



Ministry
of Defence

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PAC Chair

Your Reference:

Via email

Our Reference:

Date: 2nd August 2021

Dear PAC Chair,

Correction related to “Improving the performance of defence contractors, HC185 dated 12 July 2021 - Fixed Priced Contracts

Following the oral evidence session on 12th July 2021, where question 112 referred to fixed priced contracts, I would like to clarify one of the points I made regarding the Dreadnought submarine programme.

During my response on fixed pricing I referred to the Dreadnought programme, as an example and I said, “The last major build contract had elements of incentivisation in it, but the majority was still fixed price.” I meant to say, “the majority was still cost plus”.

I would also like to clarify my statement regarding the next Dreadnought contract phase. I said “ For the next contract, which will be early next year, the intention is absolutely to move as much of that on an incentivised basis, so we fix a price and then, if we get in front of that or if there is delay, there is pain and gain share between the supplier and the authority.”

This is not a complete description of the Dreadnought contracting strategy. The basis of the Delivery Phase 3 (DP3) Boat 1 Labour contract, although containing an incentivisation against schedule milestones, is intended to be cost plus as the current level of risk on Boat 1 for a first of class makes anything other than a cost plus approach unrealistic.

The incentivisation will therefore be against schedule rather than cost. There will be some cost incentivisation in DP3, for example the intent to apply a Target Cost Incentive Fees approach for elements of the material procured from the supply chain, and for the steelwork fabrication for boats 2-4 within DP3 where that is appropriate. It was not correct to imply the intention is to fix the price of much of the DP3 scope.

I should be grateful if the Chair would accept my letter of correction and agree to adjust the recorded transcript accordingly.

Yours sincerely,

A handwritten signature in black ink, appearing to read "A. Jones" with a long horizontal flourish extending to the right.