

To: Nick Deyes, [REDACTED], Chris Wheeler, Sue Moffatt

Date: 14 Feb 2008

Subject: **Summary of Proposed CCN050**

Purpose of this Document

As a response to an imperative from Peter Neyroud, Northrop Grumman was asked in November 2007 to provide a proposal for up to 2,500 Lantern Units (at increments of 500) for a 3 year period of performance until March 2011. This proposal was received in the form of Change Control Note 050 ("CCN050") on 12 February 2008.

The purpose of this document is to summarise the terms of CCN050 and to recommend a way forward for clarification.

Overview

The proposal covers England & Wales only. Although Scotland isn't being considered yet NPIA would want the flexibility to include it at a later date without a price increase.

The proposed costs are as follows:

Number of Units	Total Cost
500	£5,535,074
1000	£8,926,735
1500	£12,216,435
2000	£15,225,510
2500	£17,943,642

The proposal is valid for 60 days with [REDACTED] and [REDACTED] authorised to negotiate its terms.

It is based on 11 assumptions and conditions.

Recommendation 1 - is that these assumptions and conditions are ratified.

Attachment B1 Description

The proposal describes:

- Additional MFRs from SAGEM
- Spares
- Warranty service
- Customised software
- Expansion of central facilities
- Details design, development, integration, implementation and support
- Additional capacity
- High level architecture
- Approach
- Implementation

- Computer based training

The proposal does not make provisions for any enhancements such as the mandatory introduction of user authentication. This will need to be included.

The proposal does not make provisions for sufficient Service Management. It states that the service will not be subject to Service Level Agreements. Obviously that is not acceptable for a national rollout and SLA/SLR's will therefore need to be established. This is an area for further negotiation.

There is an assumption that forces will continue to provide first line support, this may not be feasible.

Recommendation 2 is that a far more detailed functional description is ratified.

Attachment B2 Schedule

The schedule states that the units could be deployed to forces in approximately 12 months. This means that the earliest we could deliver is March 09, which is 3 months later than directed.

The schedule is vague and it is not clear exactly what some of the activities are i.e. the central software update. This needs further clarification. Furthermore the 6 month roll out to all forces seems to indicate 2 forces per week, and doesn't take into account the fact that over half the forces will already have Lantern. Therefore we believe the rollout could be significantly faster.

Recommendation 3 is that this schedule is re-planned with NG.

Attachment B3 Pricing Model

The pricing model is divided into fixed and variable costs.

The fixed costs take into account project activities such as technical engineering, development and programme as well as non-re-occurring activates associated with expanded deployment.

The variable costs include the MFRs themselves as well as the infrastructure for correspondingly higher numbers of searches and labour for deployment.

The cost per unit on higher numbers is said to be the result of economies of scale, greater amortisation of fixed costs and discounts from sub-contractors.

The costs are higher than expected. The project team estimated previously that the total cost for 1500 devices would be approximately £9.5m over 3 years. NG are quoting £12.2m.

Total Units	500	1000	1500	2000	2500
Service expansion	£926,064	£926,064	£926,064	£926,064	£926,064
MFR Service Increments	£3,984,332	£7,306,585	£10,519,164	£13,442,550	£16,065,471
Variable	£624,678	£694,086	£771,207	£856,896	£952,107
Total cost	£5,535,074	£8,926,735	£12,216,435	£15,225,510	£17,943,642
Service price (3 years)	£11,070	£8,927	£8,144	£7,613	£7,177
Service price (1 year)	£3,690	£2,976	£2,715	£2,538	£2,391
Reduction on total cost		19%	26%	31%	35%

The proposal is to provide an 'end to end' managed service. Strictly speaking this should be a revenue cost. This is not currently the preferred procurement model (see Lantern Briefing Paper 080205 V0.3). The preferred procurement model is to purchase the devices as assets so that resource expenditure is minimised.

The proposal is for a one off 'upfront' cost for the entire 3 years. This is consistent with the notion that there is a sum of surplus money available to be spent during this financial year but could present a risk to effective delivery. There needs to be clarification from NPIA Finance as to how an upfront cost affects Capital/Revenue and whether financial services in subsequent years can be paid for in preceding years. The proposed commitment on numbers at the onset may need to be negotiated.

The cost for future extensions must be made clear at the outset.

Recommendation 4 is that far more transparent pricing is obtained and negotiated. Northrop Grumman must accept that this is the only way forward if it is to demonstrate that it offers the optimum value for money.

Draft Changes to Schedule C: Definitions

Page 14 includes a new definition of "Lantern Service Expansion".

Draft Changes to Schedule E: Pricing

Annex E-14 is added to incorporate the new baseline charges.

Recommendation 5 is that the schedule should reflect more transparent pricing.

Draft Changes to Schedule H: Acceptance Procedures

Significant changes are made to Clause 5.4, Deliverable Documentation, whereby the current clauses would not apply and would be replaced by an obligation on the Authority to notify Northrop Grumman if the Documents were not "Fit for Purpose" within 10 Working Days. This follows the precedent set for the Lantern Pilot Phase 2.

An addition is made to give the Lantern Service Expansion its own set of Milestones, Acceptance Events and Evidence.

Recommendation 6 is that these are reviewed for reasonableness.

Draft Changes to Schedule O

Appendix O-3 states the Document Deliverables for the Lantern Service Expansion.

Recommendation 7 is that these are reviewed for reasonableness.

Draft Changes to Schedule S: Software, IPR and Third Party Contract

Under Clause 4, Contractor Software and Contractor Material after the Effective Date, these additions are made:

Description	Third Party Software
MFRs, Matcher Software and Licences	SAGEM
Software	Time sync 2.0

Software	Concord System Agents
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Recommendation 8 is that the Authority has visibility of Northrop Grumman's contracts with its sub contractors.

Draft Changes to Schedule V: Authority's Responsibilities

Clause 5 allocates to the Authority responsibility for all CFE/CFI requirements including:

- All C&W SRAS deliverables, including approved SRAS software,
- Provision of all C&W Certificate Authority capability for Lantern,
- Liaison with the Police Forces, and
- All Force GPRS hardware and software for GPRS connectivity.

Recommendation 9 is that these are reviewed for reasonableness.