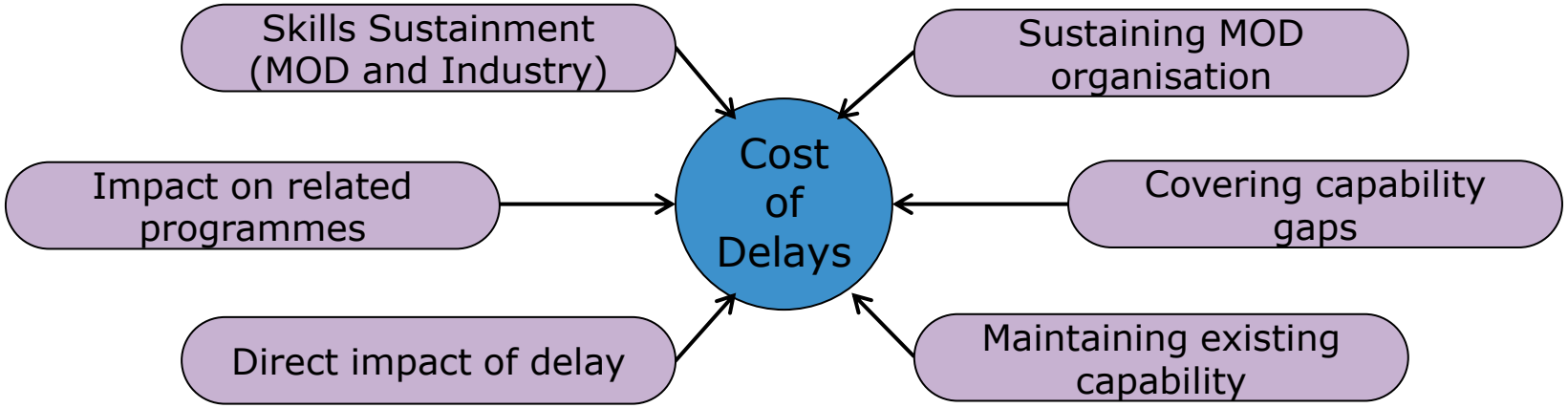
- The MOD budget isn't large enough to cover the range of programmes under consideration, so individual programmes frequently need to be delayed

- Effective prioritisation requires a full understanding of the impact of delaying each programme
  - Inflationary impact
  - Impact on connected activities
  - Impact on downstream activities

- A Cost of Delays calculator can provide this understanding



Studies Completed to date

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- Funded by Dstl via the Centre for Defence Enterprise

- Phase 1: Develop the approach
  - Taking Terrier and Type 45 as examples
  - Develop a Cost of Delays Calculator
    - based on ***available data***

- Phase 2: Prove the concept further
  - Taking Typhoon and Watchkeeper as examples
  - Examine the validity of the approach
    - Is the required data available?
    - Do the relationships identified in the previous phase still apply?

Methodology

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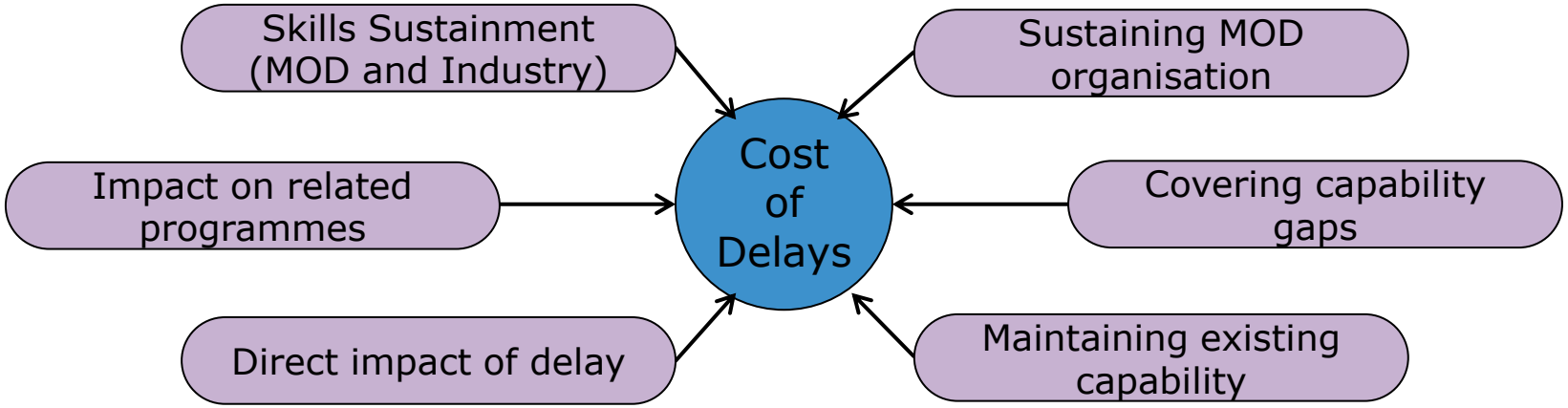
- Combines cost of delay elements into a single calculator



- Uses NAO data to categorise historical impacts (time and cost)
- Analyses historic data on DLOD interaction to predict impact of future delays
- Proposes a standard approach to calculating add-in effects driven by available data

Summary of key data required

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Source	Data
NAO	Time / cost impacts
Dstl	Programme data
DE&S	Programme data MOD Sustainment data DLoD Mappings Impacts on related programmes Commercial mechanisms
Industry	Costs of sustaining industry Commercial mechanisms
DASA	Inflation rates DLoD information
DIO	Infrastructure costs

Cost of Delays Calculator Route Map

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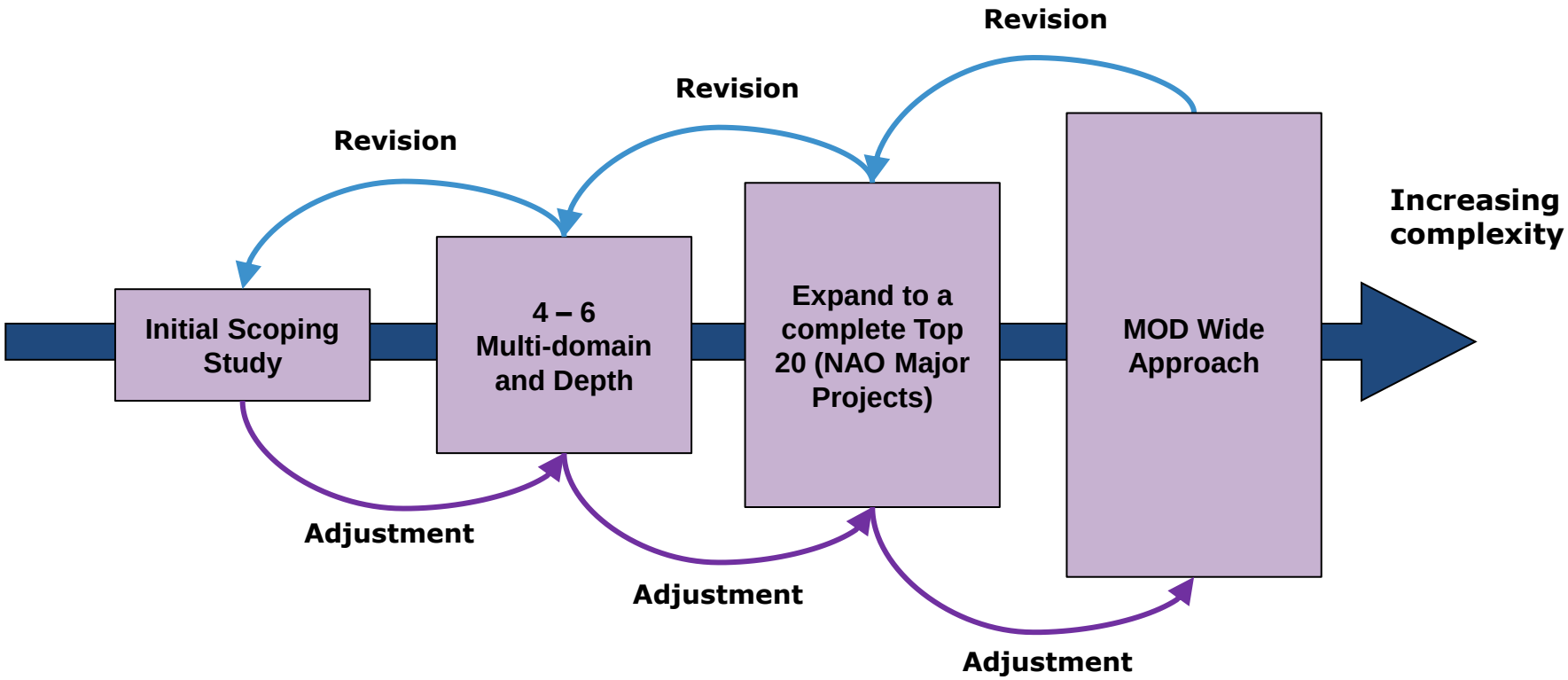
Specific — General



Potential Stakeholders and Uses

DSTL | DASA/DESA | CAAS | PTs | FinMilCap | FLCs

Illustrative Scenario

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A fast-jet delivery programme is delayed

↓

The capital cost is reduced over the short term

↓

The existing fleet of aircraft is run-on to cover capability gap

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Existing infrastructure needs to be sustained

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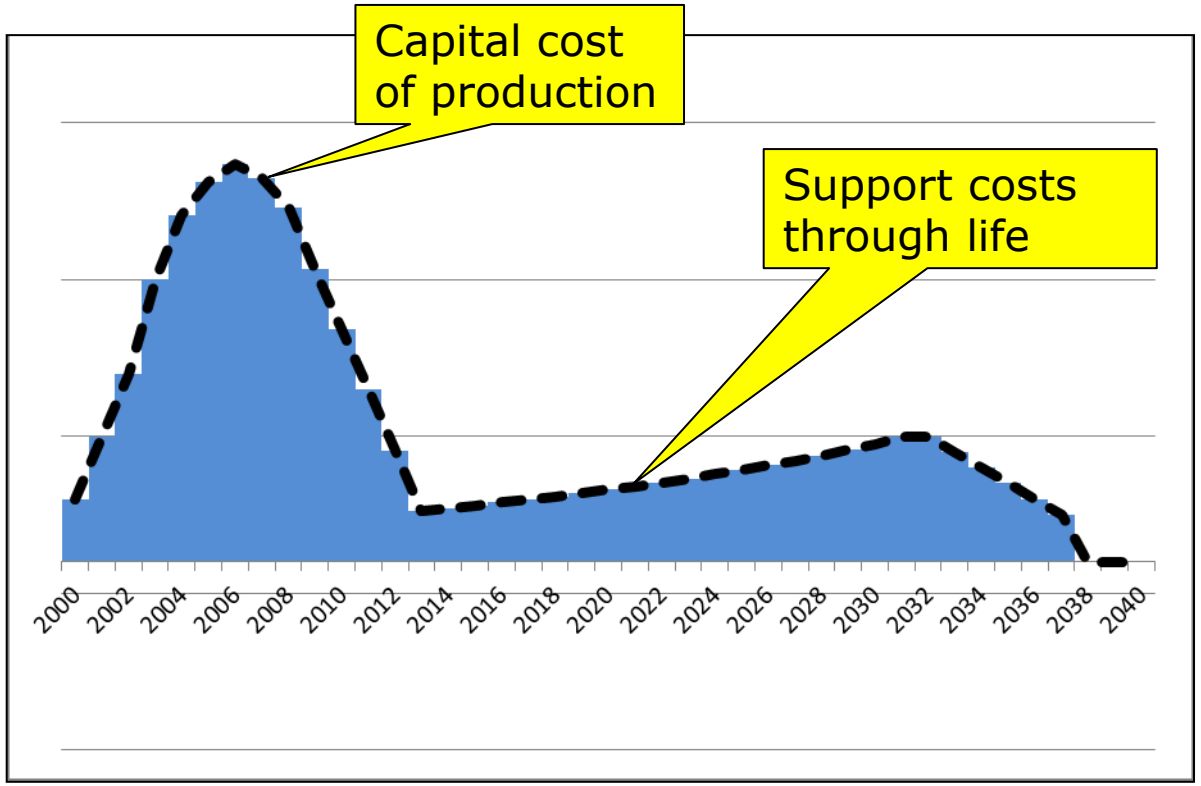
Additional sustainment costs within Industry and MOD are incurred

↓

Short term savings are eroded over the long term

Baseline Cost Profile



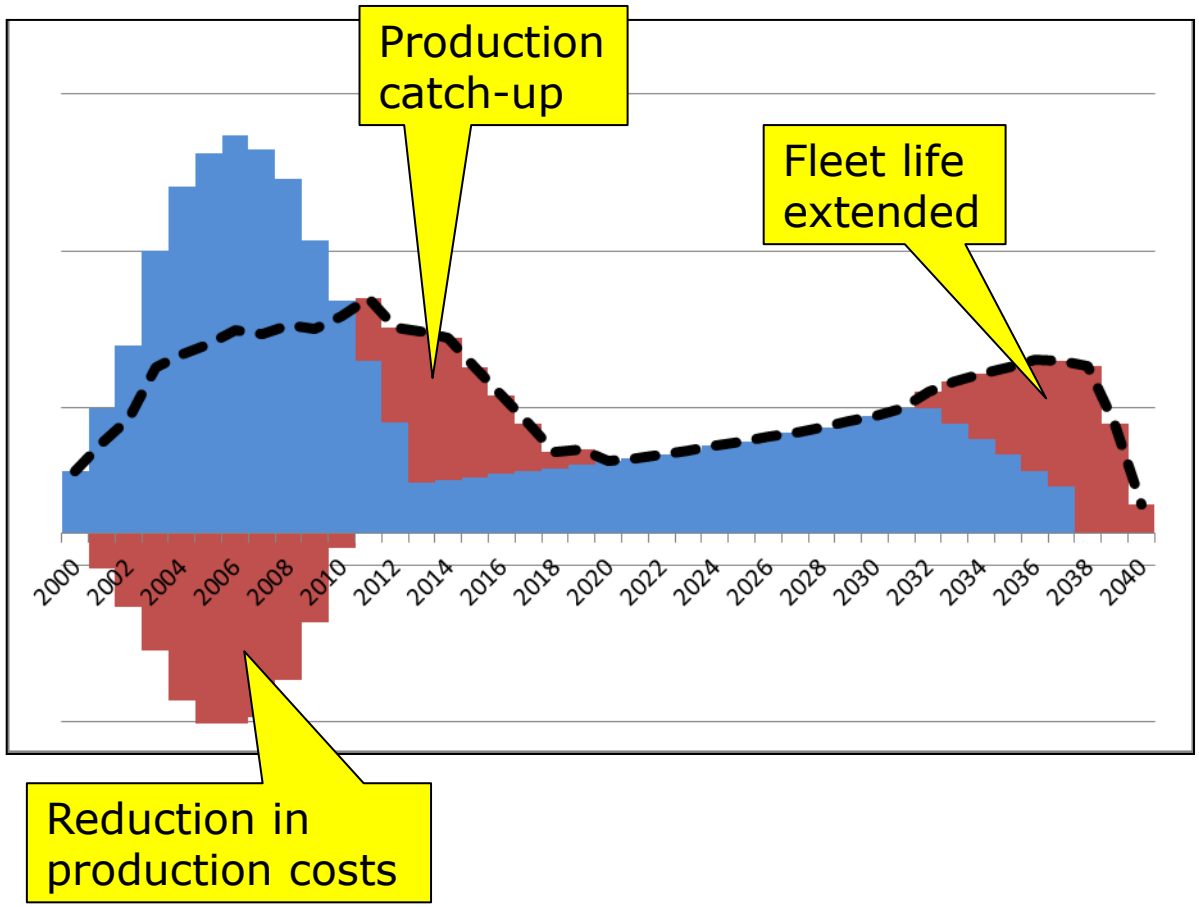
Cost in early years dominated by production.

Steady growth in support costs due to inflation.

Cost saving measure:

- Reduce the peak cost in the early years by slowing production

Slowing down production

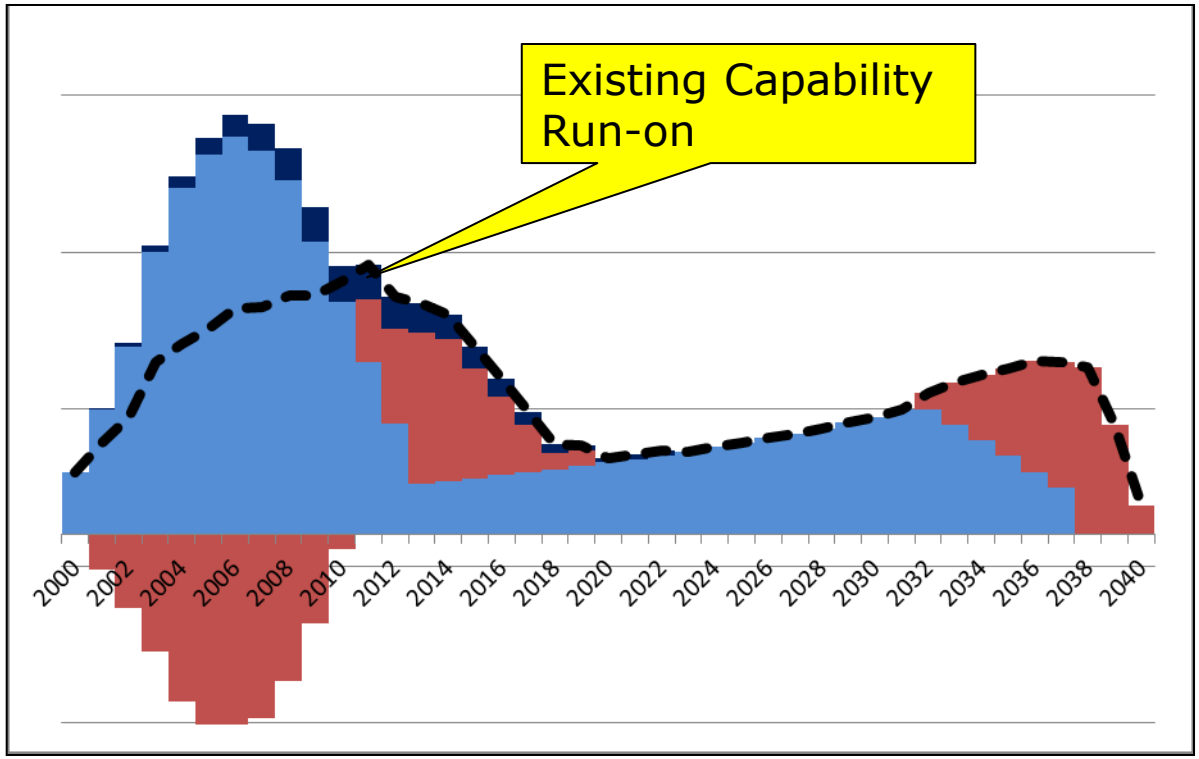


Peak costs reduced over the first 10 years.

Production continues for longer.

Fleet life extended.

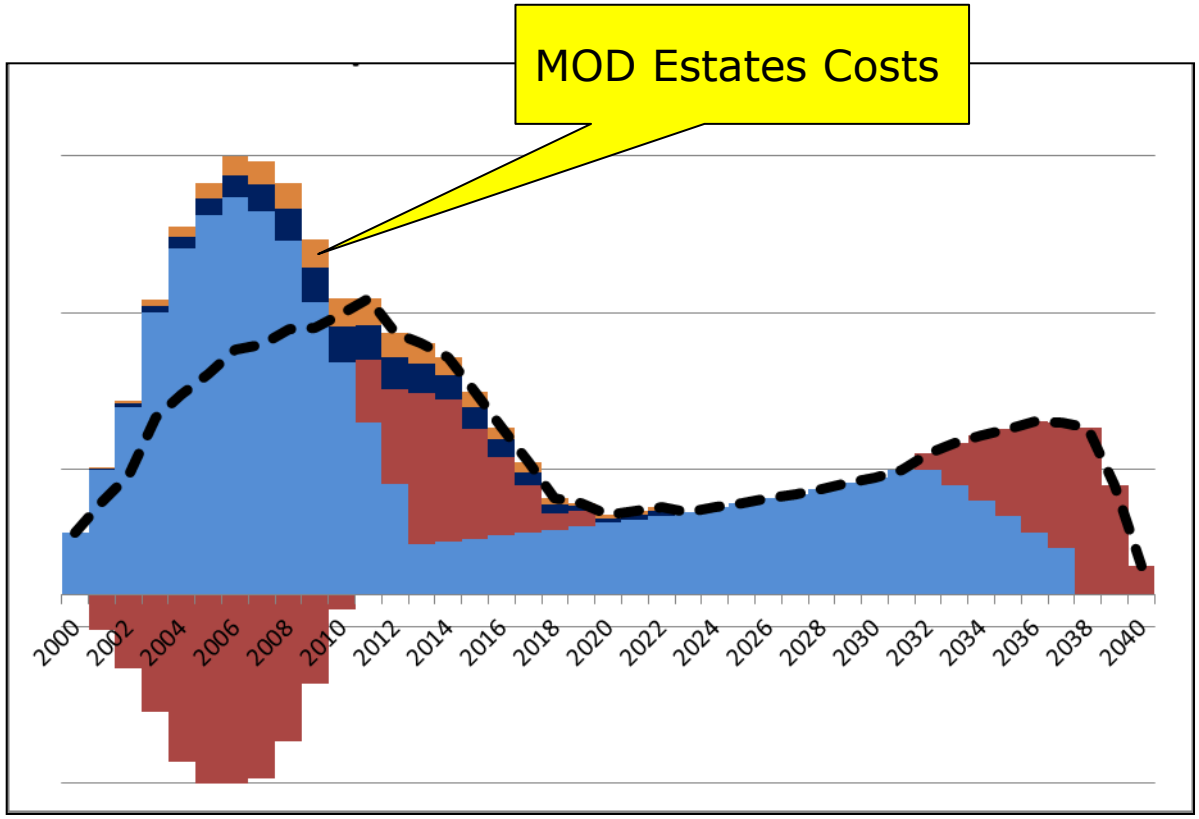
Running on Existing Capability



Additional Costs incurred

- During slow-down, and
- During catch-up

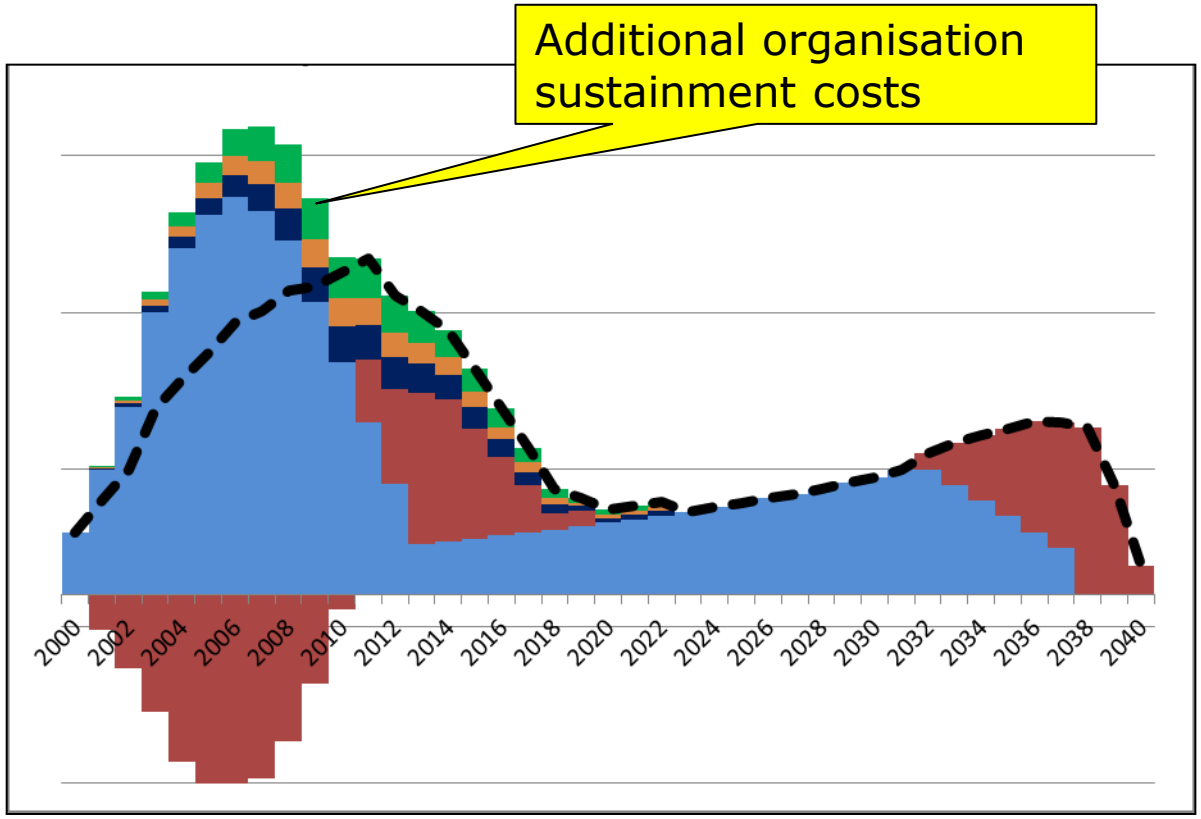
Sustaining MOD Estates



Additional estates costs incurred to sustain

- existing airfield
- existing base infrastructure

Sustaining MOD & Industry Organisation



Additional organisational costs include:

- Sustaining industry (production, engineering etc.)
- DE&S Project Teams

Total vs. direct cost impact comparison

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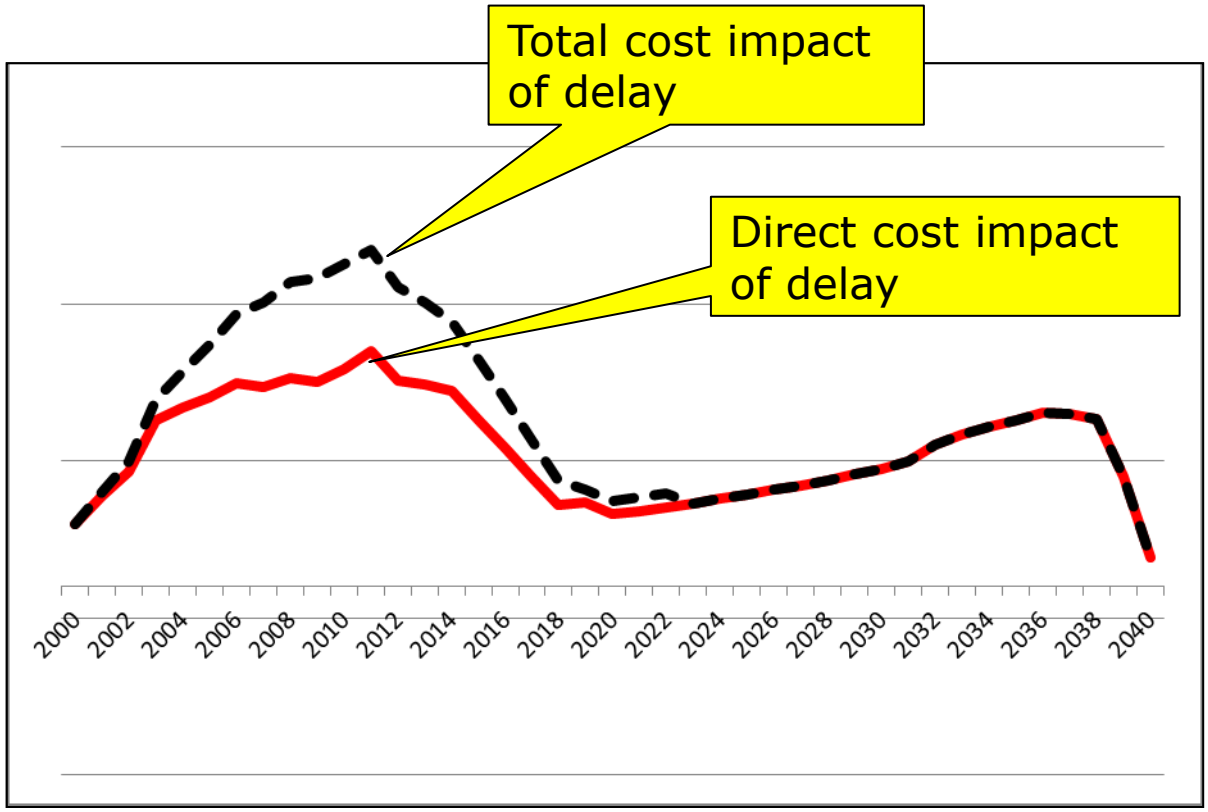

The total cost of delay can be significantly more than the direct, easily calculated costs

Are all initial savings eroded?

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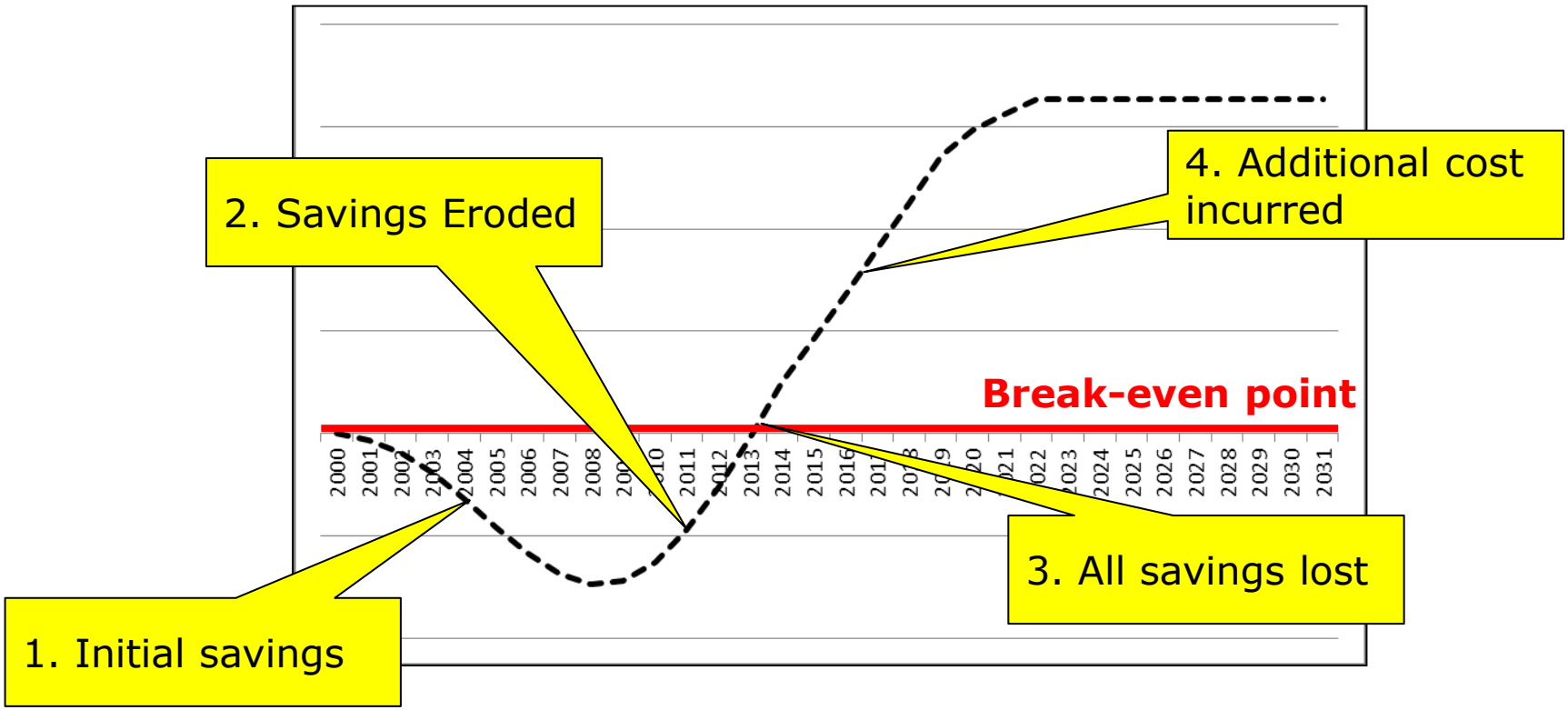

Summary

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- The concept works, but…
- …there are challenges with some areas of data
  - DLoD mappings
  - Complex commercial arrangements
  - Obtaining data within tight timescales

Questions?

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