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Written submission to the JCPAA

Type-26 SRO

12 Jul 2023

Attn: Committee Secretary
Joint Committee of Public Accounts and Audit

The UK Secretary of State for Defence has supported that the UK Government welcomes the opportunity to input to the Joint Committee of Public Accounts and Audits (JCPAA) call for submissions into the Inquiry into the Defence Major Projects Report No.21 of 2022-23, Department of Defence's Procurement of Hunter Class Frigates. The UK Government also welcomes this opportunity to update on current progress and observations from the procurement, build and delivery of the UK Type 26 (T26) programme to date. The submission to the JCPAA is covered and approved by the UK's Type-26 SRO.

The 2015 UK Strategic Defence and Security Review set out the Government's commitment to build eight T26 Global Combat Ships optimised for Anti-Submarine Warfare to replace the current eight Anti-Submarine Warfare variant Type 23 Frigates on a one-for-one basis. In Jun 17 the programme received approval to proceed to manufacture of Batch 1 (Ships 01-03) through a single source, Target Cost Incentive Fee (TCIF) contract with BAE Systems. The vessels are being built on the Clyde in accordance with UK complex warship build policy. Procurement was through single-source negotiation and was phased to allow experience during the Batch 1 build to help refine the cost estimates for Batch 2 (Ships 04-08) providing time to negotiate an appropriate commercial deal that delivered further value for money for the taxpayer.

The T26 Frigate is an advanced Anti-Submarine Warfare warship designed for the critical protection of the Continuous at Sea Deterrent and Carrier Strike Group. The manufacture of Ship 1, HMS GLASGOW, is progressing in BAE Systems' Scotstoun shipyard, she entered the water in late 2022 and is now in dry-dock being fitted out. The manufacture of Ship 2, HMS CARDIFF, in BAE Systems' Govan Shipyard commenced in Aug 2019 with Ship 3, HMS BELFAST, following in Jun 2021. The signing of the Batch 2 (Ships 04-08) contract in Nov 22 and the cut steel for HMS BIRMINGHAM in Apr 23 are significant steps forward for the T26 programme. The Batch 2 contract has a value of around £4.2 billion and will strengthen and secure the UK shipbuilding enterprise as set out in the National Shipbuilding Strategy. The signing of the Batch 2 deal brought all 8 ships in the class under a single contract and allows the move to a single integrated programme. The commercial construct being a TCIF arrangement with a significant proportion of any cost growth falling to the Contractor, providing a strong incentive for BAE Systems to maintain the cost and schedule.

An initial tranche of T26 First of Class Royal Navy crew for HMS GLASGOW is on site and working alongside the MOD team to assist industry with quality, care and protection, acceptance, operating procedures and safety matters. The Defence Equipment & Support (DE&S) delivery agent is also heavily involved with supply chain

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management and a customer led on-site joint assurance & acceptance team is providing ongoing oversight of T26 build quality control.

T26 production is well underway as evidenced by the 'floating off' of HMS GLASGOW, at the end of last year. The gearbox for HMS CARDIFF (ship 2) has been successfully tested at the factory, delivered and installed, along with the major propulsion components (e.g. diesel engines, electric motors, gas turbines) and the fore and aft sections are on track to be joined together in 2023.

BAE Systems and the Ministry of Defence (MOD) are also working on improving ship build productivity through the introduction of updated welding machines and technology, digital ways of working to enable the workforce timely access to build data and more efficient sequencing and automation of production line work for block construction. As a result, significant improvement has already been witnessed in Ships 2 and 3.

Due to the impact of COVID19, when the Govan yard was required to shut down for several weeks, and challenges typical of those experienced with the First of Class ship, including finalising the ship design and timely delivery of key new to service equipment, the Department is forecasting a twelve-month delay to the T26 Initial Operating Capability (IOC) from October 2027 to October 2028. A proportion of the associated cost growth will fall to the Contractor as part of the TCIF commercial arrangements. The resultant cost growth for the MOD is 4.2% over forecast, which is £233 million over the life of the programme.

Work is already underway to increase productivity and improve on the revised forecast IOC date. In addition, an investment in a new Shipbuilding Hall to build ships undercover and to further improve build efficiency is in progress, with the planning application submitted to the local authorities. BAE Systems is also working closely with DE&S and the Royal Navy to streamline the trials, testing and acceptance into service plans. Examples include using Royal Navy procedures and ways of working during ship builder acceptance trials to avoid the need to repeat these activities after vessel handover to the Royal Navy. Plans are also in place to have DE&S and Royal Navy personnel present and engaged with test and commissioning activity to grow T26 ships' staff experience and de-risk the successful in-service operation and maintenance of the Class, providing another opportunity to bring forward the IOC date.

While schedule slippage in the programme will see a delay to the IOC and entry into service of the First of Class, this was a measured decision to ensure quality is a priority and the Key User Requirements are met. The noise signature of anti-submarine vessels is fundamental to meeting the capability and issues with the gearbox put this Key User Requirement at risk. The Senior Responsible Owner's decision to focus on getting the quality right before installation in the ship has protected the overall schedule from delay downstream during the testing and noise ranging trials.

As a result of current volatility in the global supply chain, the programme is seeing a rise in the price of defence goods which risk impacting the programme's real term affordability. The T26 programme team will capture where inflation is being reflected

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in costs prices within the supply chain and ensure there is clarity between inflationary pressures and cost growth.

The contract will sustain more than 1,600 highly skilled jobs at BAE Systems on the Clyde and secure a total of over 4,000 jobs across the supply chain in Britain. BAE Systems has already employed over 500 apprentices on the programme and plans to further expand and upskill its workforce as the build progresses. With over £1.2 billion of the new order being spent in the wider UK supply chain, the hiring of new apprentices, and an order book stretching into the 2030s, this contract provides a stable workstream across the British shipbuilding industry.

The Batch 2 deal also introduces further investment in BAE Systems' facilities on the Clyde, most obviously demonstrated by the construction of a new 175m long, 85m wide Shipbuilding Hall at Govan. The new hall will allow two frigates to be built under cover simultaneously and allow the ships to be built faster, improving efficiency in the programme and expanding the facilities for future work at the yard.

UK Government is pleased that the T26 reference design has been successfully exported to Australia and Canada providing the opportunity to further strengthen strategic alliances with our close allies. More specifically, the UK/AUS Frigates MOU has formalised the already strong Global Combat Ship (GCS) User Group working relationship between the T26, Canadian Surface Combatant and Hunter teams, promoting interoperability, information transfer and joint capability development to support the success of all the programmes.

The GCS User Group provides benefit through enabling the sharing of shipbuilding lessons from the T26 parent design directly to the HCFP. These lessons include safety, engineering, production, test evaluation and acceptance, transition into service/ sustainment facilities, exploiting the digital model, and skills and trades. Sharing and developing this expertise is achieved most notably through the biannual Global Combat Ship User Group and routine meetings up to 2* level. These formal exchanges are supported by near daily contact between the Hunter project team and their T26 project counterparts.

The Commonwealth of Australia and the United Kingdom are the closest of allies with deep and enduring defence relationships. Through the Global Combat Ship there is an opportunity to further extend the defence and trading relationship, and even closer cooperation between the Royal Navy and the Royal Australian Navy.



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