

**Cynulliad Cenedlaethol Cymru**  
Y Pwyllgor Cyfrifon Cyhoeddus

Prosiect y Ddraig Goch

Tachwedd 2009



Cynulliad Cenedlaethol Cymru yw'r corff sy'n cael ei ethol yn ddemocrataidd i gynrychioli buddiannau Cymru a'i phobl, i ddeddfu ar gyfer Cymru ac i ddwyn Llywodraeth Cymru i gyfrif.

Gallwch weld copi electronig o'r adroddiad hwn ar wefan y Cynulliad Cenedlaethol **[www.cynulliadcymru.org](http://www.cynulliadcymru.org)**

I gael rhagor o gopiâu caled o'r ddogfen hon cysylltwch â:  
Y Pwyllgor Cyfrifon Cyhoeddus  
Cynulliad Cenedlaethol Cymru  
Bae Caerdydd  
CF99 1NA

Ffôn: 029 2089 8639

Ffacs: 029 2089 8021

E-bost: [YPwyllgorCyfrifonCyhoeddus@cymru.gsi.gov.uk](mailto:YPwyllgorCyfrifonCyhoeddus@cymru.gsi.gov.uk)

**Cynulliad Cenedlaethol Cymru**  
Y Pwyllgor Cyfrifon Cyhoeddus

Prosiect y Ddraig Goch

Tachwedd 2009





## Cynnwys

1. Rhagair y Cadeirydd .....	3
2. Cyflwyniad .....	4
3. Y cefndir.....	5
4. Y dystiolaeth .....	6
5. Yr hyn a drafodwyd a'r casgliadau .....	12

**Atodiad A: Trawsgrifiadau'r cyfarfodydd**

**Atodiad B: Gohebiaeth rhwng Cadeirydd y Pwyllgor Cyfrifon Cyhoeddus ac Ysgrifennydd Parhaol Llywodraeth Cynulliad Cymru, 22 Mai 2009**

**Atodiad C: Gohebiaeth rhwng Ysgrifennydd Parhaol Llywodraeth Cynulliad Cymru a Chadeirydd y Pwyllgor Cyfrifon Cyhoeddus, 25 Mehefin 2009**

**Atodiad D: Dogfennau Trysorlys EM**

**Nodyn: Cafodd Pwyllgor Archwilio Cynulliad Cenedlaethol Cymru ei ailenwi ar 4 Tachwedd 2009 – yr enw newydd arno yw'r Pwyllgor Cyfrifon Cyhoeddus. Er cysondeb, cyfeirir ato fel y Pwyllgor Cyfrifon Cyhoeddus drwy'r adroddiad hwn.**



## Aelodau'r Pwyllgor



**Jonathan Morgan**  
Cadeirydd  
Gogledd Caerdydd  
Plaid Geidwadol Cymru



**Lorraine Barrett**  
De Caerdydd a Phenarth  
Llafur



**Mike German**  
Dwyrain De Cymru  
Democratiaid Rhyddfrydol  
Cymru



**Janice Gregory**  
Ogwr  
Llafur



**Lesley Griffiths**  
Wrecsam  
Llafur



**Irene James**  
Islwyn  
Llafur



**Bethan Jenkins**  
Gorllewin De Cymru  
Plaid Cymru



**Huw Lewis**  
Merthyr Tudful a Rhymni  
Llafur



**Nick Ramsay**  
Sir Fynwy  
Plaid Geidwadol Cymru



**Janet Ryder**  
Gogledd Cymru  
Plaid Cymru

## Rhagair y Cadeirydd



Roedd Prosiect y Ddraig Goch yn brosiect mawr i Gymru, gyda'r nod o greu cyfleuster modern i atgyweirio awyrennau yn Sain Tathan. Dylai fod wedi diogelu a chreu swyddi yn yr ardal yn ogystal â sicrhau arbedion effeithlonrwydd i'r Weinyddiaeth Amddiffyn.

Yn y pen draw, ni ddigwyddodd pethau fel y disgwyliwyd. Newidiodd y Weinyddiaeth Amddiffyn ei gweledigaeth tymor hir ar gyfer cynnal a chadw awyrennau, a phenderfynodd yr Asiantaeth Atgyweirio Awyrennau Amddiffyn gau ei busnes atgyweirio awyrennau cyflym yn Sain Tathan. Golygai hyn golli prif denant y cyfleuster a chollwyd llawer o'r swyddi yr oedd y prosiect wedi bwriadu'u diogelu.

Bellach, mae gobeithion cadarn y bydd yn bosibl datblygu Academi Hyfforddiant Amddiffyn ar y safle. Os bydd hynny'n llwyddiannus, fe ddaw â swyddi a manteision economaidd ehangach i'r ardal. Yn y cyfamser, ar ôl i archwilwyr geisio canfod pam aeth y prosiect i'r gwellt, mae'n amlwg y bu diffyg cydweithio rhwng y gwahanol gyrff cyhoeddus a oedd yn ymwneud â'r prosiect. Amlygwyd nifer o beryglon sy'n codi pan fydd nifer o gyrff y sector cyhoeddus yn ymgymryd â phrosiectau mawr a chymhleth a hwythau heb fod yn ddigon agored â'i gilydd ac yn amharod i rannu gwybodaeth.

Er bod gobeithion o hyd i ddatblygu safle Sain Tathan, mae'r Pwyllgor yn credu y bydd y gwersi a ddysgwyd o ganlyniad i brosiect y Ddraig Goch o fudd i gyrff y sector cyhoeddus yng Nghymru ac yn gymorth i osgoi problemau tebyg yn y dyfodol.

Yn olaf, hoffwn ddiolch i'r tystion a roddodd dystiolaeth i'r ymchwiliad hwn.

Jonathan Morgan,  
Cadeirydd y Pwyllgor Cyfrifon Cyhoeddus



## Cyflwyniad

1. Roedd prosiect y Ddraig Goch yn brosiect ar y cyd rhwng Llywodraeth Cynulliad Cymru, Awdurdod Datblygu Cymru ('Awdurdodau Cymru') a'r Weinyddiaeth Amddiffyn. Roedd sawl elfen i'r cynllun gwreiddiol. Yn y pen draw, byddai'n costio £134m, heb gynnwys taliadau gan Awdurdodau Cymru i'r Weinyddiaeth Amddiffyn. Y bwriad oedd adeiladu uwch-hangar ar gyfer atgyweirio awyrennau jet cyflym yn safle'r Asiantaeth Atgyweirio Awyrennau Amddiffyn (DARA) yn y de, ad-drefnu safle Sain Tathan at ddefnydd y Weinyddiaeth Amddiffyn, creu trefniadau i Awdurdodau Cymru gaffael rhan fawr o'r safle, ac ailddatblygu'r safle gyda'r nod o greu parc awyrofod masnachol yn y tymor hwy.
2. Yn y pen draw, ni ddigwyddodd pethau fel y disgwyliwyd. Ymrwymodd y Weinyddiaeth Amddiffyn i fwrw ymlaen â'r prosiect cyn penderfynu ar ei gweledigaeth lawn ar gyfer cynnal a chadw awyrennau. Pan benderfynwyd maes o law na fyddai hyn yn cynnwys yr hangar a'r cyfleusterau yn Sain Tathan, roedd y Weinyddiaeth eisoes wedi ymrwmo i brosiect y Ddraig Goch. Oherwydd hyn, bu'n rhaid i'r Weinyddiaeth Amddiffyn ddod â'r prosiect i ben ac yn 2005 cyhoeddodd y byddai cyfleuster yr Asiantaeth Atgyweirio yn Sain Tathan yn cau. Gadawodd hyn y safle heb brif denant, gan leihau'r posibiladau'n arw o ddenu rhagor o fuddsoddiad i'r safle a'r swyddi y gobeithiwyd eu creu.
3. Cost net y prosiect i drethdalwyr y DU oedd £113m. Dim ond £57m o arbedion effeithlonrwydd a ddeilliodd o brosiect yr uwch-hangar, er mai nod y Weinyddiaeth Amddiffyn oedd arbed £263m. Roedd Awdurdodau Cymru wedi gobeithio y byddai eu gwariant yn diogelu'r swyddi hynny yn yr Asiantaeth Atgyweirio a gafodd eu colli yn y pen draw. Roeddent hefyd wedi gobeithio y byddai tua 4,000 o swyddi sgiliau uchel yn cael eu creu yng Nghymru fel rhan o'r nod yn y tymor hwy o ddatblygu parc awyrofod. Fodd bynnag, pan oedd yr Archwilydd Cyffredinol yn llunio'i adroddiad, dim ond 45 o swyddi oedd wedi cael eu creu. Yn y pen draw, mae gan Awdurdodau Cymru a'r Weinyddiaeth Amddiffyn asedau gwerthfawr – sef 'uwch-hangar' y rhoddwyd gwerth o £25m iddo yn 2002 (er bod y Weinyddiaeth Amddiffyn wedi rhoi gwerth ar y farchnad o £48m-£60m iddo tan 2018, yn dibynnu ar y defnydd a wneid ohono) a safle sydd wedi'i lanhau a'i baratoi ar gyfer datblygiadau. Wrth edrych tua'r dyfodol, ar ôl cau'r Asiantaeth Atgyweirio, mae gobaith y bydd Academi Hyfforddiant Amddiffyn y Metrix Consortium yn creu hyd at

4,000 o swyddi parhaol ar y safle ynghyd â 1,500 yn rhagor o swyddi adeiladu, ac mae Llywodraeth y Cynulliad yn gobeithio creu 2,000 o swyddi ychwanegol drwy'r parc awyrofod.

## Y cefndir

4. Ym mis Mawrth 2009, cyhoeddodd y Rheolwr a'r Archwilydd Cyffredinol ac Archwilydd Cyffredinol Cymru adroddiad ar y cyd ar y prosiect hwn <sup>1</sup>. Dilynodd hyn astudiaeth o'r prosiect ar y cyd rhwng Swyddfa Archwilio Cymru a'r Swyddfa Archwilio Genedlaethol. Prosiect oedd hwn rhwng 'Awdurdodau Cymru a'r Weinyddiaeth Amddiffyn.
5. Diben adroddiad yr archwilwyr oedd ystyried a oedd y Weinyddiaeth Amddiffyn ac Awdurdodau Cymru wedi gweithio gyda'i gilydd yn effeithiol er mwyn sicrhau canlyniadau da o'r gwariant ar safle Sain Tathan. Er bod enghreifftiau i'w cael o gydweithio effeithiol, y casgliad oedd nad oedd Awdurdodau Cymru a'r Weinyddiaeth Amddiffyn wedi cydweithio'n ddigon da drwy gydol y prosiect. Roedd y naill ochr a'r llall wedi trin y prosiect i raddau helaeth iawn fel proses 'fasnachol' yn hytrach nag fel 'menter ar y cyd' rhwng dwy o asiantaethau'r Llywodraeth. O ganlyniad, nid oeddent wedi rhannu gwybodaeth, nid oeddent yn ddigon cyfarwydd â thybiaethau pwysig y naill a'r llall, ac roedd ganddynt safbwyntiau sylfaenol wahanol ynghylch y rhagolygon i safle Sain Tathan yn y tymor hir.
6. Oherwydd hyn, ni lwyddodd y Weinyddiaeth Amddiffyn nac Awdurdodau Cymru i sicrhau'r manteision a fwriadwyd o brosiect y Ddraig Goch, er bod cynlluniau ar y gweill i ddefnyddio'r safle a'r cyfleusterau fel canolfan hyfforddiant amddiffyn a pharc awyrofod llai ei faint na'r gwreiddiol.
7. Roedd casgliadau manwl adroddiad yr archwilwyr fel a ganlyn <sup>2</sup>:
  - Nid oedd gan brosiect y Ddraig Goch un diben cyffredin, er bod gan y Weinyddiaeth Amddiffyn ac Awdurdodau Cymru amcanion ar gyfer y safle a oedd yn cyd-fynd â'i gilydd.

---

<sup>1</sup> Y Rheolwr a'r Archwilydd Cyffredinol ac Archwilydd Cyffredinol Cymru, *Prosiect y Ddraig Goch*, 27 Mawrth 2009

<sup>2</sup> Y Rheolwr a'r Archwilydd Cyffredinol ac Archwilydd Cyffredinol Cymru, *Prosiect y Ddraig Goch*, 27 Mawrth 2009, tt8-9

- Nid oedd gan y Weinyddiaeth Amddiffyn nac Awdurdodau Cymru ddealltwriaeth gyffredin o'r tybiaethau a oedd yn sail i'w priod benderfyniadau ynghylch dyfodol safle Sain Tathan.
- Roedd gweledigaeth y Weinyddiaeth Amddiffyn ar gyfer systemau cynnal a chadw awyrennau amddiffyn yn esblygu pan wnaed yr ymrwymiad i Sain Tathan.
- Cafodd penderfyniad y Weinyddiaeth Amddiffyn i drosglwyddo'r gwaith o atgyweirio awyrennau jet cyflym o Sain Tathan ei seilio ar y posibilrwydd o sicrhau mwy o arbedion ym maes amddiffyn, ond ni chafodd Awdurdodau Cymru wybod am yr effaith mor gynnar ag y gallent fod wedi cael gwybod amdani.
- Ni wireddwyd y manteision a fwriadwyd yn wreiddiol ar gyfer prosiect y Ddraig Goch, a bu cydweithio, ac mae cydweithio, yn mynd rhagddo i sicrhau dyfodol dichonadwy i safle Sain Tathan, gan ganolbwyntio ar hyfforddiant amddiffyn. Mae arbedion sylweddol wedi'u gwneud o ran cost cynnal a chadw awyrennau jet cyflym, drwy symud y gwaith atgyweirio i brif ganolfannau gweithredu'r Awyrlu Brenhinol.

## Y dystiolaeth

8. Ar 14 Mai 2009, rhoddodd yr Archwilydd Cyffredinol gyflwyniad i'r Pwyllgor Cyfrifon Cyhoeddus yn crynhoi prif ganfyddiadau'r adroddiad a luniwyd ar y cyd ar brosiect y Ddraig Goch<sup>3</sup>. Gofynnodd aelodau'r Pwyllgor Cyfrifon Cyhoeddus gwestiynau i'r Archwilydd Cyffredinol ynghylch manylion y canfyddiadau hynny. Nododd y Pwyllgor sawl peth a oedd yn peri pryder penodol. Yn y lle cyntaf, penderfynodd y Pwyllgor ysgrifennu at Ysgrifennydd Parhaol Llywodraeth Cynulliad Cymru yn nodi ei bryderon. Gofynnwyd hefyd am ragor o wybodaeth am sawl agwedd ar y prosiect ac am y cynlluniau ar gyfer safle Sain Tathan yn y dyfodol. Anfonodd y Cadeirydd ei lythyr ar 22 Mai<sup>4</sup>.
9. Ymatebodd yr Ysgrifennydd Parhaol ar 25 Mehefin a thrafododd y Pwyllgor Cyfrifon Cyhoeddus hyn ymhellach yn ei gyfarfod ar 16

<sup>3</sup> Cofnod y Trafodion, AC(3) 07-09 [3-21]

<sup>4</sup> Gohebiaeth rhwng Cadeirydd y Pwyllgor Cyfrifon Cyhoeddus ac Ysgrifennydd Parhaol Llywodraeth Cynulliad Cymru, 22 Mai 2009

Gorffennaf<sup>5</sup>. Tra bo'r ymateb i raddau helaeth yn foddhaol, roedd y Pwyllgor yn dal i bryderu am y diffyg cydweithio ar y prosiect a'r ffaith nad oedd y prosiect wedi cael ei asesu ar y cyd yn ddigonol. Roedd y Pwyllgor Cyfrifon Cyhoeddus hefyd yn pryderu ynghylch y modd y dehonglwyd canllawiau'r Trysorlys ar gyfer gwerthuso prosiectau sy'n mynd rhagddynt ar y cyd rhwng mwy nag un sefydliad. Trafododd y Pwyllgor ei opsiynau a phenderfynodd wahodd yr Ysgrifennydd Parhaol i roi rhagor o dystiolaeth.

10. Yn ei gyfarfod ar 1 Hydref 2009, clywodd y Pwyllgor dystiolaeth gan y canlynol:

- Y Fonesig Gillian Morgan, Ysgrifennydd Parhaol Llywodraeth Cynulliad Cymru
- Gareth Hall, Cyfarwyddwr Cyffredinol, yr Economi a Thrafnidiaeth, Llywodraeth Cynulliad Cymru.

11. Roedd ymchwiliad y Pwyllgor yn canolbwyntio ar bedwar cwestiwn allweddol:

#### **A Pam na wnaeth Awdurdodau Cymru feithrin dull o weithio ar y cyd ar y prosiect?**

12. Dywedodd y Fonesig Gillian wrth y Pwyllgor na ddylid ystyried prosiect y Ddraig Goch yn gymaint o brosiect ar y cyd, ond yn hytrach yn ddau brosiect a oedd yn cyd-fynd â'i gilydd.<sup>6</sup> Roedd y prosiect yn golygu dwy broses gysylltiedig:

- gwerthu hen safle'r Awyrlu Brenhinol yn Sain Tathan i Awdurdod Datblygu Cymru a'i brydlesu yn ôl i'r Weinyddiaeth Amddiffyn; a
- cynllun Menter Cyllid Preifat (PFI) gan y Weinyddiaeth Amddiffyn ar gyfer adeiladu uwch-hangar.

13. Dywedodd y Fonesig Gillian na fyddai wedi bod yn ymarferol bod yn rhan o fenter ar y cyd â'r Weinyddiaeth Amddiffyn, gan fod y Fenter Cyllid Preifat wedi bod yn mynd rhagddi ers tro rhwng y Weinyddiaeth a'i phartneriaid masnachol pan gysylltwyd ag Awdurdod Datblygu Cymru i ofyn am gymorth gyda diffyg yn y cyllid ar gyfer y gwaith

---

<sup>5</sup> Gohebiaeth rhwng Ysgrifennydd Parhaol Llywodraeth Cynulliad Cymru a Chadeirydd y Pwyllgor Cyfrifon Cyhoeddus, 25 Mehefin 2009

<sup>6</sup> Cofnod y Trafodion AC(3) 12-09 [11]

adeiladu. Byddai ymgais i ddadwneud y trefniadau masnachol a oedd eisoes yn eu lle wedi arwain at oedi costus i'r Weinyddiaeth Amddiffyn. Byddai problemau wedi codi hefyd pe bai Awdurdod Datblygu Cymru wedi gorfod ysgwyddo costau a dyledion Menter Cyllid Preifat y Ddraig Goch.

14. Mae'r Pwyllgor Cyfrifon Cyhoeddus yn nodi bod Llywodraeth Cynulliad Cymru yn ystyried y fenter fel dau brosiect a oedd yn cyd-fynd â'i gilydd ond yn sefyll ar wahân. Serch hynny, nid yw'r Pwyllgor wedi'i argyhoeddi gan y ddadl hon, gan na fyddai wedi bod yn bosibl i'r Weinyddiaeth Amddiffyn ad-drefnu heb werthu'r safle i Awdurdod Datblygu Cymru, ac ni fyddai Awdurdod Datblygu Cymru wedi gallu datblygu ei gynlluniau ar gyfer parc awyrfod heb brynu'r maes awyr a'r tir gan y Weinyddiaeth Amddiffyn. Tra gall y Pwyllgor weld na fyddai wedi bod yn ymarferol nac yn ddymunol ceisio dadwneud ac aildrefnu proses fasnachol a oedd wedi bod yn mynd rhagddi ers tro, nid yw'n credu mai dyma oedd yr unig opsiwn. Dylai fod wedi bod yn bosibl i gyrff y sector cyhoeddus ganfod dull mwy cydlynol o weithio ar hyn. Mae'r Pwyllgor yn synnu hefyd fod Awdurdodau Cymru a'r Weinyddiaeth Amddiffyn wedi dewis dod i drefniant ar sail proses fasnachol. Mae'r Pwyllgor yn nodi bod y Fonesig Gillian yn derbyn y gellid bod wedi gwneud rhai pethau mewn ffordd fwy cydlynol.<sup>7</sup>

## **B. Pam na chynhaliwyd arfarniad ariannol cyffredinol o'r prosiect?**

15. Yn ôl paragraff 5.5 o Lyfr Gwyrdd y Trysorlys, os bydd cysylltiad rhwng sawl elfen o wariant neu weithgaredd, ac os bydd y costau neu'r manteision yn dibynnu ar ei gilydd, rhaid arfarnu'r prosiect yn ei gyfanrwydd<sup>8</sup>. Yn ogystal â bod yn ganllawiau gan y Trysorlys, mae'r Pwyllgor yn credu bod hyn yn synnwyr cyffredin ac yn arfer da.
16. Yn ei llythyr at y Pwyllgor ar 25 Mehefin, dywedodd y Fonesig Gillian mai rhan o gylich gwaith Awdurdod Datblygu Cymru oedd ymyrryd o dan Ddeddf Awdurdod Datblygu Cymru 1975, fel y'i diwygiwyd gan Ddeddf Llywodraeth Cymru 1998, er mwyn datblygu Cymru yn economaidd ac yn gymdeithasol a hyrwyddo effeithlonrwydd diwydiannol yn y byd

---

<sup>7</sup> Cofnod y Trafodion AC(3) 12-09 [9]

<sup>8</sup> Trysorlys EM, *The Green Book – Appraisal and Evaluation in Central Government*, Llundain, TSO, paragraff 5.5

busnes yng Nghymru<sup>9</sup>. Aeth yn ei blaen i ddweud na fyddai asesu effaith gweithgareddau neu gynlluniau ad-drefnu'r Weinyddiaeth Amddiffyn wedi bod yn rhan o gylch gwaith Awdurdod Datblygu Cymru. Mae'n anodd deall y pwynt hwn. Yn amlwg, efallai nad yw'n angenrheidiol asesu effaith cynlluniau'r Weinyddiaeth Amddiffyn er mwyn datblygu Cymru yn economaidd a chymdeithasol, ond oni fyddai'n iawn gwneud hyn er mwyn cael gwybodaeth sy'n berthnasol neu'n angenrheidiol wrth ystyried pa mor ddichonadwy yw buddsoddiad posibl.

17. Yn yr un llythyr, dywedodd y Fonesig Gillian y byddai wedi bod yn hynod o anodd asesu cynlluniau'r Asiantaeth Atgyweirio gan nad oedd yn fodlon rhannu ei chynlluniau busnes manwl gydag Awdurdod Datblygu Cymru am resymau a oedd yn ymwneud â chyfrinachedd masnachol. Sefydlwyd Awdurdod Datblygu Cymru i weithredu, i raddau, â lled braich 'masnachol', tra gall y Pwyllgor ddeall y byddai'r Asiantaeth Atgyweirio am ymddwyn yn yr un modd. Ond ni ellir defnyddio hyn fel sail dros beidio â rhannu gwybodaeth – yn enwedig mewn prosiect mor fawr â hwn. Yn y pen draw, y Trysorlys oedd yn eu hariannu ill dau. Ni all y Pwyllgor Cyfrifon Cyhoeddus weld y byddai unrhyw esgus dros beidio â rhannu gwybodaeth yn dal dŵr pe bai Llywodraeth Cynulliad Cymru yn gofyn am y wybodaeth gan y Weinyddiaeth Gyfiawnder er mwyn cynnal dadansoddiad a fyddai'n angenrheidiol er mwyn cydymffurfio â chanllawiau'r Trysorlys. Y rhwystr pennaf, fodd bynnag, oedd y ffaith nad oedd y prosiect hwn yn cael ei weld yn fenter ar y cyd. Yn hytrach, roedd yn cael ei ystyried yn broses 'fasnachol' rhwng asiantaethau perthnasol y Llywodraeth

18. Mae'r Pwyllgor yn nodi dadl y Fonesig Gillian fod llawer o'r ddealltwriaeth a'r gweithdrefnau presennol yn deillio'n ôl i gyfnod cyn datganoli a bod angen eu dehongli gan gofio bod datganoli'n symud yn ei falen yng Nghymru<sup>10</sup>. Er gwaethaf hynny, mae'n anodd gweld bod gan gyrff cyhoeddus unrhyw gyfiawnhad dros beidio â chynnal arfarniad llawn a thros beidio â rhannu'r wybodaeth angenrheidiol er mwyn gwneud hyn. Mae'r Pwyllgor yn nodi bod y gofyniad i gynnal arfarniad llawn o'r holl brosiect yr un mor berthnasol i'r Weinyddiaeth Amddiffyn – ac o bosibl yn fwy perthnasol iddi gan nad yw'r materion anodd sy'n ymwneud â datganoli yn cymhlethu ei sefyllfa hi.

---

<sup>9</sup> Gohebiaeth rhwng Ysgrifennydd Parhaol Llywodraeth Cynulliad Cymru a Chadeirydd y Pwyllgor Cyfrifon Cyhoeddus, 25 Mehefin 2009

<sup>10</sup> Cofnod y Trafodion AC(3) 12-09 [33, 39 a 41]

### **C. Pam nad edrychodd Awdurdodau Cymru'n fanylach ar y cymal terfynu?**

19. O safbwynt Awdurdodau Cymru, roedd penderfyniad y Weinyddiaeth Amddiffyn i ofyn am gymal terfynu o 5 mlynedd yn hynod arwyddocaol. Yn ei thystiolaeth ysgrifenedig, dywedodd y Fonesig Gillian wrth y Pwyllgor fod Awdurdod Datblygu Cymru yn fodlon bod cynnal asesiad annibynnol o'r uwch-hangar fel ased wedi cyfyngu'r risg ariannol. Pe bai'r cymal terfynu wedi cael ei roi ar waith - ac roedd hynny'n ymddangos yn annhebygol - roedd gwerth o £25m wedi'i roi ar yr adeilad. Byddai'r arian y byddai Awdurdod Datblygu Cymru wedi'i dderbyn yn sgil hyn yn fwy na'r swm a wariodd. Nododd y Fonesig Gillian fod y Weinyddiaeth Amddiffyn wedi cael prisiad dair blynedd ynghynt oedd rhwng £48m a £60m.
20. Am nifer o resymau, nid oedd Awdurdodau Cymru'n credu y byddai'r Weinyddiaeth Amddiffyn yn tynnu'n ôl o'r prosiect. Er enghraifft, roedd y Weinyddiaeth wedi ymrwymo i ddarparu lefelau sylweddol o wariant ar gyfer y prosiect, roedd y Trysorlys wedi cymeradwyo'r cymal terfynu, ac roedd cyfres o ddatganiadau wedi'i rhoi a ddywedai bod y Weinyddiaeth Amddiffyn wedi ymrwymo i'r prosiect.
21. Yn eu dystiolaeth lafar i'r Pwyllgor, dywedodd y Fonesig Gillian a Mr Hall eu bod wedi cytuno i gael cymal terfynu o 5 mlynedd, ond eu bod hefyd wedi asesu bod maint ymrwymiad ariannol y Weinyddiaeth Amddiffyn yn golygu na fyddent wedi rhoi'r cymal hwnnw ar waith<sup>11</sup>. Cyfeiriodd Mr Hall at God y Gwasanaeth Sifil sy'n ei gwneud yn ofynnol i weision sifil weithredu mewn ffordd ddiduedd a gonest, a dangos didwylledd a phroffesiynoldeb wrth wneud eu gwaith<sup>12</sup>. Fodd bynnag, nid mater o onestrwydd yw hyn; yn hytrach, nid oedd Awdurdodau Cymru'n gweld yr opsiynau yn yr un modd â'r Weinyddiaeth Amddiffyn. Roedd hyn gan fod ganddynt wybodaeth wahanol. Pe bai'r wybodaeth wedi cael ei rhannu'n fwy agored, a phe bai asesiad cyffredinol o'r prosiect wedi cael ei gynnal ar lefel y DU fel y nodir uchod, byddai Awdurdodau Cymru wedi bod â darlun cywirach o'r opsiynau a'r risgiau.
22. Mae'r Pwyllgor yn credu bod y dull a ddilynwyd gan Awdurdodau Cymru rywfaint yn anghyson. Ar rai adegau, ymdriniwyd â'r

---

<sup>11</sup> Cofnod y Trafodion AC(3) 12-09 [52, 55 a 61]

<sup>12</sup> Cofnod y Trafodion AC(3) 12-09 [52]

Weinyddiaeth Amddiffyn fel petai'r prosiect yn broses fasnachol. Ar adegau eraill, gweithredwyd ar sail 'ymddiriedaeth' a 'gonestrwydd' rhwng cydweithwyr a oedd yn rhan o'r un sefydliad yn y gwasanaeth sifil. Ond nid oedd yr ymddiriedaeth yn ddigon iddynt rannu eu cynlluniau busnes â'i gilydd!

**D. Sut y bydd Llywodraeth Cynulliad Cymru yn defnyddio'r gwersi a ddysgwyd o brosiect y Ddraig Goch mewn prosiectau yn y dyfodol?**

23. Yn ei llythyr at y Pwyllgor, dywedodd y Fonesig Gillian fod Llywodraeth Cynulliad Cymru wedi mabwysiadu'r canllawiau a geir yn Llyfr Gwyrdd y Trysorlys ar gyfer arfarnu a gwerthuso yn y Llywodraeth ganolog. Mae'r canllawiau hynny'n cynnwys gwybodaeth am ymdrin â phrosiectau a chanddynt nifer o arianwyr. Dywedodd y Fonesig Gillian hefyd fod y Llywodraeth yn bwrw ymlaen â rhaglenni i ddatblygu sgiliau'r swyddogion sy'n ymwneud â'r gwaith hwn a bod Pennaeth Proffesiwn ar gyfer rheoli rhaglenni a phrosiectau wedi cael ei benodi i ddarparu cymorth yn hyn o beth drwy'r holl sefydliad.
24. O ran gweithio gyda chyrrff eraill sy'n rhan o'r Llywodraeth, bydd Llywodraeth Cynulliad Cymru yn ceisio ymgorffori'r ffyrdd hyn o weithio wrth greu partneriaethau mwy ffurfiol ar gyfer prosiectau mawr.
25. Dywedodd llythyr y Fonesig Gillian hefyd fod Llywodraeth y DU a'r gweinyddiaethau datganoledig wedi cytuno ar Femorandwm Cyd-ddealltwriaeth ym 1999 a bod hwn yn rhoi protocolau ar gyfer cydweithio rhwng y pedair gweinyddiaeth, gan gynnwys rhannu gwybodaeth yn ôl y galw. Dywedodd fod y Memorandwm Cyd-ddealltwriaeth wrthi'n cael ei ddiweddarau yn sgil y datblygiadau diweddar.
26. Mae'r Pwyllgor yn nodi'r ymateb ond yn sylwi mai cyffredinol iawn yw hwnnw o ran y gweithdrefnau ar gyfer y dyfodol. Mae'r Pwyllgor yn croesawu'r ymrwymiad i rannu gwybodaeth a gweithio mewn partneriaethau mwy ffurfiol. Ond mae'n bwysig sylweddoli bod hyn yn ymwneud yn gymaint ag ymddiriedaeth a diwylliant cydweithredol adeiladol ag y mae â gweithdrefnau, cytundebau a chontractau. Mae'r Memorandwm Cyd-ddealltwriaeth sy'n bodoli rhwng Llywodraeth y DU a'r gweinyddiaethau datganoledig yn ddogfen o bwys ac roedd wedi'i llunio gryn dipyn cyn y dechreuwyd bwrw ymlaen â phrosiect y Ddraig



Goch. Er gwaethaf hyn, mae'n amlwg nad oedd yn effeithiol er mwyn sicrhau digon o gydweithio ar brosiect y Ddraig Goch.

27. O ran prosiectau unigol, cyfeiriodd y Fonesig Gillian at ddull Llywodraeth y Cynulliad o ddefnyddio'r Model Pum Achos wrth ddatblygu a rheoli'r achos busnes cyn dechrau ar brosiectau. Y dull hwn sy'n cael ei hyrwyddo fel yr arfer gorau ar gyfer y sector cyhoeddus yn ehangach yng Nghymru. Cyfeiriodd y Fonesig Gillian hefyd at y ffaith fod y Cabinet wedi cytuno eleni ar strategaeth caffael ar gyfer gwaith adeiladu, a dywedodd fod ymdrechion yn cael eu gwneud hefyd i integreiddio proses adolygu Gateway wrth roi prosiectau ar waith.
28. Byddai'r Pwyllgor wedi bod yn dawlach ei feddwl pe bai'r ymateb wedi bod yn fwy eglur o ran sut y bydd Llywodraeth Cynulliad Cymru yn mynd ati i sicrhau ei bod yn cydymffurfio â'r gofyniad yn y Llyfr Gwyrdd i arfarnu ar y cyd pan fydd hynny'n bosibl. Byddai wedi hoffi ymateb eglurach hefyd ynglŷn ag arfarnu effaith prosiectau yn eu cyfanrwydd, ynghyd â'u gwahanol elfennau, pan fydd y rheini'n berthnasol i fwy nag un sefydliad. Mae'r Pwyllgor yn nodi sylw'r Fonesig Gillian bod angen i holl adrannau'r DU ymrwmo i weithio'n agored er mwyn i hyn fod yn llwyddiannus<sup>13</sup>. Ychwanegodd fod hyn yn un o'r materion sydd angen rhoi sylw iddo wrth adolygu'r trefniadau yn y Llyfr Gwyrdd. Mae'r Pwyllgor yn nodi hefyd fod canllawiau'r Trysorlys yn pennu, o ran cydweithio, y bydd angen i'r ddau Swyddog Cyfrifyddu dan sylw gael sicrwydd bod prosiectau'n rhoi gwerth am arian i'r sector cyhoeddus yn ei gyfanrwydd<sup>14</sup>. Serch hynny, mae'r Pwyllgor yn cydnabod bod swyddogion yn wynebu anawsterau o ganlyniad i'r newid mewn amgylchiadau yn sgil datganoli ac amharodwydd adrannau'r DU i rannu gwybodaeth. **Mae'n annog Llywodraeth Cynulliad Cymru i geisio eglurhad ac i ddod i gytundeb gyda'r Trysorlys ac adrannau eraill y Llywodraeth ynghylch y materion hyn.**

## Yr hyn a drafodwyd a'r casgliadau

29. Roedd prosiect y Ddraig Goch yn fenter gymhleth a oedd yn cynnwys y sector preifat a nifer o wahanol asiantaethau yn y sector cyhoeddus. Roedd y symiau o arian dan sylw yn sylweddol, ac roedd y manteision o ran yr arbedion posibl neu'r swyddi y gallai'r prosiect fod wedi'u creu

<sup>13</sup> Cofnod y Trafodion AC(3) 12-09 [44]

<sup>14</sup> Trysorlys EM, *Managing Public Money*, paragraff 7.6.3

yng Nghymru hefyd yn sylweddol. Yn amlwg, mae'n siomedig nad aeth y prosiect yn ei flaen fel y bwriadwyd yn wreiddiol, ond mae'r Pwyllgor yn nodi nad yw'r cyfan yn y fantol a bod cyfleoedd o hyd i Gymru fanteisio ar y buddsoddiad hwn.

30. Ffactor allweddol a oedd yn sail i fethiant y prosiect oedd y newid ym mholisi'r Weinyddiaeth Amddiffyn mewn perthynas â chynnal a chadw awyrennau. Efallai fod modd i'r Weinyddiaeth Amddiffyn gyfiawnhau'r rhesymau dros hyn a thros ei phenderfyniad i ddechrau ar y prosiect cyn cytuno ar ei gweledigaeth lawn ar gyfer cynnal a chadw awyrennau, ond nid yw'r rhesymau hynny'n rhan o'r ymchwiliad hwn. Mae'r Pwyllgor yn derbyn bod prosiectau fel hyn yn cael eu datblygu yn y byd sydd ohoni, bod amgylchiadau'n gallu newid, a bod tybiaethau a wneir yn ddiffuant a'r wybodaeth sydd gennych yn gallu bod yn anghywir.
31. Mae ymchwiliad y Pwyllgor Cyfrifon Cyhoeddus wedi canolbwyntio ar gyfraniad Awdurdodau Cymru. Mae'r Pwyllgor yn pryderu bod y prosiect wedi cael ei weld fel proses fasnachol, heb i wybodaeth gael ei rhannu. Roedd hynny'n groes i ganllawiau'r Trysorlys ac yn groes i synnwyr cyffredin.
32. Un o oblygiadau hyn oedd na chynhaliwyd arfarniad cyffredinol o'r prosiect ar lefel y DU. Tra bo'r farn yn rhanedig ynghylch i ba raddau y mae Llyfr Gwyrdd y Trysorlys yn berthnasol i Gymru ers datganoli, nid yw hyn yn rheswm dros osgoi cynnal arfarniad cyffredinol a fyddai'n sicr wedi bod o fudd i Awdurdodau Cymru.
33. Roedd y berthynas a fodolai rhwng Awdurdodau Cymru a'r Weinyddiaeth Amddiffyn yn anghyson. Ar brydiau, gwelwyd y berthynas fel proses fasnachol, ond nid drwy gydol cyfnod y prosiect. Mae'n ymddangos y bu i Awdurdodau Cymru ddod i gytundeb â'r Weinyddiaeth Amddiffyn a'r Asiantaeth Atgyweirio ar sail ymddiriedaeth, heb wybod ymlaen llaw beth oedd y cynlluniau busnes manwl. Nid yw'r Pwyllgor yn credu y byddai'r ymddiriedaeth hon wedi bodoli pe bai Awdurdodau Cymru a chwmmi masnachol wedi ymrwymo i gytundeb, ac nid yw'n gweld hyn fel ffordd synhwyrol o gynnal perthynas fasnachol.
34. Mae'r Pwyllgor Cyfrifon Cyhoeddus yn nodi'r sicrwydd a roddwyd gan y Fonesig Gillian fod gwersi wedi'u dysgu o'r profiad a bod rhaglenni i hyfforddi staff a rheoli prosiectau wedi'u datblygu. Mae Llywodraeth

Cynulliad Cymru hefyd yn mabwysiadu dull cadarnach o fwrw ati gyda phrosiectau o'r fath. Mae'r Pwyllgor yn croesawu hyn. Fodd bynnag, un peth yw cael gweithdrefnau; peth arall yw dilyn y gweithdrefnau hynny ym mhob sefyllfa pan fydd hynny'n angenrheidiol. Roedd y Pwyllgor Cyfrifon Cyhoeddus yn pryderu fymryn ar ôl clywed sylw Mr Hall nad yw'n ymwybodol o unrhyw brosiectau mawr sydd ar y gweill ar y cyd â chyrff cyhoeddus eraill yn y DU<sup>15</sup>. Tra bo'r Pwyllgor yn nodi sylw Mr Hall fod hyn yn adlewyrchu'r sefyllfa economaidd sydd ohoni, mae'n dal i synnu fod cyn lleied o waith yn mynd rhagddo. Yn ei dro, mae hyn yn codi cwestiwn ynghylch sut, os oes cyn lleied o weithgarwch ar hyn o bryd, y bydd y Llywodraeth yn sicrhau bod yr arbenigedd perthnasol ar gael yn y rhan briodol o'r Adran pan fydd y prosiect yn dechrau. **Mae'r Pwyllgor yn gofyn am nodyn ar hyn.**

35. Mae'r Pwyllgor yn nodi'r ansicrwydd ynghylch a yw'r Llyfr Gwyrdd yn berthnasol i Lywodraeth Cymru ers datganoli. Mae'n cydnabod y gall fod adegau pan fo angen pwyso a mesur manteision buddsoddi yng Nghymru law yn llaw â'r manteision i'r DU. Serch hynny, dim ond drwy arfarnu'r prosiect dan sylw'n llawn y gellir barnu yn y fath fodd. Mae'r Pwyllgor yn **annog Llywodraeth Cynulliad Cymru i geisio eglurhad ac i ddod i gytundeb gyda'r Trysorlys ac adrannau eraill y Llywodraeth ynghylch y materion hyn.**

---

<sup>15</sup> Cofnod y Trafodion AC(3) 12-09 [90]

## Atodiad A Trawsgrifiadau y Cyfarfodydd

AC(3) 07-09 [Cofnod y Trafodion, y Pwyllgor Cyfrifon Cyhoeddus, 14 Mai 2009](#)

AC(3) 11-09 [Cofnod y Trafodion, y Pwyllgor Cyfrifon Cyhoeddus, 16 Gorffennaf 2009](#)

AC(3) 12-09 [Cofnod y Trafodion, y Pwyllgor Cyfrifon Cyhoeddus, 1 Hydref 2009](#)

## Atodiad B: Gohebiaeth rhwng Cadeirydd y Pwyllgor Cyfrifon Cyhoeddus ac Ysgrifennydd Parhaol Llywodraeth Cynulliad Cymru, 22 Mai 2009

Y Pwyllgor Archwilio  
Audit Committee

Dame Gillian Morgan,  
Permanent Secretary,  
Welsh Assembly Government,  
Cathays Park,  
Cardiff,  
CF10 3NQ

National Assembly for Wales  
Cardiff Bay  
Cardiff  
CF99 1NA

22 May 2009

Dear Dame Gillian,

At its meeting on 14 May, the Audit Committee considered the joint report from the UK Comptroller and Auditor General and the Auditor general for Wales 'The Red Dragon Project'.

The Committee was very concerned about a number of issues raised in the report. It resolved initially to write to you as Accounting Officer to seek your response to them report and, in particular, to the issues detailed below which were of particular concern to the Committee. After consideration of your response, the Committee will review the need for a full inquiry into the Red Dragon Project.

1. Our main concerns centre around the lack of a clear joint approach between the Welsh Authorities and the Ministry of Defence. The report clearly points out that there were examples of effective joint working on the ground. But, fundamentally, there was no common purpose, and despite being a project involving different parts of government, this was not seen as a joint project or a joint venture. Instead, it was treated as a commercial negotiation. The Welsh Authorities and MoD developed their own separate cases for investment. The Auditor General told us that these business cases were reasonable and rational for each individual organisation. But, in our view, they were not sufficiently joined-up.
2. We have concerns that some key assumptions were not shared between the parties. The Welsh Authorities' case for investment revolved around DARA as an anchor tenant undertaking both military

David Melding AM  
Chair - Audit Committee  
National Assembly for Wales  
Cardiff Bay  
CF99 1NA

and civil repair work. But MoD's investment appraisal made no reference to DARA undertaking civil repair work. And the Welsh Authorities had assumed that the extent of the MoD's financial investment meant that it would be committed to the Red Dragon project over the longer term. The Welsh Authorities agreed to a break clause at year five without knowing that MoD's figures showed that it could exit after five years without financial loss.

3. We would therefore welcome further detail on some of the decision making and communication between the parties. In particular, we would like to know more about:
  - a. why the project was not taken forwards as a joint venture, rather than on a commercial basis;
  - b. why insufficient work was undertaken to determine the costs and benefits of the aerospace park;
  - c. why the MoD and Welsh Authorities' appraisals did not extend to the overall impact of the project across the UK, as recommended in Treasury Guidance;
  - d. why the Welsh Authorities made assumptions about DARA's entry into the civil aircraft repair market, when MoD did not seem to share this assumption; and
  - e. why the Welsh Authorities made assumptions about the extent of MoD's financial exposure in agreeing the Red Dragon project (particularly the 5 year break clause), without verifying those assumptions with the MoD.
  
4. Looking forwards, we would like to know whether the Assembly Government has learned the lessons from the Red Dragon project, particularly in developing a more joined-up approach when it works with the UK Government and UK public bodies. In particular, we would welcome clarification on:
  - a. whether the Assembly Government now expects that projects where it works with other UK public bodies should adopt a more formal partnering approach, as outlined in recommendation 1 of the joint report by the Auditor General for Wales and Comptroller and Auditor General;
  - b. how the Assembly Government will ensure that all such projects involving the Assembly Government and other UK public bodies

are taken forwards on the basis of full disclosure of all relevant information; and

- c. how the Assembly Government will ensure that its appraisals for projects involving other UK public bodies focus on the overall impact of a project, rather than each constituent part.
5. Given the importance of the current plans for the St Athan site, we would like some assurance that the lessons from the earlier problems with the Red Dragon project have been incorporated into the current approach to the Defence Training Academy and the aerospace park. In particular, we would like to know whether the project is now being run in line with the partnering principles outlined in recommendation 1, or whether the relationship with MoD remains, fundamentally, based on commercial negotiations.

I look forward to receiving your response, ideally before 26 June in order to allow the Committee to consider it before the end of the summer term.

Yours sincerely,

**Jonathan Morgan AM**  
**Chair, Audit Committee**

# Atodiad C: Gohebiaeth rhwng Ysgrifennydd Parhaol Llywodraeth Cynulliad Cymru a Chadeirydd y Pwyllgor Cyfrifon Cyhoeddus, 25 Mehefin 2009

**Dame Gill Morgan DBE**  
Ysgrifennydd Parhaol • Permanent Secretary

Jonathan Morgan AM  
Chair  
Audit Committee  
National Assembly for Wales  
Cardiff Bay  
Cardiff  
CF99 1NA



Llywodraeth Cynulliad Cymru  
Welsh Assembly Government

25 June 2009

*Lee Jonathan*

## JOINT NAO/WAO REPORT ON THE RED DRAGON PROJECT

Thank you for your letter of 22 May 2009 seeking my responses to a number of issues raised by the Audit Committee following its consideration of the above report.

As you know, St Athan has been chosen as the location for the new Defence Technical College. The fact that this site was brought into our ownership in 2003 for the purposes of safeguarding jobs and developing an aerospace park, together with the opportunity to put the super-hangar to use as teaching space, were instrumental in MoD arriving at this decision. This was recognised in the NAO/WAO Report as presenting the long term economic benefits for Wales.

The report, therefore, covers important topics which are highly relevant as we, together with MoD, move forward with this project.

Consequently, I take this opportunity to respond in detail to the specific questions raised by your Committee (Annex 1), and to demonstrate that the findings of the report have been taken on board in progressing the Defence Technical College project (Annex 2), on which the First Minister has undertaken to keep Assembly Members updated.

I trust this meets with the Committee's requirements, and I would be happy to assist further if required.

Yours sincerely

*Gill*

**GILL MORGAN**



Parc Cathays • Cathays Park  
Caerdydd • Cardiff  
CF10 3NQ

Ffôn • Tel: 029 2082 3289  
Ffacs • Fax: 029 2082 5649  
gill.morgan@wales.gsi.gov.uk



RESPONSE TO QUESTIONS FROM JONATHAN MORGAN AM, CHAIR,  
AUDIT COMMITTEE – LETTER DATED 22 MAY 2009 TO PERMANENT  
SECRETARY, WELSH ASSEMBLY GOVERNMENT

**Paragraphs 1 and 2**

We very much note the Committee's concerns and have sought to respond to these in each of the detailed responses set out below. Also, in **Annex 2**, we have detailed actions demonstrating a joined up approach in taking forward the current St Athan project which has a common purpose and is very much seen as a joint project.

**Paragraph 3a - “Why the project was not taken forward as a joint venture, rather than on a commercial basis?”**

The project involved two related transactions, i.e. the sale to WDA and leaseback to MoD of the former RAF St Athan site, and an MoD PFI scheme for the super- hangar. For each of these MoD required WDA support. As for the former, I take comfort from the Auditor General's assessment that the business case was both reasonable and rational, which you acknowledge in numbered paragraph 1 of your letter. With regard to the PFI scheme, this was well advanced between MoD and its commercial partners when WDA was approached to assist with the financial shortfall on the building. Taking this forward by means of a joint venture (JV) would have meant unscrambling the commercial arrangements already in place and would have introduced costly delay to MoD.

Furthermore, a legal JV would have exposed the WDA to the costs and debts in respect of the Red Dragon PFI. JV's were used by WDA from time to time as a legal mechanism for delivering joint development proposals involving joint sharing of cost, profit and risk. Under the commercial arrangements entered into for the Red Dragon project, this took the form of a legal Composite Agreement flowing from Heads of Terms under which the WDA were not obliged to carry out any development, thus reducing its financial risk and ensuring that Welsh taxpayers' interests were safeguarded. This Agreement obliged both parties to work together in good faith on the on-going management and delivery of joint initiatives related to the project, which provided legal underpinnings to the commitment to joint working.

**Paragraph 3b - “Why insufficient work was undertaken to determine the costs and benefits of the aerospace park?”**

As you state in paragraph 1 of your letter, the Auditor General was satisfied that the business cases were both reasonable and rational for each individual organisation, i.e. WDA and MoD.

Detailed feasibility studies, including a demand study, which indicated an Aerospace Business Park (ABP) was potentially viable, were carried out prior to acquisition of the site by WDA. The details were set out in a report presented to the WDA Board on 9 January 2003, a copy of which is attached at **Appendix A**. This report highlighted that an aerospace park could be developed in the long term and on at least a 'break even' basis. Also, the WDA valuation advice was that the potential development land value exceeded the purchase price (see WDA Board report of 6 June 2002 at **Appendix B**).

Furthermore, the NAO/WAO report recognises at paragraph 2.19 the speculative nature of the proposed development meant that approval was sought only for the land transaction at this stage. Future reports were to be prepared as further detailed work was carried out on the Aerospace Park.

Ministerial approval has been obtained for joint infrastructure works on the current scheme necessary to deliver both projects, and I can confirm that further approvals, based on cost benefit analysis, will be required for any significant aerospace park related investment going forward.

**Paragraph 3c - “Why the MOD and Welsh Authorities’ appraisals did not extend to the overall impact of the project across the UK, as recommended in Treasury Guidance”?**

The WDA's remit was to intervene under the Welsh Development Agency Act 1975, as amended by Government of Wales Act 1998 (see Section 1 (2)(a)), to further the economic and social development of Wales and promote industrial efficiency in business in Wales. Assessment of the impact of MoD's activities/rationalisation plans would have been beyond the scope of WDA's remit. It would also have been extremely difficult since DARA was unwilling to share its detailed business plans with WDA for reasons of commercial confidentiality and MoD was not prepared to disclose the full End to End Review document although it did show extracts to WDA officials. The potential impacts disclosed were all positive as far as Wales was concerned.

**Paragraph 3d - “Why the Welsh Authorities made assumptions about DARA's entry into the civil repair market, when MoD did not seem to share this assumption”?**

DARA was an integral part of MoD which operated on a trading fund basis. It was, therefore, assumed that pronouncements made by DARA, particularly those in the public domain, had the support of MoD, their sponsor Department. There was considerable discussion through joint working groups involving DARA and WDA regarding DARA plans to attract civil work which went on until 2004 when DARA decided they could no longer compete for civil work

The super hangar was specifically designed by DARA to accommodate civil aircraft up to Boeing 737 size, which is referred to in paragraph 2.15 of the Audit Report. The WDA Board report of 9 January 2003 (**Appendix A**) refers to DARA having seven known enquiries from commercial aerospace companies. The Chief Executive of DARA made statements at public meetings on 28 January 2002 and 12 February 2002 confirming DARA's intention to bring in civil operators (see notes of meetings at **Appendix D**).

Also, in an interview published in 'Overhaul and Maintenance' in May 2002 he stated " ...we'd like to make St Athan a Maintenance , Repair and Overhaul (MRO) center (sic) for regional jets with partners who are already in that business. That way we'd combine both our military and civil business into one MRO facility" (see **Appendix E**). He made similar statements at a number of international MRO events.

**Paragraph 3e - “Why the Welsh Authorities made assumptions about the extent of MOD's financial exposure in agreeing the Red Dragon project (particularly the 5 year break clause) without verifying those assumptions with MOD”?**

The Welsh Authorities' primary responsibilities were to understand and limit their degree of financial exposure. WDA were satisfied that the super hangar deal was capped within an acceptable financial limit by reference to an independent valuation of the asset.

The MoD required that a 5 year break clause was included in the Funding Agreements. In the unlikely event that such a clause was exercised, WDA was of the view that this remained a beneficial deal as independent advice dated 1 August 2002 valued the building at £25m at that point. This would have generated receipts to WDA in excess of their expenditure whichever disposal mechanism triggered in the legal agreements was pursued. It was therefore concluded that the balance of risk to be positive and that the WDA would acquire a valuable asset at less than market rate.

It should be noted as indicated in the Audit Report (para 6.6) that MoD had their own valuation of the super-hangar carried out in December 2005, (i.e. three years prior to the date at which the 5 year break clause could come into effect), of between £48m and £60m.

The Welsh Authorities did not believe MoD would pull out of the deal due to:

- The Minister for the Armed Forces (MoD) having approved expenditure on the construction of the super hangar by letter dated 20 February 2003 to the First Minister. This confirmed that he would shortly be signing the Composite Agreement with WDA, i.e. entering into contractual arrangements.
- As recorded in paragraph 3.17 of the audit report, Assembly Government took steps to obtain assurances from both MoD and HMT about the UK Government's commitment to the Red Dragon project in the light of the 5 year break clause. At a meeting in London with senior MoD officials in August 2002, the Assembly Government was advised that if Project Red Dragon was to proceed, then the MoD would be setting up the organisation for success. Failure would not be contemplated.
- Secondly, the Welsh Authorities took assurances from the HM Treasury approval of the 5 year break clause. Assembly Government officials, as Departmental sponsors of WDA, spoke to senior HMT officials on 7 February 2003. The file note recorded that 'HM Treasury was adequately convinced that MoD will treat DARA business and DARA itself strategically, not just as another 5 year contract'. On the strength of these assurances, it was not considered necessary to re-evaluate Welsh aspirations for the site as a result of the 5 year exit clause. Both these assurances were reported to Assembly Government Ministers as part of the decision making process.
- Additionally in August 2003, i.e. prior to signature of the Composite Agreement, the First Minister spoke to the Minister for Armed Forces (MAF). WAO have had sight of the official note of the conversation which records that MAF assured the First Minister that MoD had no intention of backing out of the St Athan project.
- In August 2003, at the same time as entering into the land transaction, MoD entered into a legal commitment to operating/regulating the airfield on the Welsh Authorities' behalf until 2019, i.e. co-terminus with the legal obligation on the Welsh Authorities to purchase the super hangar for £15m coming into effect.
- In his letter of 10 September 2003 (copy at **Appendix F**), the Minister for the Armed Forces assured the First Minister of MoD's continuing commitment to the Red Dragon project, stating 'I stand by the commitments I have made on the Red Dragon Project at St Athan. It is unlikely that we would embark on a course of action that ignored the very significant investment that we are making here'.
- The Welsh Authorities concluded that the deal was relatively low risk for the reasons set out in paragraphs 3.13 and 3.16 of the Audit Report.

**Paragraph 4a - “whether the Assembly Government now expects that projects where it works with other UK public bodies should adopt a more formal partnering approach, as outlined in recommendation 1 of the joint report by the Auditor General for Wales and Comptroller and Auditor General”?**

The Welsh Assembly Government has adopted the guidance contained in the Treasury’s Green Book – Appraisal and Evaluation in Central Government. This guidance states that where there are multiple funders, appraisals and evaluations should be carried out collaboratively wherever possible, and that key responsibilities need to be well defined. There is also guidance in paragraph 7.6 of ‘Managing Welsh Public Money’ on working together with other UK Government Departments. This outlines the different ways that such relationships can be structured based on particular circumstances, including joint ventures.

We are also taking forward the Civil Service wide “Professional Skills for Government” programme. Part of this is the development of programme and project management (PPM) skills which aim to up skill delivery teams to better deliver programmes and projects of all sizes and complexities, with the best delivery structure and level of governance required for that particular works and the organisations and stakeholders involved. This approach, therefore, seeks to maximise the collaboration and recognise the benefits of the joined up approach recommended in the report.

To support this, the Assembly Government has appointed a Head of Profession for Programme and Project Management who is responsible for managing a PPM Centre of Excellence to support Director Generals, Business Units and other Programmes and Projects across the organisation.

In the context of working with other UK bodies, Welsh assembly Government will seek to embed these ways of working into a more formalised partnership relationship for large scale projects. The precise arrangements to be adopted will depend upon the particular circumstances of each case but will be based upon the general principles set out in the first recommendation contained in the WAO/NAO report

**Question 4b – “how the Assembly Government will ensure that all such projects involving the Assembly Government and other UK public bodies are taken forward on the basis of full disclosure of all relevant information”?**

A Memorandum of Understanding (MoU) between the UK Government and the Devolved Administrations was agreed in 1999 as a key component of the new devolution arrangements introduced at that time. The MoU provides protocols for the four Administrations working together on matters of mutual interest, including sharing of information as appropriate. These arrangements were to be supported by bilateral concordats with Whitehall Departments, and the concordat with the MoD, also agreed in

1999, includes arrangements for information sharing. The MoU is in the process of being updated in light of developments, and I anticipate that it will be approved by the four Administrations later this year. In parallel with that exercise, the Welsh Assembly Government has begun a process of updating, or putting in place new, bilateral concordats with Whitehall. It is intended to initiate early discussions with MoD to review the existing concordat, with a view to ensuring that there is greater transparency in the provision of information on joint projects.

At the same time, we are mindful that the principles of sharing information and mutual cooperation are enshrined in Heads of Terms and legal agreements pertaining to such projects. This is the case with regard to the Heads of Terms with the MoD on the current development scheme. For example, the Heads of Terms on the current St Athan scheme make it clear that the "new legal agreement will contain agreed protocols to ensure full Assembly Government and MoD cooperation, governance, communication and audit and which terms shall include terms of reference, authority and accountability". It should be noted that in the negotiations so far there has been extensive cooperation and sharing of information at all levels between the Assembly Government, MoD and Metrix.

**Question 4c – “how the Assembly Government will ensure that its appraisals for projects involving other UK public bodies focus on the overall impact of a project, rather than each constituent part”.**

In support of the requirements of the Green Book, we have undertaken a significant amount of work aimed at embedding the Five Case Model in development and management of our business cases. Consequently, it is envisaged that we will follow a robust business case process which will thoroughly examine all aspects of projects, taking account of their strategic, economic and management impacts. We promote this approach as the model of best practice for adoption by the wider Welsh public sector.

From a procurement perspective, we are progressing actions to implement a procurement strategy for construction, agreed by Cabinet in April 2009, which seeks to ensure that maximum benefits are derived from our investment in capital projects. We recognise that projects of this nature represent a major opportunity for securing a wide range of benefits covering economic, environmental and social which support many of the Assembly's One Wales aspirations. The strategy is being progressed in collaboration with colleagues from across the Wales.

We have also made great effort to integrate the Gateway review process into our project delivery plans. Gateway will provide our project teams with an independent, expert assessment of the likelihood of their projects being successful and whether they are on course to maximise anticipated benefits.

**Question 5 – “Given the importance of the current plans for the St Athan site, we would like some assurance that the lessons from the earlier problems with the Red Dragon project have been incorporated into the current approach to the Defence Training Academy and the aerospace park. In particular, we would like to know whether the project is now being run in line with the partnering principles outlined in recommendation 1, or whether the relationship with MoD remains, fundamentally, based on commercial negotiations”.**

All parties are mindful of the Audit Office report conclusions and are developing formal governance arrangements to ensure the partnering principles outlined in recommendation 1 are followed.

As stated by the Auditor General for Wales at the time of the publication of this report, there is effective cooperation and collaborative working between the three partners on the current development proposals. The relationship is a strong one based on mutual trust and interest. As set out in **Annex 2**, robust Governance arrangements involving all three parties are in place which supports the common goal of regenerating the St Athan site. Senior MoD officials are in regular contact with the Director General for the Economy & Transport to share emerging thinking on their assessment of the Metrix bid. All parties have worked closely together in agreeing the Heads of Terms which will lead to a full legal agreement which will commit MoD and WAG to sharing of costs, benefits, risks, and timescales.

A conscious effort is being made to ensure openness and regularity of dialogue and joint working at all levels. Evidence of this working in practice can be found in the very extensive preparatory activity involving surveys, identification of risks and solutions, creation of complementary master plans, extensive joint public consultation and comprehensive proposals for development of the St Athan site submitted simultaneously by MoD and Welsh Assembly Government with a full range of joint supporting documents.

**Taking on Board the Lessons Learnt from the Red Dragon Audit Report  
in Progressing the Defence Training College/Aerospace Park Project**

**Introduction**

1. Noting the comments of the Auditor General to your Committee that Red Dragon was one of the most complex projects that he has ever come across, it is imperative that the important lessons learnt, especially on governance issues, have been or are being taken forward as we progress the current plans for the redevelopment of the site.
  
2. Whilst the whole approach of the parties, i.e. Assembly Government, MoD and the Metrix consortium is one of joint working, this has not been manifested in a legal joint venture on account of the fact that the Assembly Government cannot be party to MoD's PFI contract with the Metrix consortium. However, appropriate legal mechanisms have been and are being put in place e.g. in July 2006 Welsh Assembly Government entered into an Options agreement at MoD's request to enable DTC to proceed at St Athan, joint Heads of Terms for a new legal agreement signed by MoD and Assembly Government in May 2009 and work is proceeding on the full legal agreement. These enshrine the principles of joint partnership working on governance, planning, infrastructure costs, procurement, delivery, etc.

**Governance**

3. The multi-level governance structure in place for the St Athan project draws on membership from MoD, Welsh Assembly Government, Metrix (the appointed consortium) and the Vale of Glamorgan Council. This is underpinned by the free flow of information about each others objectives and key business assumptions through regular minutes meetings and informal contact.
  - a. The overarching governance is provided by the Ministerial Steering Group (MSG) which provides strategic direction and general oversight of progress and engagement. This is chaired by the Deputy First Minister and attended by the Finance Minister, Deputy Minister for Skills, 3 star and 2 star leads from MOD, Chair of the Metrix consortium, Leader of Vale of Glamorgan County Council and Gareth Hall, Director General of the lead Department, Economy and Transport and appropriate officials.



- b. The MSG is supported by a senior level Inter-governmental Steering Group (IGSG), which meets quarterly chaired by the Director General Training and Education (DT&E), MoD with senior officials from MoD, including Defence Estates, and Welsh Assembly Government as members.
  - c. At the operational level there is the Steering Group (SASG) which meets fortnightly and is augmented by a number of sub-groups involving MoD, Metrix, Assembly Government and Vale of Glamorgan (VoG) officials.
- 4. The IGSG and SASG have a defined remit to maintain common goals and intent across WAG, MoD and Metrix in order to avoid the pitfalls identified by the NAO/WAO report. Both Groups have identified coherence and information sharing as a key tenet of the consultation processes, both formal and informal, in progressing the project.
- 5. The Assembly Government's internal governance for the St Athan project has a robust accountability structure with a Senior Forum, including the Director General, which meets regularly to monitor progress on the delivery of the project. The Project team itself operates on the integrated delivery model with a small, multi-disciplinary core drawn from across the Economic Development Group and is supported as necessary by internal and external partners such as property professionals, the local planning authority, statutory bodies, MoD and Metrix to deliver the many tasks required by the project.
- 6. Considerable progress has been made on the development plans for the site in recent months. Planning applications for the Defence Technical College and an Aerospace Business Park were submitted to the Vale of Glamorgan Council on 12 May 2009. Subject to statutory and other approvals, it is anticipated that construction of the new College could start in the fourth quarter of 2010 with a view to opening in 2014/15. As the report acknowledges, the plans have the potential to provide a significant boost for jobs, skills training and supply chain opportunities.
- 7. The next critical stage once these approvals are in place is to ensure that the opportunities for Welsh businesses to compete for construction contracts (totalling over £700m) and supply opportunities over the next 30 years on a training programme amounting to c. £11 billion over this time are fully exploited. To this end, this is a priority of the Vale of Glamorgan Local Service Board (LSB) who are cooperating with adjoining LSBs at senior level and will work with an inter-departmental group in the Assembly Government on initiatives such as 'meet the buyer' events and involvement of Higher and Further Education institutions in skills provision at the Defence Technical College.
- 8. In conclusion, I believe that we have made significant progress on this front, as was noted by the Auditor General at the time of the publication

of his report, when he acknowledged that the Welsh Assembly Government and the MoD are collaborating effectively to secure a viable future for the St Athan site.

## Appendix A

### WELSH DEVELOPMENT AGENCY

**COMMITTEE:** Board

**DATE:** 9<sup>th</sup> January, 2003

**REPORT BY:** Graham Hawker – Chief Executive  
Karen Thomas – Executive Director, South-East  
Nic Neal – Executive Director, Land Development and Legal  
Hillary Hendy – Executive Director, International  
Gareth John – Executive Director, Marketing  
David Swallow – Partnership Development Director

**SUBJECT:** Aerospace St. Athan – Defence Aviation Repair Agency

#### 1. OBJECT OF REPORT

- 1.1 To seek approval for the purchase of St. Athan and the provision of financial undertakings in support of the Defence Aviation Repair Agency (DARA). Due to the scale and complexity of this project, there will be a presentation at the meeting accompanied by site plans illustrating the main issues surrounding the proposed agreement, the risks and opportunities the project offers for WDA and a description of the major occupier interests at the present time.

#### 2. RECOMMENDATIONS

- 2.1 The Board is requested to approve:-
- a) The acquisition of a 125 year lease of RAF St. Athan at a base purchase price of £8M together with a further payment of £3M upon receipt of planning permission for an aerospace park, in accordance with the more detailed heads of terms set out in Appendix 1
  - b) The Agency committing to acquire the proposed new DARA building in 15 years' time at a fixed price of £15M and entering into a further put option to acquire a two-thirds interest in the DARA building after 5 years for £15M in certain circumstances in accordance with Appendix 1.
  - c) The delegation to the Chief Executive to approve the final detailed terms of the transaction.

### 3. FINANCIAL

£000	WDA to Date	2002/3 Year 0	2003/4 Year 1	2004/5 Year 2	2005/6 Year 3	Future Years	Total £000
WDA Gross Expenditure	4600	8000	2000	15500	10000	9500	49600
WDA Receipts	0	0	0	6800	3800	34400	45000
Net Cost to WDA	4600	8000	2000	8700	6200	(24900)	4600

- 3.1 The financial table sets out the estimated costs and income arising from the project showing a potential loss to WDA of £4.6M. Whilst this is believed to be a realistic estimate using the assumptions described below, for a scheme of such size and complexity which will probably take 15 years to complete, any appraisal needs to be viewed with caution. For this reason this paper seeks approval only to the acquisition of the site and the obligations attaching to that and the commitments in respect of the new DARA facility. Approval for significant development expenditure in the future will be sought as appropriate.
- 3.3 The gross expenditure set out above assumes the Agency will obtain planning consent for an aerospace park and complete the necessary access, infrastructure and demolition costs to provide a minimum of 300 acres of serviced (to edge of site) development land. Costs of constructing new buildings and any runway extension are not included. It is of course intended that the Agency would seek private sector partners to undertake as much of the expenditure as possible.
- 3.3 The receipts column includes estimated income from the sale of the 300 acres together with certain income, only, from the MOD lettings. It does not include income from other existing buildings on site or from re-lettings or lease extensions of the MOD occupied buildings. Nor does it include any profit from operating the airfield or receipts from sale of the additional development land the Agency is currently acquiring (this is likely to total c. 300 acres gross).
- 3.4 There are ongoing discussions with the WAG regarding additional funding for the project. It is accepted that the Agency could not meet the full costs of the project from existing resources. In respect of the £8M site acquisition costs, the Agency has offered to meet £2M from existing financial resources this financial year and is awaiting a response from the WAG.

### 4. BACKGROUND

- 4.1 At its June, 2002 meeting, the Agency's Board approved entering into a non-legally binding Heads of Terms with MOD for the purchase of RAF St. Athan and committing to an obligation to acquire the proposed new DARA building in 15 years' time at a fixed price of £15M. The Board also approved in September, 2002 a further put option on the Agency to acquire a two-thirds interest in the

DARA building after 5 years for £15M in certain circumstances. The non-binding Heads of Terms entered into by MOD and WDA last August set a date for completion of a legal contract of December 2002.

- 4.2 St. Athan is a unique project in the sense that it is an acquisition by one public body from another but the vendor body is still retaining an operational interest in the project. This enables the Agency's economic objectives for aerospace to be aligned with MOD/DARA's own objectives at less cost to the public purse than if they were undertaken separately. More importantly however, bringing them together in partnership on one site adds enormously to the growth potential of both.
- 4.3 It should be recognised that the site negotiations have reflected the fact this is an agreement within the public sector. Whilst therefore negotiations have been undertaken on a 'market value' basis the agreement recognises that neither party should be required to incur premature or abortive costs unless this is necessary to meet the needs of the other party and the overall public sector account is positive.
- 4.4 As it is almost certain that St. Athan would ultimately be closed as an operational airfield without the Agency's involvement, this project can genuinely be seen as turning a threat into an opportunity. Safeguarding the existing 2500 jobs at St. Athan is important enough but their loss would also seriously weaken the South Wales aerospace cluster which could lose critical mass as a result. It should also be remembered that the majority of DARA's existing employees are drawn from the South Wales Valleys.

## 5. CURRENT POSITION

- 5.1 It is proposed that the MOD/WDA purchase contract and the build contract for DARA's new facility will be signed simultaneously. A target date of end-January has been set followed by a formal announcement by Ministers.
- 5.2 This is a very ambitious timetable but the parties are extremely close to agreement on the principal terms. Although the Heads of Terms envisaged a purchase by WDA conditional on planning, it is now proposed that WDA would acquire St. Athan unconditionally but with further obligations being triggered between the parties when planning was received. This has advantages for both sides. It gives MOD certainty of a sale, releases it after 2005 from the wider running costs of the site and provides comfort for it to reorganise its occupation of the site. The Agency gains control of the site to progress early lettings and interim developments on the site and receives income from MOD tenants.
- 5.3 The Agency will not take over any liabilities or running costs until 2005 and is not committed to undertake redevelopment, even when planning consent is obtained (except possibly the provision of a new road access which is still unresolved between the parties).

## 6. RISK ASSESSMENT

- 6.1 Because of its scale and complexity and the extremely short timescale against which commitments have to be made, it is important to recognise that there are very significant risks attached to undertaking the project. These fall into three main areas, cost risks, demand risks and regulatory risks.
- 6.2 The timescale is driven by the need for DARA to commence construction of its new facility by end January, 2003. This is the only way that DARA can reduce operating costs quickly enough to be competitive when bidding for new contracts following the expiry of its current MOD contracts. Any substantial delay to this date will undermine DARA's business case for the new facility with the high likelihood that Ministerial approval would be withdrawn. This would almost certainly lead to the demise of DARA and the likely closure of St. Athan as an operating airfield.
- 6.3 Likewise, MOD has made it clear that approval for DARA will only be given if there is a simultaneous commitment from WDA to acquire the remainder of the St. Athan site (excluding the area reserved for the Army).
- 6.4 Although extensive investigative work has already been undertaken by the Agency with regard to redevelopment, it is not possible within this timescale to be sufficiently precise in some cost areas or anticipate all the areas of cost that may subsequently materialise. Similarly, although there is already extensive interest in the site from both military and civil operators this obviously does not guarantee they can be secured and there can be no absolute certainty that regulatory consents such as planning for redevelopment or conversion to CAA regulations will be forthcoming.

### a) Demand Risks

- i. The principal demand risk is the performance of DARA itself and its ability to achieve its targeted operating efficiencies as it only has guaranteed MOD contracts for 3 years. If DARA were to fail, particularly in the early years it would inevitably undermine the credibility of the aerospace park and remove a major reason for other companies to locate there.
- ii. Whilst market conditions will inevitably be the main factor, the commitment from MOD to fund the new facility which has a cost of c.£70M and a resale value of c.£25M should militate strongly against closure. In addition DARA is currently involved in major contract discussions with at least 7 large aerospace companies that the Agency is aware of.

- iii. With regard to other demand, as presented to the Board last month, there is already considerable interest from companies across the aerospace sector including Maintenance and Repair, Aircraft Conversion, Training, Simulation, Helicopters and Executive Jet operation. The Agency's demand survey carried out by A.T. Kearney concluded that a redeveloped St. Athan would be well placed to benefit from anticipated growth in the Aerospace sector from 2004 onwards.
  
- b) **Cost Risks**
  - i. The Agency is mainly exposed in two areas; development cost overruns and shortfalls in the recovery in site running costs. However the Agency is not committed under the purchase contract to undertake redevelopment even when it obtains planning consent (except the possible provision of a new site access which is still under negotiation). The decision to redevelop can therefore be taken with the benefit of detailed cost information and an assessment of demand at the time. However there are 2 areas where additional costs may potentially be imposed on the Agency regardless of its own decisions.
  
  - ii. The water supply pipe-work within the site is extremely antiquated and will require renewal at some point. The likely cost is estimated to be £3M. This would generally be undertaken upon redevelopment and is included in the financial appraisal. However if a safe supply cannot be maintained prior to redevelopment then either MOD or WDA would have to replace it. This cost would fall to WDA even if planning consent for redevelopment was never obtained.
  
  - iii. A Land Quality Assessment has been undertaken by Envirosp Aspinwall on behalf of the MOD, but with the Agency contributing part of the cost. This has revealed the presence of oil on the aquifer underneath the site. Envirosp's opinion is this is only a minor aquifer and it is unlikely the Environment Agency would insist on remediation. However it will not be possible to give certainty to this before the Agency has to commit to the purchase contract. If full remediation was required, Envirosp has estimated a maximum cost of £7.6M. This is a preliminary estimate and there can of course be no guarantee this cost could not substantially increase. Under the proposed agreement, remediation costs would fall to the Agency (except one-sixth of any remediation costs which would be met by MOD in any event up to a ceiling of £500k) and a figure of £7M has been included in the development appraisal for this.
  
  - iv. It should be noted that a reduction of £6M was negotiated in the site purchase price in return for the Agency taking on this potential liability. In addition, if planning consent was not granted for redevelopment but

remediation was still required MOD would meet 50% of the costs up to a maximum contribution of £3M (in addition to the one-sixth contribution).

- v. The Agency will take over responsibility for the day to day maintenance and upkeep of the site from 2005. Before that, all running costs will be met by MOD but after that MOD will only pay a fair proportion relative to its occupation of the total site. Until a sufficient number of tenants occupy the site therefore the Agency will have to meet any shortfalls although clearly operating costs can be minimised if there is little other occupation. As the site is not currently managed by MOD on a conventional cost recovery position it is not possible to quantify the cost at present.
- vi. The other major operating cost relates to the airfield. Currently this costs c.£3.5M per annum including depreciation for fixed assets. The Agency is to acquire the existing fixed assets necessary for the running of the airfield from MOD at valuation (c£4.5m) which mainly include safety vehicles and the radar system. Payment is to be made evenly over 4 years from April 2004. MOD will manage the airfield as contractor to WDA until 2008 and meet all other normal running costs until then. After that the Agency will re-tender the operating contract and re-negotiate terms with the MOD for its airfield usage. It is anticipated that running costs, excluding depreciation, can be reduced to £1.6M per annum by 2008.
- vii. In the unlikely event that there were not sufficient new users of the airfield by then, it is reasonable to assume that MOD would continue to meet most if not all of the running costs as this would be significantly less than they are currently paying and they could not operate without airfield access. In the worst case of course there might be no new users and DARA and the RAF may ultimately vacate the site. Whilst in that doomsday situation the aerospace park would have failed the Agency could close the airfield and seek planning consent on the 250 acres it occupies for other commercial uses. Likewise as the majority of the operating assets comprise of vehicles and other movable equipment these could be sold at value.

c) **Regulatory Risks**

- i. The main regulatory issues are planning consent for redevelopment and the conversion of the airfield to Civil Aviation Authority regulations.
- ii. With regard to planning consent, St. Athan is a brown-field site and as such there would be a presumption in favour of re-use for industrial development. In addition the Vale of Glamorgan Council has publicly stated its support for the aviation park proposals. It is clear that a new access to the site will be required and the Agency's consultants have already produced a preliminary design for that access. This will require the acquisition of land not within the MOD ownership (some, but not all, of



which the Agency has already acquired) and potentially therefore the Agency may need to compulsorily acquire additional land for the scheme to proceed. In overall terms therefore the likelihood of not securing an appropriate planning consent is small but it is a risk which has to be acknowledged.

- iii. If planning consent could not be achieved at all then the Agency would need to re-let existing land and buildings on the site. In the worst case, i.e. where both the water supply and remediation works had nevertheless to be undertaken, the Agency would have a total acquisition cost of £14.5M. It would of course be guaranteed the MOD income of £670k per annum for the duration of the leases and it is reasonable to assume the MOD buildings could be re-let if necessary at least at this rental level. It would then own a further 300 acres of land together with existing buildings which the Agency would seek to re-let on an 'as existing' basis.
- iv. The airfield at present of course operates under military regulations. In order to accommodate significant civil usage of the airfield (greater than around 35% of total use) it will be necessary to obtain CAA approval which is likely to require additional physical works to be carried out to the airfield and affect the operational runway length. Until more is known as to the scale and nature of any civil traffic it is not possible to accurately quantify the additional costs of obtaining such approval.
- v. All currently operating military aircraft are able to land and take-off from the existing runway. There is of course already very substantial interest from aerospace companies in undertaking military contracts at St. Athan. Whilst clearly to maximise the potential of the site it would be preferable to secure CAA approval this again is a decision which can be assessed on a cost/benefit basis at the appropriate time.

## 7. RUNWAY EXTENSION

Considerable work has been undertaken into the feasibility of extending the existing runway to maximise the types of aircraft and therefore operators who could access St. Athan. Some of the existing interest in the site is from civil companies who would not be able to operate their largest aircraft from the existing runway. However the cost of any runway extension is likely to cost between £15m - £20M. The acquisition of St. Athan is not dependent upon carrying out a runway extension and if considered appropriate, the case for undertaking an extension would be brought for consideration at the appropriate time.

## 8. COMPLIANCE

Both the acquisition of the site and the commitment to purchase the new DARA facility exceed the Agency's delegated authority. In addition the DARA purchase commitment is novel. WAG approval to the Agency's entire involvement in the project will be required.

**9. CONFIDENTIALITY**

The Board is recommended to pass a resolution that having regard to the confidential nature of the business and that the publicity in relation to this paper may be damaging to the matter contained in this paper, that the public be excluded from the Board meeting when the matter contained in this paper is discussed.

**10. OUTPUTS**

Description	Outputs
Area of Building (sq. m)	71,500
Jobs safeguarded	2,500 (+800: Sealand)
Development Land (acres)	350
Potential New Jobs	4,000

Originator or Contact: David Swallow Tel/Ext: 8768

Date: 06<sup>th</sup> January 2003

Appendix 1 Proposed Heads of Agreement

1. A purchase price of £11m (subject to variation of MOD leasebacks) payable in the following stages.
  - a. **£8m** to be paid on completion 31<sup>st</sup> July 2003
 

it is currently proposed this  
be made up of 2 payments:-  
£3m on exchange (target date 31<sup>st</sup> January 2003)  
£5m on completion (target date 31<sup>st</sup> July 2003)  
but this requires final approval as to timing.
  - b. a further **£3m** to be paid **only** on satisfaction of the condition subsequent with provision for an ultimate long-stop date of 31/12/2005
2. The purchase will be subject to leasebacks to MOD. These leasebacks will generate an initial rental of £670k per annum from April, 2004 decreasing over 9 years to £200k as buildings are handed back to WDA for redevelopment/re-letting.
3. The estate to be purchased is a lease for 125 years of the entire site at a peppercorn rent excluding the area to be retained by the Army. WDA to have the option to purchase the freehold at any time after the 10<sup>th</sup> year of the term at market value.
4. The transaction timescale is as follows:-
 

31 <sup>st</sup> January 2003	-	exchange of contracts
31 <sup>st</sup> July 2003	-	completion of lease
5. WDA to acquire the existing operational assets necessary for the running of the airfield at valuation (c£4.5m). Payment to be spread evenly over 4-5 years commencing April 2004. MOD will manage the airfield as contractor to WDA until 2008 and meet all normal running costs (around £2m p.a.). Any income from third party users and profits from supply of non-military fuel to be paid to WDA.
6. From completion of the leases until 31<sup>st</sup> March 2005, MOD will run the estate at its cost. From 1<sup>st</sup> April 2005, WDA will take over physical running of the estate by which time MOD will have made the Army area a separate entity.
7. The Condition Subsequent: receipt of satisfactory planning consent for the project together with the acquisition by WDA of all estates and interests in land required to satisfy the project. The ultimate long-stop date to be 31<sup>st</sup> December 2005.
8. Prior to the satisfaction of the Conditions Subsequent, MOD is to be entirely responsible for the environmental state of the property, the services and

supplies thereto and any resulting liability there from. If MOD is required to remediate any part of the site (including the new DARA site) and or provide a new potable water supply, MOD shall do so at its own cost.

9. Following satisfaction of the Condition Subsequent, WDA shall reimburse MOD all costs reasonably incurred by MOD in undertaking such remediation or provision of a potable water supply. In the event that physical conditions require the area to be occupied by the Army and the WDA site to be dealt with as one entity in this respect, then MOD will bear one-sixth (with a ceiling of £500k.) of the total cost regardless of whether the Condition Subsequent is satisfied.
10. However, if the Condition Subsequent is not satisfied by the ultimate long-stop date then:-
  - a. WDA will reimburse the first £3M of costs under 9) above.
  - b. MOD will bear 50% of the amount by which such costs exceed £3m but with a cap of £9m total costs.
  - c. Any sum exceeding £9m will be reimbursed by WDA.
11. If, the Condition Subsequent has not been satisfied by the long-stop date, but no remediation or water-supply works have been required, and WDA subsequently undertakes such works, MOD will pay to WDA all costs reasonably incurred by WDA for the same as follows:-
  - a. up to £3m - no reimbursement
  - b. £3m to £9m - 50% reimbursement
  - c. £9m+ - WDA alone responsible
12. In addition to the purchase price WDA will pay to MOD a claw-back of 60% of any increase in value attributable to the implementation of any planning permission sought by the WDA or any sale of land **for a more valuable use** than use for an aerospace park and ancillary uses.

This will apply for a period of 25 years from exchange.
13. In addition to the purchase price and the claw-back WDA will pay to MOD 50% of the amount by which the capital sums received by WDA exceed the costs of the project following a return to the WDA of 15%. Payments will only be made after WDA has first recovered all project costs.
14. If Area F3 is not sold or let by WDA to a third party prior to 31<sup>st</sup> July 2012, MOD will have 6 months in which it may re-purchase F3 at the then open market value of land and buildings on area F3.

15. WDA will commit to acquire the new DARA facility for £15M (fixed) in 2019. MOD will have an option to renew its lease of the building at that time on terms to be agreed, otherwise WDA will be free to let or dispose of the building as it wishes.
16. In the event MOD wishes to terminate its lease of the new DARA facility between 2009 and 2019 it may do so but must first repay all sums outstanding to the third party financier of the building. WDA will commit to acquire an interest in the building for £15M at termination. WDA's share will depend upon the date of termination. At 2009 WDA's share would be 66% increasing by 3.3% each year to reach 100% by 2019. WDA may also at its option acquire the remaining MOD share at value.

## Appendix B

### WELSH DEVELOPMENT AGENCY

**COMMITTEE:** Board

**DATE:** 6<sup>th</sup> June, 2002

**REPORT BY:** Stephen Thomas  
Nicky Bailey  
Stan Edwards  
David Swallow

**SUBJECT:** RAF St. Athan – Defence Aviation Repair Agency (DARA)

#### 1.0 OBJECT OF REPORT

The Report seeks Board approval in principle to the acquisition of RAF St. Athan and to entering into an option to acquire the proposed new DARA facility.

#### 2.0 RECOMMENDATIONS

The Board is asked to:

1. Approve in principle the Agency entering into a non-legally binding Heads of Terms for the acquisition of RAF St. Athan.
2. Approve the Agency entering into an obligation to acquire the proposed new DARA facility at St. Athan in 15 years' time at a fixed price of £15m.

#### 3.0 COST TO WDA

The estimated costs to the Agency, should the scheme proceed are as follows:-

	Earlier Years	2003/4	2004/5	2005/6	2006/7	Years 5 - 15	Total
WDA Expend (m)	2.0	5.0	7.0	6.0	2.0	15	37
Receipts (m)	-	-	1.5	2.5	3.0	25	32

**NB** Figures assume DARA building has a value of £15m at year 15 and ignore any receipts from additional land (above 350 acres) available to the WDA.

The costs set out above are not currently included within the Agency's future business plan projections. A request is being made to the NAW for additional GIA to meet the costs but it is proposed that the Agency offers to meet 25% of the site infrastructure costs (£5m) from its own resources.

#### 4.0 BACKGROUND

- 4.1 In February of this year, WDA exchanged a non-binding Memorandum of Intent with MoD in respect of St. Athan. Through that, the parties agreed to work towards an agreement whereby WDA would acquire St. Athan for redevelopment as an Aerospace park and the Defence Aviation Repair Agency (DARA) would create a £70m state of the art maintenance facility on the site. The timetable envisaged a Heads of Terms being concluded by June 2002 and a legally binding agreement signed by September 2002.
- 4.2 Although there have been continual discussions and a huge amount of investigation undertaken, the parties are still some way from reaching a detailed financial agreement. This is partly due to the sheer complexities of a project of this size and partly due to uncertainty over the future requirements of the existing MoD occupiers.
- 4.3 It is vital however to DARA's future commercial prospects, that its new facility is completed by Autumn, 2004. Their plan is to fund this facility through a Public-Private Partnership and to meet the timescale the invitation to tender must be released by mid-June, 2002. The approval of the Minister for the Armed Forces is required to undertake this and DARA intend to submit the proposal to him on June 10<sup>th</sup>.
- 4.4 There is also a further pressure in the form of a rival RAF proposal to the rationalisation of DARA at St. Athan. This would involve locating military jet maintenance on a piecemeal basis at individual RAF bases. Clearly if this were to proceed DARA could be lost to Wales.
- 4.5 We understand that Ministerial approval on June 10<sup>th</sup> would irrevocably commit MoD to the new DARA facility and effectively kill of this rival proposal. We also believe that whilst, theoretically, DARA could build a new facility at St. Athan without WDA acquiring the site, WDA commitment in principle would make Ministerial approval virtually certain as it would create a significant political "win-win".
- 4.6 The parties accept that it will not be possible to agree precise financial terms by 10<sup>th</sup> June, but agreement from WDA in two areas is required:-

- 1) An in principle (but not legally binding) heads of terms agreement to take over St. Athan subject to planning consent being obtained for a minimum of 200 acres of development land.
- 2) A binding commitment to acquire the new DARA facility in 15 years' time if DARA decide to vacate and DARA's private funder requires it.

## 5.0 ACQUISITION OF ST. ATHAN

- 5.1 The Heads of Terms as currently drafted requires WDA to acquire St. Athan and manage and maintain the site and runway as existing. There is no commitment for further development. Likewise the purchase price and leaseback arrangements are still to be agreed.
- 5.2 Initially WDA would have c. 200 acres available for development and this would increase to c.350 acres over the next few years, as MoD vacated. The attached site plan identifies these areas. However it is unlikely planning consent could be obtained to develop any part of the 200 acres without the construction of a new access road and other services.
- 5.3 To enter into Heads of Terms would effectively constitute a moral commitment to acquire St. Athan, subject to obtaining planning consent. At this stage we estimate in broad terms the cost of infrastructure would be between £15-£20m. It is extremely difficult to predict the likely value of the development land because it would be resold over a 10 – 20 year period from today. However we have assumed a net average sale price of £50k per acre which would ultimately recover c. £17m. Commitment would of course always be subject to subsequently agreeing overall financial terms with MoD.

## 6.0 DARA BUILDING

- 6.1 The proposed purchase agreement was raised by DARA at an early stage and discussed in principle with the National Assembly. In order to proceed, DARA must secure private funding for their building as MoD is not able to provide the capital cost of £70m directly. To secure private funding DARA intend to enter into a 25 year lease but require the ability to break the lease after 15 years to meet Treasury rules.
- 6.2 The lease repayments will combine capital and interest so that the entire Capital cost of c.£70m is paid off after 25 years. If, however, the lease is broken after 15 years, £15m of the capital will remain unpaid. DARA have asked that the Agency enter into a 'put' option to purchase the



building after 15 years at a fixed price of £15m if required by the private funder. In return for entering into the option, if the value of the building and associated land at year 15 exceeds £15m, WDA would receive 50% of the uplift even if the option is not exercised by the funder.

- 6.3 To enter into such a commitment would clearly be novel and requires the consent of both the Agency's Board and the National Assembly.

## 7.0 COMMUNITY INVOLVEMENT

- 7.1 The Agency has attended five public meetings and also met with the Vale of Glamorgan Council, the appropriate local Community Councils, Assembly Members and a number of local residents. There is a consensus of support for the proposals but concern has been expressed at the impact of potential runway extensions. However the local community was informed earlier this month that an extension to the east (which would physically divide St. Athan village) would not be proposed.
- 7.2 We are working with the Vale Council and MoD to investigate the potential for improving community facilities (such as for example a shared leisure centre with the Army) as part of the planning process.

## 8.0 COMPLIANCE

- 8.1 Entering into the Heads of Terms does not represent a legal commitment. Any subsequent proposals for such a commitment will of course require Board and NAW approval at the appropriate time in view of the size of the project. Ministers have, however, been kept fully informed of the current situation.
- 8.2 The proposed option arrangements will require NAW approval both in view of the size of the commitment and the fact this is a novel proposal.

## 9.0 ALTERNATIVES

- 9.1 If the Agency did not proceed there is a clear risk that DARA would not secure Ministerial approval to their consolidation in Wales.
- 9.2 It is highly unlikely that the private sector would enter into the St. Athan project at this early stage. Nor indeed would MoD deal with the private sector alone in view of the security implications.

- 9.3 The Agency has been approached by two major private sector developers interested in partnering the Agency in the overall development. It is proposed to seek expressions of interest from private developers at the appropriate time to minimise the Agency's ultimate capital cost.

## 10.0 RISK

- 10.1 As the heads of terms agreement is non-binding, the principal risk lies with the purchase option for the DARA building.
- 10.2 If the value of the building was less than £15m in 15 years' time then the difference would be a loss to WDA. However, the purchase price is fixed and we estimate the current value of 130 acres of serviced land alone (without the DARA building) to be £8-£10m.
- 10.3 In addition at Year 15, DARA will have repaid c. £55m of the capital cost of the scheme to the funder so it is highly unlikely they would terminate the lease.
- 10.4 The Heads of Terms does effectively constitute a 'moral' commitment to proceed to contract if satisfactory planning consent is achieved but this would of course be subject to agreement of financial terms which would require further Board and NAW approvals.

## 11.0 ENVIRONMENTAL IMPLICATIONS

Extensive environmental, ecological and landscape studies have already been undertaken in formulating the current proposals. The development area almost entirely comprises brownfield land. A full Environmental Impact Assessment will be required to support the Agency's planning applications.

## 12.0 OUTPUTS

Description	Outputs
Area of Building (sq. m)	55,000
Jobs safeguarded	2,000
Development Land (acres)	350
Potential New Jobs	4,000

### 13.0 CONFIDENTIALITY

The Board is recommended to pass a resolution that having regard to the confidential nature of the business to be transacted and that the publicity in relation to this paper may be damaging to the matter contained in the paper, that the public be excluded from the Board Meeting when matters contained in this paper are discussed.

Originators or Contacts:	Stephen Thomas	Tel/Ext:	8955
	Nicky Bailey		8970
	Stan Edwards		8959
	David Swallow		8768

Date: 30/05/02

## Appendix D

### COMMUNITY COUNCIL MEETING - ST ATHAN 28 JANUARY 2002

#### PRESENT

Steve Hill  
Steve Thomas  
Nicky Bailey  
Allan Robertson  
D Pollington

#### Steve Hill

DARA now a Government Trading Fund formed following directive from Strategic Defence Review. Amalgamation of Services services. One stop shop for aerospace. Largest in Europe. 4 sites, were part of vote system. Battle for budget. Now like Royal Mint, Passport Agency. Must survive on revenue from customers.

After Corus largest engineering employer in Wales. Important employer/asset.

Problem – guaranteed order book (90%) for 3 years from 1<sup>st</sup> April 2001. Thereafter open competition – need overheads sorted. Major restructuring and rationalisation to compete with aggressive market place accentuated by 9/11.

DARA has sought to make 4 centres of excellence:-  
Sealand electronics, Avionics closed on 2 sites and moved into North Wales.  
Fleetlands – transfer all engines  
Mechanical components – Scotland.  
St Athan – fixed wing centre of excellence  
Manufacturing and structural repair work.  
Engines will have left St Athan (East side of open-space) by end of year.

The new site will have no impact whatsoever outside the base.

Slight reduction in numbers of staff as a result of built in efficiencies  
Diseconomies of people in different buildings.  
Numbers of aircraft – will be changes  
Now Tornado, Harrier, Hawk, Jaguar VC10  
VC10 out by 2008.  
Progressive reduction in numbers of jets and replaced by modern aircraft like eurofighter – only 250 maximum in RAF where 1,000 tornados.  
Run-down of military – want to attract other types of aircraft.

DARA's intention with WDA to bring in commercial airliners work. Talking to a number of partners to see if can join in using the facility.

Phase 2 might need an extension to runway in long term. Will be working hard to capture that type of business.

Study looking at various options on runway. Phase 1 vital to survival of the DARA Ministerial approval in principle.  
Flagship project for South Wales. Needs huge amount of negotiation with large number of Ministers involved.

### **Steve Thomas**

WDA still undertaking feasibility study – delay as a result of access problem with Duchy of Cornwall. Western section 4-5 weeks behind schedule.

Range of studies likely to be complete by the end of March/April will then put together and make recommendation to WDA Board on feasibility of proposal. DARA proposals stand alone – will go ahead irrespective of WDA proposals.

Agreed to purchase Castleton Farm and other properties. Offered to acquire in response to request from owners.

Purchase would be under CPO rules because more advantageous to owners – market value plus home loss and disturbance payments can be made.

Considering access proposals.

### **Questions**

Q. Move from 2 shifts to 3 shifts?

**Steve Hill** - Already 3 shifts on VC10. Likely more shift working in future – no engine testing at night.

**Engine Regulations introduced** - Looking to move towards noise suppression and hush houses and introduce modern technology.

As an exception work goes up to 10.00pm but leaving the de-tunes where they are will affect the development potential of the site.

**David Crompton** - Noise problem is from engine testing not flights.

**SH** - Want the very best environmental practice in developing new hanger.

**DC** - Runway extension no longer essential?

**SH** - Runway extension could be essential if take on wide-bodied jets. Can only get in and out on larger runway. Needs sound business justification before can take that forward. If commercial partners were to come in with WDA/DARA we would need to examine this. Regional jets are not a problem but Jumbos need larger runway.

Q. **Hanger project** – If in 2 years need runway extension – wouldn't that pre-judge

planning?

SH - We will never go forward unless there is an absolute solid business case. Separate facility required for larger jets. Would not mix with small jets. Would need CAA regulations – not cheap and a lengthy process.

DC – Earliest commercial jets in?

SH - Depends how fast able to develop relationships. Some people want to come in at once to reduce their overheads. Others may come later. Meeting this am with potential partner who wants to come in.

Ownership not yet sorted out.

Could take commercial jets at any time.

Q. Effect on BAMC? Have you talked to BA?

SH - No intention of changing utilisation of this facility. Work very closely with Bruce Hunter and Rus Jones.

Q. Where can a hanger of that size be located?

SH - Plenty of space . Speedy turn round roads for 747's. Studies will look at roads, new access, possible station, TIA.

Q. Materials coming in by road? Short-term plans for getting materials in without coming through village?

SH - Priority for building – must see village excluded from heavy transport.

Q. Any Army? Many married quarters sold off. Are there sufficient quarters to accommodate?

Q. Would East camp be demolished?

Q. Would villagers still access have facilities eg Cinema? Gym?

SH - Army looking at investment in leisure facilities. No detail.

Q. Rumour that east camp would become business park? No problem for infrastructure.

SH - Apprentice training school. Substantial interest in providing aerospace training. No of companies very interested in the project.

Looking very closely to Barry College to take this forward.

Chairing meeting later this week to take project forward.

Significant increase in apprentices. Saturday Club at BA.

SPT - WDA taking forward – discussing with Air Traffic Control trying to relocate to St Athan. Take through from age 16 to world class aerospace engineer.

AR - Excellent adult flying programme.

**Q.** Loss of golf club?

**SH** - Only if E extension of runway. Need to look at possible alternatives.

**SPT** - Would try and replace in some shape or form.

Public Meeting – 12<sup>th</sup> February 2002  
Aerospace St Athan

1. **Introduction from Roger Eustace expressing concerns of local residents.**
2. **Presentation by Steve Hill as at Community Council Meeting.**

Very little change at St Athan since war. Built for dispersal to avoid bombing raids.

Phase 1 to relocate to DARA into purpose built building to achieve economies of scale.

Construction traffic will not be routed through the village.

Phase II (future development) is a long way off – negotiation with civil sector and may or may not involve runway extension.

Crucial that thinking on Phase 2 does not get in the way of Phase 1.

Modern noise alleviation facilities will be incorporated and there will be no change to test times. Phase 1 development will have no impact whatsoever.

Aircraft movements falling. 12% reduction associated with DARA flights. Hawk use also reduced over last few years.

UWAS has the largest no of movements but these are small planes.

Move to civil aircraft will generate less noise.

No need for circuit work as military aircraft do.

Traffic – Phase 1 will involve no increase in road traffic. Reduction from the past heavy use. Further reduction in future

30 years ago 12,000 on site. Driver training school and learner drivers on the roads.

Reference to Plan 48 Revision A on display.

DARA occupation at Picketston will be withdrawn and transfer to WDA. East Camp will be vacated and handed to WDA.

Rationalisation at West Camp although planned for some occupation by army.

One regiment in April/May 2003, remainder one year later.

No apology for trying to increase business opportunities at St Athan – whether civil or military.

Phase 2 requires a lot of consultation, not least with residents present.

3. **Presentation by Steve Thomas - WDA**

Initially approached by DARA to relocate into new facility. Looked first at CIA but feasibility study concluded not possible. Decided to re-look at St Athan where it was MoD's intention too close - devastating effect locally.



The Agency's main priority is to help DARA re-locate. WDA is looking at the rest of the site to create aerospace centre of excellence, development and training developing over period of time for aerospace industry.

Mention has been made of runway – very emotive subject. No decision made to extend at present.

A series of studies is underway including

Building survey

Land Quality Assessment

Environmental base line studies:

- Agriculture
- Archaeology
- Ecology
- Landscape
- Noise
- Air Quality
- Engineering
- Master plan

Demand Study

Public Relations

All studies take a lot of time and effort.

Unfortunately, access has not been available to all of the land eg Duchy of Cornwall land. This has caused delay for 6 weeks. Hope to finish by end of March early April. Decision will be made depending on:-

- 1) Business case
- 2) Whether a runway extension is warranted. Could go east/west/neither/bit of both but as of tonight unable to say.

This is the 7<sup>th</sup> public meeting attended by WDA since the autumn. Also 20-30 individual meetings in area. Facility offered to all – if anyone wants to meet will arrange on a one to one basis.

#### 4. **Jane Hutt AM**

Congratulations to group on such huge turnout. Huge effort to publicise. Very important. People need information because fears and concerns and rumours lead to fears. Important to hear from WDA and DARA what they can tell us and can hear what local questions are.

Have to listen to your concerns and to information provided.

Has attended two meetings of St Athan County Council and also surgery. Need to share all information – need clarity.

Imminent decision on army and Phase 1 where DARA, a major and growing employer, will have security in terms of jobs for some time.

Have been urging Minister Adam Ingram to make decision to provide clarity.

Phase 2 involves feasibility studies to extend development further for repair of civil aircraft which may or may not involve runway.

2 distinct phases must be recognised.

- 1) DARA and army
- 2) Phase 2 much longer term. SPT noted all environmental studies which need to be done.

In respect of any change on development in the area it is important that you can air concern and worries and we can shed as much light as possible.

Here to listen to you, to take on board opportunities and challenges. If no development what would happen to site. It is welcome that DARA now able to secure their presence here.

We as elected representatives must safeguard local residents as take forward proposals.

Want to clear air as much as possible tonight – aim more clarity by end of evening to take forward and address concerns.

#### 5. **David Melding AM**

Pleased action group has succeeded in attracting as many as 400 people. Need development but want it to be appropriate. Major development w/o approval of local community cannot in the long term be successful. Respect the fact that studies are not completed but need to consider the runway issue to some extent. This has been raised in the Assembly.

#### 6. **Question to Steve Hill**

If Phase 1 will secure DARA's position and is not connected to Phase 2, Can SH confirm DARA will go ahead even if no runway extension or no further civil work. If neither of these achieved - would this endanger DARA?

SH - DARA will not survive in competitive marketplace if it does not rationalise and reduce over heads. Competition keen to take business away. New buildings – sheer size will see off competition. Would be nice to get together with partners and drive on into Phase 2 but needs a lot of work with all partners.

Phase 1 essential to health of DARA and its Survival.

#### 7. **Councillor John Thomas**

Come to listen to views of people in room. Rare to have so many present. Representative on Vale Council – duty to take views forward and ensure taken into account. Vale Council has no line on proposal – no planning application as yet. Will encourage economic development provided community doesn't suffer.

If runway extension goes Eastwards would personally lose land so not fair to have a view. But will take forward views of the community.

8. **Question – Strackon – Travel Agent**

Can we have some ideas of timescale on Phase 1 and Phase 2?

Current runway can take most aircrafts. Mostly empty, not with full fuel loads.

SH – Phase 1 - Formal approvals within next four months. New facility up and running by end of 2004.

Phase 2 entirely dependent on negotiation with civil ventures and joint DARA/WDA initiative.

Most aircraft can get in on current runway but Tristar and AWACs can't land.

Regional aircraft business can get in but largest jumbo jets cannot land.

Operators look for full fuel loads for civil aircraft jumbo so can go straight back into service.

Can't give timescales for Phase 2 because so many unknowns.

SPT – until firm business case and have undertaken studies, won't be able to make decision. Studies complete end of March early April. During April could hold further meeting. Willing to meet anytime.

9. **Question John Redman**

Vale Councillor, Llantwit Major. Here to represent interest of Llantwit Major. Have DARA/WDA held any meetings with Vale of Glamorgan Officers or Cabinet Member for Economic Development?

SPT – Initial meetings with Vale Officers to seek advice on study area. Drew attention on displayed plan 48A to the area within which studies are being undertaken.

10. **Question** What use class are remaining areas?

NGB - Military designation in UDP for DARA and Army.

Need C/U – will be planning application for WDA proposals.

Proposed Use class will depend on studies. Full EIA and TIA will accompany any Planning Application.

11. **Question** Care Home largest employer – 55 residents and 70 staff.

£600 – £700 k pa inject into local economy.

Disruption and change in noise levels – will definitely be worse. Detrimental to business – turn prospective residents away from St Athan and business.

Please bear in mind and assist our business.

Please look after 70 jobs in the village, most of who are in the room. Intending to employ specialist advisor to assess noise levels now and in future in the village.

SH – Flying for 60 years at St Athan. At times significantly greater volume than now. Older aircraft being replaced with fewer more capable aircraft. 800

tornados compared with 232 new European fighters. Our plan is to put hush houses in place to reduce the impact of engine running on the ground.

Phase 2 will involve commercial aircraft which make less noise.

Extended runway may take aircraft further away from village.

Pilots may make bigger circuits in future.

Very careful not to cause noise (much hilarity).

Phase 1 will have no effect on noise.

12. **Question Ed Clantman – Local Resident**

VC10 running for 2 weeks solid last week. Smell disgusting. What about gases? Why so much quieter at Nantgarw?

**SH -** Fact of life. Part of impact of aircraft. Not doing uninstalled testing at Caerphilly where noise quieter – DARA tests on the wing. Will look at alleviation. Noise will be less. At BA, Rhoose, tests are also on the wing.

13. **Question** Where expertise to overhaul all aircraft?

**SH –** 2000 highly skilled technicians – more capable and highly skilled than anywhere in Europe. Huge involvement in training and apprenticeships. WDA and DARA engaged in discussion to develop life-long learning training facility on site. Most skilled and experienced anywhere and enough to fulfil undertakings.

14. **Question –** WDA feasibility studies not yet completed– why already buying houses and land in the area?

**SPT-** The 2 houses bought were vacant and on market. Wrong to allow someone to buy these when WDA might require them later. Opportunity purchase but if proposals don't go ahead will go back on market as at Nurston.

Castleton Farm was also an opportunity purchase. Tenant on land. If not required will be resold.

Solicitors/Agents have been writing letters to the residents about depreciation on house in anticipation of later development.

**SH -** There will be no impact from Phase 1 on property values.

15. **Question –** Doug Morton from the Gem

What % of jobs will be local opportunity?

Feasibility of facilities for local residents?

**SH –** Hoping to employ largely skilled people but Army will need local support. Mixture of jobs likely. Most of DARA employees local people or trained by DARA. Variety of skilled/semi-skilled/unskilled also catering, facilities management etc.

**SPT** – Any major development will involve a planning agreement to gain consent  
At WDA development at Pontprennau of 500 acres, provided 5 local parks, 10  
acres of leisure, cricket and football pitches and small leisure centre. Anticipate  
Vale shopping list when planning application submitted and negotiations with  
WDA.

16. **Question** What is your view of property prices increasing?

**SPT** - Talking to local agents and owners – price already gone up.  
If project didn't go ahead chances are that St Athan would have closed within 3-5  
years. Major downward impact on property prices, jobs etc.  
Not anticipating major increases but area of good employment creation. On the  
other hand likely to decrease w/o development.

17. **Question** Golf Course resident adjoins house to side and back  
Moved in August to this Perfect house – partner coming out of RAF after 22  
years. What will we be looking at in future? Is it fair that our house bought in  
August?

**SPT** - Decision not yet made so difficult to say. Until studies completed can't  
answer.

18. **Question** RE – Feasibility study due in December, then January now March.  
Uncertainty and extending time-scale. Need something concrete. Will they be all  
– encompassing?

**SPT** - Once all studies received decision will be made according to:-

- 1) Whether Aerospace development is viable.
- 2) Whether a runway extension is warranted.

Still a lot of work to be done after that decision.  
Will be able to return with colleagues in April to advise.

19. **Question** Welsh Guards – How are they going to come in? Roads insufficient.

**SH** – Can't speak on behalf of army. Still awaiting ministerial formal  
announcement. Speculation until then on which type of equipment they will  
bring. Range of vehicles at DARA. Unlikely to be serious problem with any  
vehicles.

20. **Question** Army will move in convoys and will block up roads. Will they come  
by Hercules?

**SH** – Army will need to answer. Project Director will relay concerns.

21. **Question** 22 years experience in army. No way infrastructure can cope with  
warrior vehicle of 52 tons w/o armour and 70 tons with.

SH - No announcement yet made on army presence.

**Jane Hutt** – Decision imminent. Issues will be raised with Adam Ingrams tomorrow eg what are the implications of the army coming.

22. **Doug Morton** - 5 separate sources within MoD indicate that 650 – 700 Welsh Guards coming.

SH - DARA not part of Army – cannot speak for the Army. Minister has made it clear in writing that DARA cannot speak on this issue.

23. **Question** Broadway Case Group – St Athan Cross

St Athan Cross is a very dangerous place – numerous fatalities – please take into account.

Live in Llantwit Major, work in St Athan and have 7 properties in St Athan. Concerned there will be more noise in Llantwit Major if runway extension.

24. **John Smith's Agent**

Apologies for John Smith's absence - 3 line whip in House of Commons on Employment Bill.

John Smith has raised concerns with Geoff Hoon re lack of infrastructure and how Army will cope. Elected Chair of Backbench Defence Committee last week – so more influential in obtaining improvements to infrastructure.

25. **RE** reported that John Smith welcomes guards and new village at Llandow - please comment?

JSA – Increase pressure on housing – better to plan comprehensively near Llandow Industrial Park with planning gain to pay for Llysworney By-pass. Not associated with this development.

26. **Question** If Army do come in- is village school big enough?

JT - If come into West Camp will not be in St Athan Catchment.

SH – DARA has been civilianising posts. Were 2,200 service personnel now 360. Handful by 2003. Army will replace 1 for 1 as RAF leave.

27. **Question** Boys in Bosnia Business told they are moving to St Athan?

JSA - John Smith had meeting with head teachers of Llantwit Comprehensive. Rise as result of Army coming to St Athan. Meeting with Jane Davidson – what proposal to increase building capacity?

28. **Question** Will feasibility study take note that extension of runway will upset all people in this area and should be major consideration in the decision? If runway

extends east might reduce noise levels but will bring flight paths closer to those at CIA. Could increase risk of aircraft collision.

SH - Airspace is largely controlled by CIA for both airfields. Facility for all weather conditions. CAA approval required and must be satisfied.

29. RE - Considerable opinion against runway.

SH - CAA will not allow increase in risk. Very cautious approach.

30. **Question** RE – Can you comment on public opinion?

SPT - Need to find out views and will be taken into account in studies.

31. **Question** How objectively will you assess real feeling of community? Should be intrinsic part of feasibility to collect data.

How will we be formally kept involved/informed in future?

Studies must formally assess and evaluate.

**David Melding** – WDA is an Agency of Assembly – if local feeling not taken into account will be addressed through Assembly.

32. **Question** Impact of drunken soldiers needs to be taken into account.

Half of site given to Army. Huge buildings. Glorified Trading Estate.

No longer real jobs to real people.

Want to keep the Vale as it is.

**J Hutt** – Very constructive contribution that assumed there should be serious community consultation. Start of ongoing consultation – need to decide when that is going to be. More information needed on feasibility study on Phase 2.

What further involved.

Vale Council also involved in any planning application.

RE – Arrange future meeting at appropriate time. One good way of getting information.

33. **Question** What does Runway Action Group mean?

RE - Provide a vehicle to obtain information and express fears and concerns of local residents. Neither for nor against it. Would welcome responsible investment.

Have to wait to get information.

34. **Question** Bonvilston – Family live at East Camp. Railway line – could be used for army and personnel.

If some investment doesn't come in – will decline - need investment to make things work.

**JH** – Railway due to be opened in May 2003 – station at LM and Rhoose.  
Another means of transport into area. £10 million grant from Welsh Assembly.

**SPT** – Looking to see if another station could go at St Athan. Applause.

35. **Question** Would railway affect west extension?

**SPT** - Looking at tunnel over railway.

36. **Question** If runway goes east will WDA CPO houses nearby?

**SPT** - Only houses affected or where value affected under Part 1 of Land Compensation Act. Recommend all take professional advice if likely to want to make a claim.

No decision to make CPO here. Houses and land have been bought by private treaty.

37. **Question** David Street – Feasibility study – will it take into account of all other proposals eg army and housing at Llandow? If going to extend runway by ¼ miles – planes will go into Cardiff flight path – this is an excuse given now for flight paths over village. Both can't be right.

**SH** – Any change will be subject to CAA accreditation.

**SPT** – WDA's looking at aerospace park and runway. Not looking at Llandow.

38. **Question** Phase 2 DARA only want a small amount of the camp so what does WDA want with rest and notice outside?

**SPT** – Notices around the site to give access for feasibility study.  
No decision taken as yet.

39. **Question** **Jean West** – Some people have received letters offering compensation. Find sinister.

**Andrew Thomas HRT** - Sent letters. Feel should know what rights you have – compensation in respect of any diminution in value. No apology for seeking business at expense of WDA/Assembly. Can help if you would like us too.

**RE** - Please accept that some people are worried by this approach.

40. **Question** How much money invested in project? Wouldn't want to waste more as LG project in Newport when could be spent on buses and trains.

**SH** - In any project of this size – open competition.  
Can tell you cost of running overheads now – disproportionately large.  
Can't tell you actual amount until end of competition. All private money for Phase 1.



41. **Question** – What is an aircraft park? Could create a big monster.

**David Swallow** – May be an opportunity to grow the area – WDA charged with going out to seek it out. Very competitive aerospace market – looking to bring some of that here. Huge area of land very concerned about impacts but looking for opportunities.

42. **Question** RE - Easy Jet at Bristol?

**David Swallow** - Not contemplating passenger traffic but low-cost operators looking for maintenance elsewhere other than operating bases

43. **Question** RE - Impact on St Athan and rest of Vale. Is there any overall plan for Vale and how it should develop?

**Jane Hutt** - For any Planning application – would have to be TIA and EIA. TIA would have to consider increased transport needs – very tough study to be commissioned. Vale would need all information in order to come to decision. Other issues about transport in Vale – Council has responsibility for developing integrated transport plan.

Assembly recently granted £450,000 road repair for Vale.

Study on Culverhouse Cross, Airport Access Road – whole range of wider issues being considered by Vale and Assembly to underpin need TIA.

**David Melding** – County has responsibility for roads. Insufficient money available. Major schemes difficult to fund. Planning gain could generate funds for road improvements.

Airport Access Road would be of benefit – recent report indicated only possible if Assembly paid (but equivalent to whole LA road budget for Wales).

Careful attention on successful development will generate more traffic.

44. **Question** Is there a Plan B? If any don't come? What will happen to DARA?

**SH** - Army will inherit West Camp. Heavily under-utilised domestic accommodation. If army didn't come in site would become redundant.

**SPT** - MoD own land- negotiations proceeding but if aerospace park not viable MoD would do study to see what could happen to the site.

45. **Question** Construction traffic please not through village. New access road?

**SPT** – West Camp entrance.

46. **Question** Aerospace Movements?

Boeing Web page shows aircraft sizes and runway length. What has DARA done to get civil contracts?

**SH** - Active negotiation with 2 bodies to bring in civil work.

JSA – Only trading fund status for 1 year. Not in position before.

47. **Question** Hush Houses? Why don't you use de-tuners, why test on ground?

SH – Do use de-tuners but have to also test on ground to ensure safe to get airborne. Crucial to carry out tests. No more than necessary to safety test aircraft.

48. **Question** Pollution to health in village?

SH - Very proactive environmental protection policy with all hazardous processes on site. Committed to best standards. But cannot operate jet aircraft without smell of keocene. Doesn't affect environment.

49. **Question** Length of time of testing – sometimes all day?

SH – Nature of task. Everything has to be tested on reassembly. Fact of life with jet maintenance. No-one in world can do it differently.

50. **Question** How big in comparison to BAMC?

SH - Greater in ground area. Significantly less in height. VC10 hanger lower than BAMC.

51. **Question** You say you will take larger aircraft?

SH - Looking at opportunities – haven't said what shape or size they are. Will only look at building facilities for other aircraft if overwhelming business case.

52. **Question** Extra volume of aircraft traffic to make profit?

SH - Fast Jet facility will be single building for existing aircraft. Expecting aircraft movements to reduce unless capture new business which DARA's trying to do outside military. Only fly to test to ensure safe after substantial refit. Minimum test flying consistent with ensuring safety.

53. **Question** If need longer runway for larger aircraft how come you won't need bigger building?

SH - May well go for Phase 2 if needed.

54. **Question** Education and service personnel absorbed into DARA. School at Llantwit Major waiting for expansion for some time. What will you do about this?

SH - Army carrying out investment appraisal to train, house and educate.

55. **Question** What will happen to Barry College?

**SPT** - In conjunction with Barry College and ELWA, WDA believe can create training facility which will stand alongside. Barry College want to create centre of excellence.

56. **Question** Can there be an army representative at next meeting?

57. **Question** Why do harriers hover between Tee 1 to 9 and hover over football pitch?

**SH** - Suggest write and pilots will answer Harrier hover has to be thoroughly tested.

58. **Question** Why should we have to wait for leisure facilities until Army come in?

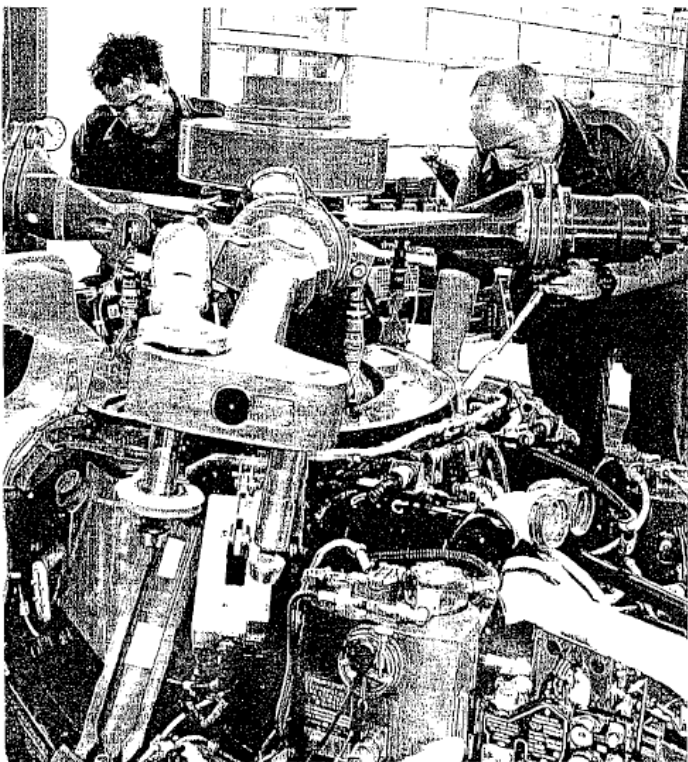
**SH** - Should have something before army come.

**SH** - DARA exists to maintain aircraft. Not in business of providing leisure facilities but would wish to share. Security reasons why can't allow this . Enormous investment in security.

# DARA Looking to Expand Horizons as Industry Contracts

U.K.'s military aviation repair organization is broadening its services, modernizing its facilities and transitioning to pursue commercial contracts.

By Bill Burchell



It's often said that timing is everything. So imagine trying to structure a commercial aircraft maintenance business just at the point of opening when aviation is facing its most challenging period. That's what DARA, the U.K.'s Defense Aviation Repair Agency, committed to do.

DARA was created as part of the U.K. government's Strategic Defense Review of 1998 to bring elements of the Royal Air Force's Maintenance Group Defense Agency and the Naval Aircraft Repair Organization together under a single executive. The new organization was launched by the then-Under Secretary of State for Defense John Spellar on April 7, 1999, with the aim of moving it to Trading Fund status "as soon as practical."

Trading Fund status means that DARA doesn't receive government funding and must run its business from revenue generated by customers. DARA received the status of a Trading Agency of the British Ministry of Defense (MoD) in April 2001, right in the midst of a global recession.

Given its importance to the MoD however, DARA has been protected by a special term of business agreement for three years to give it time for rationalization and restructuring. This should maintain its core business during that transition. And thereafter it must compete with the market. The transition would be tough enough in a growing market, but the events of Sept. 11 have made it a whole lot tougher.

**DARA maintains fixed- and rotor-wing aircraft, including engines, electronics and components from the Royal Air Force, Royal Navy and British Army, as well as the Italian air force, Royal Saudi Air Force and other governments.**

support the South Wales Aerospace Training Group, including General Electric and British Airways. The group aims to work with Barry Technical College and other local educational organizations to build a new JAR 66 training facility for both civil and military personnel before 2005.

According to Hill, initial soundings suggest a lot of aerospace companies would like to use such a facility. Moreover, DARA itself trains 100 apprentices per year at St. Athan in facilities that need renovation. Another 45 apprentices are trained each year at Fleetlands and eight at Almondbank. Sealand, by contrast, doesn't have apprentices but annually converts about 60 semi-skilled people to handle avionics.

Overall, DARA employs around 5,000 people, most of whom are between 40 and 50 years old. While attracting new recruits is crucial to its long-term future, staff retention is similarly vital. This will be promoted early next year when DARA launches an employee development scheme with an emphasis on life-long learning. And further investment has been made in developing management skills.

"We've done everything from in-depth, board-level training to capture commercial skills, right down to self-directed work-team training on the shop floor," said Hill. "We've put every manager through commercial awareness training and a whole raft of culture change initiatives, leadership and process engineering training. Indeed, we see the training and development of our people as a major catalyst for future success."

### Future Prospects

Like many in MRO, Hill sees the post September downturn as short-term and remains optimistic that the industry will recover and continue to grow. However, given DARA's situation, it could find opportunities that other providers can't, such as from the overcapacity in both the civil and military sectors. The inevitable rationalization, said Hill, could draw in people to join DARA. Indeed, DARA could also be

well-positioned to support the much-lauded pan-European defense force, in whatever form it eventually takes.

"I can see increasing integration with Europe," said Hill. "We're already working with organizations like NAMSA (NATO Material Support Agency, which contracts for R&O across the partner nations) and have a contract with the Dutch Air Force for some component support. So we aim to grow that capability. Moreover, since Rapid Reaction forces appear to be key to future military strategy, armed forces are looking to hold more and more resources on main operating bases and be able to deploy them quickly, as was done with Afghanistan. So instead of regarding ourselves as a factory organization, we have to move with the times and send working parties out to work in the field. That's another avenue to explore, perhaps putting our people into other organizations in Europe or elsewhere."

Given that developing technologies are greatly improving reliability rates, Hill also believes the traditional differences between the military's second-, third- and fourth-line maintenance are fast disappearing. For example, anything needing jigs was traditionally done by the OEMs, but now DARA can match it in many areas. And thanks to the way avionics and mechanical components have developed, there will be less dependency on second-line maintenance. This means that anything the first line can't handle could go straight into some form of support organization, either a main base or back into industry, as long as supply chains can support that.

"Our Sealand site is set up this way," he said. "It handles more than 10,000 items in our automated direct exchange scheme. Our fleet of lorries can collect unserviceable components and exchange them for serviceable ones. For operational AOGs in the U.K., we aim to do that within 24 hours, while routine items are exchanged within seven days." As that activity is ramped up to improve turnaround times, DARA also aims to manage inventory for customers and sell its availability.



DARA

**DARA is developing unique design capabilities and supply chain management services to supplement its traditional maintenance, repair and overhaul.**

Among its biggest long-term challenges will be the Joint Strike Fighter (JSF), which uses materials and technologies that few of its staff have seen. These new materials and technologies will require totally new maintenance processes.

"Having looked at the program with Boeing and Lockheed Martin Aerospace, we're seeing technologies where down-linking of data on the serviceability of the aircraft will be the norm in future," said Hill. "Also, the way the aircraft is manufactured means there will be less opportunities for organizations like DARA to get into deep airframe repair. Moreover, far fewer JSFs will be needed compared to the number of aircraft required today.

"This will mean a much more flexible approach to support our front-line bases. We can't afford to be tied to the thinking of the past, where aircraft were flown back to our facility. We have to keep up and change with the times. Indeed, we're not going to survive long-term unless we're flexible enough to move into other markets." ▶

Appendix F

INTERDEPARTMENTAL CORRESPONDENCE

TO: PS/ Andrew Davies AM (by hand) cc PS/First Minister File

MINISTRY OF DEFENCE  
OLD WAR OFFICE BUILDING WHITEHALL LONDON SW1A 2BJ

Telephone: 020 7278 6666 (Direct (if/line))  
020 7278 9853 (Switchboard)

Date: 10/9

10 SEP 2003

MINISTER OF STATE FOR  
THE ARMED FORCES

D/Min(AF)/AK/2/1

10 September 2003

Dear Rhodri

I am writing to inform you of the conclusions of work that we have been conducting to improve logistic support to our Air and Land forces (including Naval Air and the Royal Marines). While Defence is of course a reserved power, you may find this useful in the light of recent inaccurate media speculation about DARA St Athan.

The background to this is that experience of a number of recent operations has shown that there is scope for providing better logistic support to our forces. Previous work has also indicated that we can improve efficiency by looking at logistic processes end-to-end – across organisational boundaries from the factory to the front line. An End-to-End (E2E) Review began in January to address these issues and has now reported. It concludes that considerable opportunity exists both to deliver a better service to the front line, and to save money for investing in other Defence priorities, by streamlining current processes, removing duplication and excess capacity, and clarifying responsibilities.

A number of key principles have been established which should underpin our future logistic support arrangements. First, support should be configured for the most likely operational scenarios, but must have flexibility to cope with the most demanding. Secondly, resources and materiel should be concentrated where they can deliver the required logistic effects as effectively, flexibly and efficiently as possible. And thirdly, the supply chain must be effective and reliable.

The Rt Hon Rhodri Morgan AM  
First Minister  
National Assembly for Wales

Private Office



Investment in people



Our support strategy must be much more flexible and responsive than it was during the Cold War, reflecting that expeditionary operations are now the norm for our Armed Forces. Such operations require logistic support that is Joint (recognising that such operations usually involve more than one Service), tailored to the level at which we will be operating, rapidly deployable and robust. Logistic support requirements should be driven from the front line back, based on the effects that the operational commander wishes to achieve. They should be tailored to the separate demands of deployed and non-deployed activity (in Air) and in-barracks, deployed training and deployed expeditionary operations (in Land). Specifically, we have concluded that our future support strategy should:

- a. Keep deployed logistic support to the minimum necessary to achieve the task, drawing resources back to where they can be used most effectively and efficiently.
- b. Concentrate support facilities at the logistic centre of gravity, rather than spreading them around in expensive and under-utilised penny packets.
- c. Streamline the end-to-end supply chain, reducing excess capacity and duplication, and adjusting organisational boundaries to ensure the smoothest possible flow of the required levels of logistic support to the front line.

A summary of the key changes proposed by the Review is attached.

The E2E Review is a fundamental and wide-ranging piece of work examining the totality of logistic support from industry to the front line. The process of assessing and implementing its recommendations will take some time but it is essential that momentum is maintained to ensure that the front line is supported most effectively and efficiently within the resources available. All proposals that impact on civilian jobs or require major investment will be subject to investment appraisals to establish the costs and benefits of the various options before decisions are taken. We will also need to assess the potential impact of the recommendations on the existing commitments which the Department has made. Changes to operational logistics will be fully tested. The ability of our forces to deliver operational capability will be paramount.



The aim of all of this work has been to achieve solutions that provide best value for money while providing the required levels of operational effectiveness. This is the test we apply in deciding whether activities should be carried out in house or under contract, in accordance with our commitment to the Trades Unions that there will be a 'level playing field' in considering in-house and external solutions. There will be full consultation with the Trades Unions and I will be meeting with the Trade Union representatives on 18 September to explain our approach.

The E2E Review has looked at logistics facilities across the UK. Its considerations have ranged much wider than DARA or any specific sites. There have been no preconceived solutions. I should say specifically, however, in the light of recent unhelpful media speculation, that I stand by the commitments I have made on the Red Dragon project at St Athan. It is unlikely that we would embark on a course of action that ignored the very significant investment that we are making there.

I hope that this is helpful. I have written in similar terms to Peter Hein.

The Rt Hon Adam Ingram MP



## SUMMARY OF CONCLUSIONS

The key changes proposed to deliver the new E2E support strategy for more effective and efficient logistic support to the front line, are:

a. In the Air environment, for over 50 years, support has been based on four depths and four lines of maintenance and repair with separate facilities and organisations for each. As a legacy of the Cold War, support infrastructure is duplicated across MOBs. In future, two levels of support will be required: Forward Support (those elements that may need to deploy into a theatre of operations on a regular basis) and Depth Support (all static, non-deployable elements and some capabilities that may need to deploy in support of Forward Support elements on specific operations).

The E2E Review proposes that Air Depth Support should be concentrated at a single location for each aircraft type or capability to eliminate duplication and excess capacity. This Depth Support will then carry out all on-aircraft repair and overhaul (and some upgrades) and off-aircraft support work. The Review recommends that these support "hubs" should be located at MOBs to minimise duplication of facilities (eg runways, air traffic control) which are unavoidable at MOBs but are not essential for logistic purposes. This recommendation will be subject to further work to test the cost and benefits against other options, including the option of concentrating support at DARA facilities, before any decisions are taken. This will include full and transparent investment appraisal, involving DARA, and TU consultation as appropriate.

b. Operational logistic support in the Air environment can be rationalised by eliminating surplus capacity and activities, and by moving back some Forward Support activities into Depth Support. This will reduce the amount of manpower, infrastructure and equipment that needs to be deployed, and reduce costs, by concentrating activity where it can be carried out more cost effectively. Nothing will be done which impacts adversely on required levels of operational capability.

c. Land logistic support should be specifically tailored to the requirements of in-barracks activity; away from barracks training; and deployed expeditionary operations, with robust arrangements for the transition between them. Specifically;

- In-barracks, units should hold minimum stocks and should rely on the supply chain delivering required stocks within 5 days. For deployed training and operations, Priming Equipment Packs, based on commanders' assessments of minimum need and containing sufficient material to sustain a force until the supply chain is established, should be introduced.

Lean techniques<sup>1</sup> should be applied to both deployable and non-deployable equipment support activities by re-balancing repair capabilities between 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> line<sup>2</sup> and moving all possible off-platform repair activity out of operational theatres. Off-platform repair should be conducted by the Army Base Repair Organisation (ABRO)/industry and concentrated onto the minimum necessary number of sites in order to improve efficiency; deployable facilities should be maintained for the most demanding operations.

Unit (Regimental) logistic manpower requirements should reduce to reflect a decrease in combat supplies holdings and new processes for the storage of spares and stocks.

d. Too often in the past, required material has not arrived in a theatre of operations on time or at the right place. The Review recommends that a permanent joint organisation should be created to establish, run, and prioritise a joint supply chain in support of operations. This joint supply chain would be driven by the requirements of the joint operational commander for the delivery of personnel and materiel. The joint supply organisation would be responsible for making sure that the right things go into the supply "pipe" in the right order and priority, and that they come out in the right place in theatre.

e. Industry has a critical role to play in the delivery of future logistic support. We need to improve our approach to contracting and develop an E2E logistic support framework to encourage competition, introduce performance based logistic contracting where appropriate, and strengthen the links between the Defence Procurement Agency and the Defence Logistics Organisation in order to develop a common support solutions strategy.

f. The Chief of Defence Logistics (CDL) should be given greater responsibility for logistic processes from industry to the front line. This means ensuring that the processes exist, that they work, and addressing any shortfalls.

<sup>1</sup> Streamlining of processes and elimination of duplication and excess capacity.

<sup>2</sup> 1<sup>st</sup> line = unit (ie regimental (Land) or squadron (Air)) level, 2<sup>nd</sup> line = brigade or divisional/air base, 3<sup>rd</sup> line = mainly Army Base Repair Organisation (ABRO) in Land context; Defence Aviation Repair Agency (DARA) in Air context, 4<sup>th</sup> line = industry.

**Atodiad D: Dogfennau Trysorlys EM**

**[Managing Public Money, London, TSO, October 2007](#)**

**[The Green Book – Appraisal and Evaluation in Central Government, London, TSO](#)**