

Mark Francois MP
Chair, Defence Sub-Committee
House of Commons
London
SW1A 0AA

Wednesday, 29 March 2023

Dear Mr Francois,

RESPONSE TO DEFENCE SUB-COMMITTEE INQUIRY ON DEFENCE EQUIPMENT AND SUPPORT (DE&S)

I write as Chair of the Maritime Defence & Security Group (MDSG) at the Society of Maritime Industries (SMI), to share with you and the sub-committee the views of our members on the work of Defence Equipment and Support (DE&S). Within this response, SMI seeks to provide a maritime perspective in its answers to the questions posed by the call for evidence.

The Society of Maritime Industries (SMI) is the trade association for the UK's maritime engineering and marine science and technology community. With over 170 members from Primes to Small and Medium size Enterprises (SMEs), we represent more than 90% of the sector by value. The Maritime Defence and Security Group Council¹ is the council for one of the six constituent interest groups of the Society of Maritime Industries and takes the lead in representing and discussing the maritime defence and security issues that concern the Society's membership. The MDSG Council is made up of 28 elected members drawn from a spectrum of member companies from the largest prime contractor to the smallest SME.

Our members believe that Defence Equipment & Support (DE&S) is generally competent in carrying out its responsibility to manage defence equipment and service purchases for the UK's armed forces. Indeed, DE&S has a number of strengths that are both unrivalled and emulated by other countries such as Australia. DE&S has shown, and continues to show, a willingness to change and improve on its practices, which is evident from a continuous stream of change programmes and initiatives. However, it is important to recognise that DE&S does not operate in isolation, but exists in a wider, departmental and cross Government system with other organisations which has a significant influence on its performance. Consequently there is still room for improvement, and we make a number of observations and suggestions that should improve DE&S's ability to deliver cutting edge operational capability at the speed of relevance.

There are five key themes that underpin SMI's response to the call for evidence on the work of Defence Equipment & Support (DE&S) that we would like to highlight to the sub-committee:

- 1. There is a narrow interpretation across government of the concept of *value for money to the UK taxpayer* which often drives short term, sub optimal outcomes.** Our members noted that the interpretation applied to this concept is often centred excessively on cost and when applied on a programme by programme basis this results in quality and performance shortfalls in the short term and poorer outcomes for the UK taxpayer over the longer term. Taking a more strategic approach to the development of battle winning

¹ The **MDSG Council** is the council for one of 6 groups that make up the broad church of the Society of Maritime Industries and UK companies represented on the 2023 MDSG Council are: A&P Group; Babcock International Group; BAE Systems-Maritime; BMT Defence & Security UK; Chess Dynamics; Chesterfield Special Cylinders; Coltraco Ultrasonics; Equans Axima UK; Frazer-Nash Consultancy; GE Power Conversion; Harland and Wolff; HENSOLDT UK; Houlder; Kongsberg Maritime; L3 MAPPS; Leonardo UK; Lockheed Martin UK; Malin Marine; Northrop Grumman UK; OCEA Shipbuilding UK; P&S Automation; QinetiQ; Royal Haskoning DHV; Rolls Royce; Roxtec; Sonardyne International; Thales Defence Mission Systems.

technology and investment in UK industrial capability would lead to better value for money for the UK taxpayer in the longer term.

2. **UK prosperity, sovereign capability and best for enterprise considerations should be given a higher priority in the acquisition system across Government.** Our members think that considering what is best for *UK prosperity* more widely, rather than just *value for money* would bring about a more holistic approach, allowing DE&S to give greater consideration to sovereign capability and make decisions on a best for enterprise basis that would ultimately deliver benefits over the longer term.
3. **The Social Value framework needs to be redefined and focused on generating more UK based social value.** The current framework provides insufficient guidance on how companies can best generate social value and the current definition does not focus on the generation of UK social value. This appears to be driven by a narrow interpretation of the WTO Government Procurement Agreement which other countries take a different view of and constrains DE&S's ability to take a more strategic approach.
4. **Delivering battle winning capability in an age of rapid technological change requires a more collaborative and agile approach to capability development.** The emergence of innovation and experimentation organisations in Front Line Commands is attempting to drive greater pace and agility into the acquisition system, but also creates difficulties in the scaling and introduction into service of new technologies. Closer and more collaborative relationships between the Front Line Commands, DE&S and with industry would help overcome these barriers and deliver better and faster outcomes. It also increases our relevance as a capable ally to our defence partners, especially the US, France, Germany and Japan.
5. **DE&S is hampered by systemic issues, onerous processes and multi-level reporting requirements which severely hamper its work.** DE&S suffers from fundamental structural problems, denoted by a high turnover of staff and a lack of appropriate skills in its workforce. Successive change programmes have generated high levels of change fatigue in the workforce and a lack of focus on embedding effective change over the long term. A greater emphasis on domain expertise and corporate knowledge would pay dividends and help to create a more sustainable enterprise. Removing the annularity inherent in the Government budgetary regime would also allow greater agility and freedom to deliver.

Our answers to the sub committee's questions in full are provided overleaf.

If you require any further information, please contact SMI's Policy and Research Manager, Giorgio Buttironi, at Giorgio.Buttironi@maritimeindustries.org. We would be content for this response to be shared publicly.

Yours sincerely,

Richard Powell OBE
Chair, Maritime Defence & Security Group
Society of Maritime Industries

Q1. WHAT ARE THE STRENGTHS AND FAILINGS OF DE&S' CURRENT APPROACH TO DEFENCE PROCUREMENT? DOES IT DELIVER VALUE FOR MONEY TO THE TAXPAYER?

SMI members have a high opinion of Defence Equipment & Support (DE&S). It can arguably be regarded as a world class organisation, whose **practices are based on internationally recognised best practice and have in turn informed the adoption of best practice in other countries**². The delivery of highly complex, battle winning capability that is by definition at the leading edge of technology is difficult to do without falter, and is hardly achieved in other countries without similar, if not worse, failings. Furthermore, it is worth re-emphasising that **DE&S has repeatedly shown a constant willingness to change and improve its working practices**. It is also important to recognise that DE&S exists in a wider departmental and cross Government system with other organisations which has a significant influence on its performance.

A shortcoming identified by a number of SMI members concerns **the rather narrow interpretation of the concept of value for money to the UK taxpayer, across Government and parliamentary bodies** which tends to revolve excessively around cost. Over the years, this factor has led to a turbulent – and often destructive relationship between Government and industry, where DE&S has been the main interlocutor.

SMI believes that this could be addressed more effectively with a broader perspective which takes into account UK prosperity more widely, allowing consideration of factors other than cost (and even quality) on a longer-term basis. This would generate a more holistic approach on the part of government, giving proper weight to the benefits for sovereign capability and more collaborative, best for enterprise considerations versus narrower and shorter term 'best-for-programme' considerations. The Social Value framework has made some steps towards this but the **current Social Value framework provides insufficient guidance on how companies can best generate social value and the current definition does not focus on the generation of UK social value**. This appears to be driven by a narrow interpretation of the WTO Government Procurement Agreement which other countries take a different view of and constrains DE&S's ability to take a more strategic, best for enterprise approach.

The National Shipbuilding Strategy has made some progress towards a more collaborative, best for enterprise approach within the maritime domain, but could go further if not constrained by the narrower cross Government approaches.

A more collaborative relationship with industry would also improve the pace and agility with which DE&S is able to deliver capability. In this age of rapid technological change, the delivery of battle-winning capability at the speed of relevance remains paramount to DE&S' mission. Earlier engagement, greater experimentation and a more joined up approach would help drive innovation and more rapid adoption of new capability into service.

Within DE&S, there are **fundamental problems around retaining experienced people and the lack of an adequate skillset within its existing workforce**, marked by an excessive churn and the absence of a satisfactory level of domain knowledge and experience. **This situation is exacerbated by onerous processes and multi-level reporting requirements**, which in turn lead to leadership issues, a blame culture, and widespread reports of lack of empowerment.

² The CADMID cycle and DLOD approach are exemplars of the adoption and influence of international best practice.

Q2. HOW EFFECTIVE AND EFFICIENT IS DE&S? WHAT CAN BE DONE TO IMPROVE DE&S' OVERALL PERFORMANCE?

Though DE&S can count some remarkable achievements to its name, not least the delivery of the Aircraft Carrier programme in an alliance with the Royal Navy and industry, there is always room for improvement. SMI members noted that greater efficiency can only come from greater domain knowledge and experience within DE&S, coupled with a more effective corporate memory. Lessons learned from previous programmes seem to be all too often forgotten and delivery teams always seem to be undertaking basic tasks for the first time.

Whilst once best practice, the Concept, Assessment, Demonstration, Manufacture, In-Service and Disposal (CADMID) cycle is more appropriate for managing an asset. Delivery of a service or a capability, requires a more collaborative approach which is better suited to continuous improvement and evolution.

SMI believes that **DE&S should take a more focused approach to skills development, placing a greater premium on domain knowledge and experience, built up over time.** Greater use of industry placements and secondments could accelerate this and also enable a better mutual understanding with industry. Data and efficient **data collection is also a key asset that DE&S needs to concentrate more attentively on, as improved corporate understanding and memory leads to greater stability, efficiency** and less frequent churn in experienced staff.

Q3. WHAT HAS BEEN THE IMPACT OF DE&S ON THE EFFECTIVENESS OF DEFENCE OPERATIONS?

In the maritime domain, platform availability has been a key issue in recent years. The improvement programme has identified multiple causes and introduced many improvements throughout the enterprise. Fundamentally, there has been a failure to adequately consider through life support issues by acquisition programmes. This has been largely driven by an excessive focus on cost on a programme by programme basis (exacerbated by the annularity of Government funding). **A broader, best for enterprise approach, would be able to more effectively address through life support.**

More widely, in recent years there has been a shift in focus from insurgency warfare to state-on-state conflicts and the situation in Ukraine has brought conflict preparation into sharper focus whilst also highlighting the rapid pace of technological change in modern warfare.

In light of that, our members stressed the importance of the ability for DE&S to constantly innovate. For instance, the Urgent Operational Requirements process was well honed during Operation TELIC in Afghanistan, focusing on the delivery of operational requirements rather than rigid adherence to process. The Front Line Commands are increasingly leading innovation which, whilst introducing much welcomed agility, has made it more difficult to scale up solutions and introduce equipment into service through DE&S. **The relationship between FLCs, DE&S and industry needs a more joined-up and collaborative approach to better drive innovation.**

The ability to rapidly introduce innovative technology to the front line is also constrained by the fact that funding is fully allocated in advance and the annualised system is currently not agile enough to escalate and/or accelerate the process, when required. **Greater contingency funding and the ability to trade funds between years would improve support to operations.**

Onerous contractual terms and conditions and bureaucratic processes also discourage innovative SMEs from engaging with the MOD and there is insufficient incentivisation for the primes to engage with innovative SMEs. **A strategic review of the way the MOD and the primes contract with SMEs would also help drive innovation and growth.**

Q4. WHAT LESSONS CAN BE LEARNED FROM THE UK'S RECENT HISTORY OF DEFENCE PROCUREMENT?

Many lessons can be drawn from the recent history in maritime procurements. The Aircraft Carrier Alliance proved to be an effective vehicle to deliver an enormous programme, with an appropriate sharing of risk and agility to amend the programme when required. It also enabled a distributed build programme, with work undertaken in 6 yards around the country, sustaining both skills and jobs, significantly boosting UK prosperity. The current shaft-line issue with HMS PRINCE OF WALES should not distract from the significant achievements of this successful national endeavour.

The export successes of both the Type 26 and Type 31 programmes have/will also contribute significantly to UK prosperity. **Design for exportability (whilst protecting competitive advantage) and its contribution to UK prosperity should be considered in all major programmes.** This cannot be easily done in a narrow consideration of value for money on a programme by programme basis.

The significant investment in UK yards, skills and jobs driven by the Type 26 Batch 2, Type 31 and Fleet Solid Support programme contracts also demonstrates the **confidence that orders give to invest and that pipelines alone cannot.** The capability and skills now being generated in UK shipyards, underpinned by the National Shipbuilding Strategy and supported by the National Shipbuilding Office will ensure the delivery of significant UK prosperity as the global maritime sector undergoes a fundamental transition driven by decarbonisation, digitalisation and autonomy.

The less successful National Flagship programme also holds some valuable lessons. The programme tied up valuable SQEP, both in Government and industry that could have been better used for higher priority programmes. **Competitive bid processes drain significant resource and money and take valuable time, which could be better spent on other aspects of a programme, including driving greater innovation with earlier engagement and collaboration.** If required however, funded bid processes with more realistic timelines ultimately drive better outcomes and a greater understanding of programme risk.

Q5. WHAT CAN THE UK LEARN ABOUT DEFENCE PROCUREMENT FROM INTERNATIONAL COMPARATORS? WHICH COUNTRIES HAVE A PARTICULARLY STRONG MODEL AND TRACK RECORD AND WHAT CAN THE UK LEARN FROM THEM?

There are several lessons that the UK could learn from international comparators when it comes to improving its defence procurement process. Our members expressed a wish for the UK to place **greater emphasis on localisation, offsetting, and delivering social value to the country's economy, as well as adopting a more effective 'Team UK approach'**. By way of an example, the work of Naval Group and other state-backed entities in France shows a unity of purpose and understanding of national prosperity that we have yet to fully develop and attain within the UK. At the same time, the UK Government's interpretation of its commitment to the World Trade Organisation's Government Procurement Agreement (GPA) needs to be revisited with the aim of following the example of other major international jurisdictions such as France and Spain.

It is worth noting that no international comparator has yet to achieve what could be termed as a perfect example in the Defence arena, with the defence procurement system in Australia – for instance – lagging ours in many ways. Our members take pride in the fact that the UK has a burgeoning shipbuilding enterprise with a good story to tell and the breadth to solidify its strength in the defence sector, but there is still much to do. **SMI thinks that government needs to take a broader look at the procurement process, looking beyond the immediate cost considerations and overcoming the short-term mentality, and seek instead to harness the strength of industry to deliver greater social value and prosperity to the UK's economy.**

Q6. DOES DE&S HAVE THE RIGHT SET OF SKILLS AND INCENTIVES TO SUCCEED IN ITS TASKS?

To succeed in its mission of supporting the UK's armed forces by delivering the equipment they need to operate effectively in the time they need it, DE&S must have the right set of skills and incentives in place. Shipbuilding, from research, through concept and construction to delivery, deployment and decommissioning, is a long term business, and both industry and DE&S need long-term certainty to invest in facilities and skills. **There needs to be more emphasis on building relationships and resilience across the defence enterprise and less on the commercial arrangements.**

In terms of skills, as we touched in our introduction and throughout our answers to previous questions, above all, **DE&S requires better domain knowledge and expertise** as well as a diverse range of technical, commercial, and project management capabilities to support its complex procurement activities. These skills must be continually updated to keep pace with changing technologies and industry trends. **More industry placements and secondments can help with this upskilling and experience.** Having an intelligent and skilled customer by investing in youth and human development will also improve retention issues within DE&S.

In terms of incentives, DE&S must be appropriately incentivised to deliver a broader interpretation of value for money for the UK taxpayer (UK prosperity), achieve efficiency savings through **the reduction of burdensome processes, contractual terms and conditions and removal of barriers such as annualisation, and to deliver capability with greater speed and agility.** This requires a clearer culture of accountability and transparency, with clear performance metrics and incentives for exceeding targets and fewer distractions.