Dear Julian,

Thank you for your letter dated 26 March 2019 about the Defence Fulfilment Centre (DFC) in Donnington. I have addressed your questions below:

1. **Is the DFC now fully operational? If not, what are the reasons for the delay and when do you now expect it to be operational?**

   The DFC reached full operating capability in virtually all aspects in March 2019. It has the infrastructure, security, systems and resources to deliver planned outputs. The only outstanding component is Medical Healthcare Regulating Authority Licensing which is expected later this month.

2. **What tasks are currently undertaken by the DFC and how have these changed since your predecessor’s response?**

   Since we last wrote to you, the DFC has continued to progress and in addition to holding a range of Priming Equipment Packs for contingent operations, the DFC now holds circa 97,000 stocked product lines and in line with the Transition Plan it is currently receiving some 350 pallets per day, that comprise both stock from trade and stock that is transitioning from elsewhere across the Defence Estate. This will release a number of warehouse buildings back to the Defence Infrastructure Organisation (DIO). The MOD site at Dulmen is now being operated by the US; St Athan is being used by Aston Martin and Longmoor has been released but is awaiting a future user.

   The DFC is meeting 65% of all the demands placed on the Logistic Commodities and Services Transformation (LCST) operation; this amounts to approximately 3,000 issue vouchers being processed daily. This will rise to 80-85% of total demand by the Full Service Commencement Date (FSCD) in October 2019. At the FSCD, the DFC will be filled to 85% capacity; this is an industry norm.

   The last year has seen a significant increase in the tempo of activity reflecting the move to full operating capability in March 2019.

The Rt Hon Dr Julian Lewis MP  
Chair, House of Commons Defence Committee  
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3. What are the detailed capital, and staff and running costs of the DFC to date, and anticipated future costs, and how these compare to the budget?

There have been no more capital investments in the DFC since my predecessor’s response in June 2018 and the capital cost remains as stated at £83 million. Staff and running costs incurred by the Delivery Partner (excluding rates and power) for the DFC from service commencement date to the end of Financial Year 2018-19 total £7.4 million, reflecting the build-up of DFC activity during transition. The anticipated annual expenditure on this basis, with the DFC operating at full capability, is £5.4 million (before inflation) and this is consistent with original budget expectations.

4. The Department originally stated that the DFC is expected to “streamline distribution and storage, and deliver savings of around £500 million by 2028”. What progress has been made on achieving the anticipated savings and how do you plan to realise any outstanding savings?

The savings are to be achieved from a range of services including improvements and efficiencies in storage and distribution (of which the DFC is a core contributor) and by obtaining efficiencies in the procurement of food, clothing, general and medical supplies. Savings are spread throughout the life of the contract and notably post transition, when the capabilities delivered can be fully utilised. The transition period includes system developments that connect the new logistics and procurement systems with legacy MOD systems. This interface between the new LCST systems and the MOD’s legacy systems has proved to be more challenging than originally anticipated resulting in the revised LCST Full Service Commencement Date (FSCD) of October 2019. The savings figure for the duration of the LCST contract is currently subject to review.

5. The DFC is part of the Logistic Commodities and Services Transformation programme. Please provide an update on the programme, including timelines, performance indicators, anticipated costs and savings, and details of the facilities that are involved.

The LCST Programme continues to deliver important benefits to Defence. The footprint of the project has not changed since the contract was awarded to Team Leidos in 2015. All the base storage locations within the original LCST remit will be rationalised, as planned, onto two core storage sites at Donnington and Bicester. The LCST operation has increased its level of performance in line with the Transition Plan; the programme remains on track to deliver the contracted performance standards at FSCD. These standards are wide and varied but include, as an example, industry standards of delivery on time and in full. The entirety of the LCST programme is expected to deliver significant savings to Defence through rationalised storage, more efficient deliveries, and by achieving greater savings on commodity purchases. No less important will be the secondary benefits that result from user confidence in the service, supplier compliance, and as a platform for further benefits as the totality of the Defence Supply Chain is reviewed through the new Supply Chain Transformation programme.
The Earned Autonomy Review conducted by Cabinet Office in late June 2018 considered that the programme was well placed to transition as planned in October 2019. The review saw evidence of a well-managed programme with good practice in 5 key areas that included governance, the development of a robust partnership with Team Leidos and on learning and applying of lessons. The Review Team considered that the approach in putting in place the partnership with Team Leidos is an example of good practice and would be worth sharing more widely. The LCST programme and the DFC has also received excellent reviews following visits by industry experts such as Howard Wheeldon a leading Defence broadcaster and commentator.

Yours,

[Signature]

STUART ANDREW MP