

SIR STEPHEN LOVEGROVE, KCB



Ministry
of Defence

PERMANENT SECRETARY

D/PUS/11/7/1 (82)



10 March 2021

Meg Hillier MP Chair of the Public Accounts Committee

Sent electronically

Dear Chair,

PROJECT PEGASUS ACCOUNTING OFFICER ASSESSMENT

It is normal practice for Accounting Officers to scrutinise significant policy proposals, plans to start or changes to major projects, and then assess whether they measure up to the standards set out in Managing Public Money. Since April 2017, the Government has committed to make a summary of the key points from these assessments available to Parliament when an Accounting Officer has agreed an assessment of projects within the Government's Major Projects Portfolio.

This Accounting Officer Assessment has considered the schedule increase within the PEGASUS Main Gate Business Case, which received approval in September 2011 with an approved cost of £634M, to deliver an enriched uranium storage and manufacturing capability. PEGASUS is a key deliverable within the GMPP's Nuclear Warhead Capability Sustainment Programme (NWCSP) and the estimates for the project were relatively immature (time, cost and design) at the time of the Main Gate Business Case approval, to deliver a unique nuclear capability.

Background and context

Project PEGASUS, seeking to deliver an enriched uranium facility, secured Main Gate approval to replace aging infrastructure that provided for storage and manufacture of material and components vital to maintaining the UK's warhead stockpile. The infrastructure did not meet modern safety, security and material accountability standards as well as being beyond economic life.

Following project initiation, poor contractor performance was identified by the Senior Responsible Owner (SRO), and consequent reviews concluded that an overly complex technical solution had been developed, driving significant additional construction and safety case costs, leading to severe delays to the scheduled delivery date. The project design and requirements have subsequently been comprehensively reassessed, leading

to changes in some requirements as programme assumptions have matured, and in response to the requirement to deliver a replacement warhead.

The Department's intention is to run the project in two phases: firstly, complete the store as the highest priority activity, then complete the manufacturing facility. We are now in a position to proceed with completion of the store. Further assessment phase work is required to determine the best value for money solution for the manufacturing capability, and approval has been obtained to proceed with this assessment phase.

Regularity

The PEGASUS project continues to comply with Parliamentary requirements for the control of expenditure, with programme funds being applied only to the extent and for the purposes authorised by Parliament. HMT Regularity continues to be satisfied. It is governed effectively in accordance with GMPP requirements.

Propriety

Cost growth has been managed within the extant NWCSF financial approval, albeit the requirements for a replacement warhead will drive additional costs for the manufacturing capability. Approval of the store and manufacturing assessment phase at a cost of £77M, results in £265M approved funding being available for delivery of the manufacturing capability. Recent cost estimates from the Atomic Weapons Establishment indicate that completion of the manufacturing capability will exceed the current financial approval. Costs will be matured for this phase of the project during the forthcoming assessment phase and will be evaluated for Departmental approval.

Value for Money

Options for delivering this essential capability have been re-evaluated and reviewed while the project was paused. The solution identified for the store constitutes the best value for money solution to meet the capability requirement at this time and work is underway to determine the best value for money solution to deliver the manufacturing capability. It is recognised that the total cost of the store and manufacturing capability, due to schedule increases and evolving requirements, will now exceed the original approval. The Department will need to approve any increase identified at the conclusion of the assessment phase before work commences on the manufacturing capability. The costs incurred on the programme are subject to review and challenge by the MOD's Cost Assurance and Analysis Service to ensure they are appropriate and represent value for money.

Deliverability

The project remains deliverable, although challenging, in terms of timescales required to meet the warhead programme's needs. The project's next phase is the furnishing of an existing building, constructed prior to the project being paused, to deliver the store capability which is due to complete by June 2025, the stage will also undertake an assessment phase in relation to delivery of the manufacturing capability with a target for delivery of the first unit in 2030.

Conclusion

An essential capability to support the UK's nuclear warhead programme will be delivered through the success of this project and the MOD remains committed to its completion. As MOD Accounting Officer, I have considered this assessment of PEGASUS and approved it on 10 March 2021. It is concluded that PEGASUS remains a satisfactory use of public resources and that the programme should proceed.

I have prepared this summary to set out the key points which informed my decision. If any of these factors change materially during the lifetime of this project, I undertake to prepare a revised summary, setting out my assessment of them.

This summary will be published on the government's website (GOV.UK). Copies will be deposited in the library of the House of Commons and sent to the Controller and Auditor General and Treasury Officer of Accounts.

Yours sincerely,

A handwritten signature in blue ink that reads "Stephen Lovegrove". The signature is written in a cursive style with a large initial 'S'.

STEPHEN LOVEGROVE