



WHAT DRIVES SUCCESSFUL PROJECT DELIVERY?

MIKE SCOTT DISCUSSES THE REASONING BEHIND THE NAO DEFENCE VALUE FOR MONEY WEBSITE.

Every year, we at the National Audit Office (NAO) report on how the UK MoD's largest equipment projects are progressing. We make no claims for great originality in this annual report. It often paints a familiar picture with projects showing good performance in meeting technical requirements but being late and over budget by varying amounts. However, this year we wanted to take a step back and get a better look at the different external factors that make projects succeed or fail. It is only when we have a better perspective on this that the MoD can work out how to deal with these factors and deliver projects more successfully.

This article highlights the key messages from the *Major Projects Report 2003*, published on 23 January 2004, and outlines the programme of work we are undertaking in partnership with the MoD to understand the broader drivers of successful acquisition and help improve the delivery of defence equipment capability.

KEY MESSAGES FROM THE MAJOR PROJECTS REPORT 2003

This was the twelfth report produced by the NAO and it reported that the MoD expects to achieve 99% of Key User Requirements on the top

20 projects in the Demonstration and Manufacture Phase. Whilst many of the projects are at an early stage in their life cycle, assuming the Department's confidence is borne out, this will be a significant achievement.

PROJECT COST AND TIME PERFORMANCE

Time and cost performance on the 20 largest projects in the last year was less encouraging. Problems on four Legacy projects largely contributed to a total of £3 billion in additional costs and 144 months of extra delay. The Astute submarines and Nimrod aircraft had suffered from technical and project management difficulties which led to the projects being restructured and, crucially, will mean the capabilities will be available to the Armed Forces later than planned. Cost increases had also arisen on Typhoon (formerly Eurofighter) and the Advanced Air-Launched Anti-Armour Weapon largely reflecting, under Resource Accounting and Budgeting, the financial impact of the time delays on these projects.

The 13 Smart Acquisition projects had performed better, although in some cases it had taken longer than anticipated to negotiate contracts and contract prices had exceeded estimates. But there are warning signs in the report

that some Smart projects may be following past trends in cost increases and delays as they mature through the Procurement Phase.

ASSESSMENT PHASE

Performance measures for successfully understanding and reducing risks in the Assessment Phase continue to evolve, notably three-point estimates and Technology Readiness Levels, but more needs to be done. The average level of expenditure, at 4.4% of total procurement cost, is well below that suggested for such risk-reduction activity under Smart Acquisition. Optimism continues to govern the initial appraisal of projects and there are signs that risks are not always sufficiently understood when committing to the main investment at Main Gate.

IMPROVED ACQUISITION

The MoD has recognised the challenges it faces if it is to deliver projects 'faster, cheaper and better'. The stocktake undertaken by the new Chief of Defence Procurement, Sir Peter Spencer, has confirmed that, whilst Smart Acquisition had seen the introduction of a number of important improvements, some of the key elements would benefit from further development to better meet the latest challenges and deliver greater business benefit. Areas identified by the stocktake where more needed to be done included creating a better, more open relationship with industry; improving the approach to project approvals; and increasing early investment to derisk projects.

UNDERSTANDING AND MANAGING WHAT DRIVES SUCCESSFUL ACQUISITION

To achieve sustained improvement the MoD needs to have a thorough understanding of what

influences the time, cost and technical performance of its projects, and what can be done to manage these influences to bring more certainty to the successful delivery of projects. In 2003 the NAO embarked on a programme of work, in partnership with the MoD. The consultation document and website (www.naodefencevm.org) we produced in March 2004 as our first step, including a model developed under our guidance by PA Consulting, paints a complex picture of the many different considerations and pressures that the MoD faces.

A number of the details have struck a chord across the MoD and industry. For example, the model emphasises the importance of influences such as the MoD's budgetary process and the availability of suitably skilled and qualified staff in the MoD and industry. The model explains how the various influences link together to affect successful project performance and has also brought new insights, notably that competition for contracts does not stand out on its own as a key driver of successful long-term project performance. There are a number of factors besides competition which feed into the realism of contracts, for example the MoD and industry's ability to understand risks and estimate costs and timescales and how effective their governance and assurance arrangements are in picking up potential optimism or lack of realism in bids.

The next stage of our work is to focus on some of the success factors identified by the model and compare the MoD's approach in managing them with outside practices. This will involve broad consultation, within and without the MoD, and comparative analysis of practices in selected

commercial organisations and overseas defence departments.

The first area which we have selected for study is 'Tracking the Progress of Major Projects'. This is a critical link between a number of the success factors. It depends on accurate, current and relevant management information; it underpins decisions through governance and assurance arrangements; and it informs activities such as risk and cost estimating, budgeting and funding.

There are a lot of things about the MoD that are special and make comparisons with other organisations difficult. But we have purposely identified areas which should allow us to make those comparisons. Tracking the progress of procurement projects is important to a great range of organisations. Are there lessons that the MoD could learn from you?

As part of the study we are seeking to gather as broad a range of perspectives as possible. If you would like to contribute to our work we would very much welcome hearing from you. Please email your contact details to ffiona.kyte@nao.gsi.gov.uk. This will help us identify what more the MoD and its industry partners can do to improve the cost-effective and timely delivery of desired equipment to the Armed Forces. As the saying goes: 'Your country needs you!'

This, and further Defence features, can be accessed under the Newsroom section of the MoD Portal at: www.contracts.mod.uk



MIKE SCOTT
 AUDIT MANAGER
 NATIONAL AUDIT OFFICE