

TaxPayers' Alliance submission to the defence select committee inquiry on defence industrial policy

Executive summary:

1. The UK should not adopt a Made in UK policy, instead buying more off-the-shelf equipment which is, or will be, in use with other armed forces. If the UK is to retain the Defence Industrial Strategy, then this must form an explicit part of it.
2. The Ministry of Defence must prove it can spend the money it already has effectively, by outlining how it would avoid recent errors and achieve better value.
3. The Ministry of Defence needs to be clear about cost estimates, ensuring realistic assessments of budgets across the department and cease being over-optimistic that programmes are running within budget.
4. To prevent prioritisation of short-term priorities over long-term sustainability, there needs to be greater accountability of project managers for the long-term consequences of their decisions.

Should the UK adopt a formal Offset/Made in the UK policy? What impact would this have on the national and international defence markets?

5. The UK should buy more off-the-shelf equipment. Across numerous procurement projects this requirement would have been advantageous, such as the purchase of more C-17 aircraft in place of the A400M. This faced numerous delays and required a €3.5 billion bailout in 2010 from the launch countries.¹ This trend is also seen across projects managed by UK manufacturers or through international collaboration such as the Eurofighter Typhoon.² By purchasing equipment off-the-shelf, the UK would avoid many of the time and cost issues which inherently arise when developing unique and complex equipment independently.
6. A commercial-off-the-shelf (COTS) policy is mentioned in the defence industrial strategy as a way to create common standards and lead to greater interoperability with UK allies.³ However, if the current strategy is to remain, then it must go further and make off-the-shelf procurement an explicit part of UK defence policy. The Committee of Public Accounts also recommended a shift towards more off-the-shelf purchases as a means of maximising value and driving transformation.⁴
7. The employment of this off-the-shelf policy has been seen in the US with the launch of the USS Pinckney which was completely outfitted with COTS technology, and the Netherlands, which replaced its mobile communication network with one based mainly on COTS software and hardware.
8. Exceptions should be given to this policy for urgent operational requirements or when procurements are for critical national security purposes, such as the Dreadnought-class of ballistic nuclear submarines.
9. An off-the-shelf policy change will force national manufacturers to respond to market forces as patterns of demand change. It also provides the potential for UK manufacturers to become more competitive as they compete for national and international defence contracts in a global market.

What are the national skills and competencies for a successful UK defence industrial sector? How can the UK ensure, and assure, that these are maintained in the right place at the right time for the right cost?

10. Contracts given by the Ministry of Defence must make simple demands of the provider, which can be clearly followed up. The experience between the Army and Capita with the recruiting partnering project proves that under-estimating the complexity of a project ultimately leads to excessive delays and missing targets. The recruitment target has been missed every year since the contract began in 2012 and an essential online

¹ Siebold, S., & Hephner, T., *Airbus gets A400M bailout deal*, Reuters, 5 March 2010, <https://uk.reuters.com/article/uk-airbus-a400m/airbus-gets-a400m-bailout-deal-idUKTRE62442R20100305>, (accessed 7 April 2020).

² Dorman, A., et al, *A benefit not a burden: The security, economic and strategic value of Britain's defence industry*, 2015, p.25.

³ Ministry of Defence, *Defence Industrial Strategy*, 2005, p.111.

⁴ National Audit Office, *The Equipment Plan 2019 to 2029*, 2020, p.45.

recruitment system was completed four years late, which was difficult for applicants to use and potentially led to 1,300 fewer enlistments.^{5,6}

11. Appropriate vetting of providers must be made, ensuring they have relevant experience of the procurement task. The experience with Capita showed that the company lacked the specialist recruitment experience to deliver the Army's requirements and were "chasing revenue" when they bid for the contract.⁷
12. The Ministry of Defence needs to take a more proactive approach to managing providers of recruitment services, so that issues can be addressed at an earlier stage. The passive approach of leaving a task with a provider and not adequately scrutinising their results ultimately led to targets being missed. Capita's poor performance was left unaddressed by the Army for years.⁸ If there is to be a successful UK defence industry, then appropriate management by the MOD is essential if performance targets are to be met.
13. Failure by the department to meet the requirements set out above ultimately leads to taxpayers' money being wasted. Given these problems have arisen in another contract with Capita on the Defence Infrastructure Organisation – which the MOD is ending five years early due to poor performance – the ministry should look at its own contract management errors first to avoid repeating the errors of the past.⁹

What is considered in assessments of "prosperity" and "value for money" in defence procurement? What consideration is given to the local economy, skills retention and balancing the positive financial impact across the regions and nations of the UK?

14. The Ministry of Defence has a long history of prioritising the annual budget over long-term value for money and is "locked into a cycle of responding to short-term financial pressures".¹⁰ Often this is done by slowing procurement projects, thus spreading the total cost for them over a greater number of years. However, this often means adding to the overall cost of programmes, such as with the Protector drone programme. A two-year delay added £187 million to its total cost.¹¹
15. To gain approval for projects the ministry does not always provide realistic cost forecasts, thus giving the illusion that project costs fall within long-term budget parameters. Most prominently the Carrier Strike programme saw its cost rise from its initial £3.65 billion in 2008 to £5.1 billion in 2009 with the final cost being £6.8 billion.¹²
16. For the UK to get value for money in defence procurement, project funding needs to be fundamentally changed, so that funding is locked in at an earlier stage.¹³ Rather than being an inevitable running cost, it would be an investment to reduce excessive future expenditure.
17. Project managers should be held to a higher standard of accountability by the defence select committee to ensure better assessments of value for money in defence procurement and prioritise long-term sustainability over short-term convenience. This could entail the committee scrutinising the three-year corporate plans of Defence Equipment and Support, as well as pre-appointment hearings for senior leadership and project manager positions at the ministry. A similar situation already exists with the Treasury Select Committee and Bank of England pre-appointment hearings.

⁵ House of Commons, *Capita's contract with the Ministry of Defence*, 2019, p.5.

⁶ National Audit Office, *Investigation into the British Army Recruiting Partnering Project*, 2018, p.7.

⁷ House of Commons, *Capita's contract with the Ministry of Defence*, 2019, p.5.

⁸ House of Commons, *Capita's contract with the Ministry of Defence*, 2019, p.5.

⁹ House of Commons, *Capita's contract with the Ministry of Defence*, 2019, p.7.

¹⁰ National Audit Office, *The Equipment Plan 2019 to 2029*, 2020, p.7.

¹¹ Lovegrove, S., *Protector Programme Accounting Officer Assessment*, House of Commons Library, 28 February 2020, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/854362/20191105_-Meg_Hillier_Protector_AOA.pdf, (accessed 9 April 2020).

¹² Ministry of Defence, *MOD Government Major Projects Portfolio data 2019*, 18 July 2018.

¹³ Hutton, J., *Shooting ourselves in the foot: What's the problem with defence procurement?*, TaxPayers' Alliance, 16 January 2020, www.taxpayersalliance.com/shooting_ourselves_in_the_foot_what_s_the_problem_with_defence_procurement (accessed 9 April 2020).

Conclusions and recommendations:

18. An off-the-shelf procurement policy should become a key part of the Defence Industrial Strategy. This would improve cost and time issues which have and continue to plague UK defence procurement under a "Made in UK" policy.
19. Recent contract management errors by the Ministry of Defence need to be fully assessed and used as indicators for what skills and competencies are needed by providers to successfully finish projects on time and deliver better value for money.
20. The Ministry of Defence needs to change its mindset away from the short-term. Realistic cost estimates must be provided by project managers so that long-term funding can be locked in at an earlier stage, instead of being wasted on programme delays.
21. Senior civil servants and project managers must be held to a higher standard of accountability, with the defence select committee enhancing its scrutiny powers to ensure the effectiveness and efficiency of current and future spending plans.