

Defence Committee

Oral evidence: Industrial policy, HC 163

Tuesday 17 November 2020

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Members present: Mr Tobias Ellwood (Chair); Stuart Anderson; Sarah Atherton; Martin Docherty-Hughes; Richard Drax; Gavin Robinson; John Spellar; Derek Twigg.

Questions 157-214

Witnesses

I: Jeremy Quin MP, Minister for Defence Procurement, Ministry of Defence, Damian Parmenter, Director, Defence & Security industrial Strategy, MoD, Huw Walters, Economic Security and Prosperity, MoD, and Air Marshal Richard Knighton, Deputy Chief of the Defence Staff (Military Capability), MoD.

Written evidence from witnesses:

- Ministry of Defence ([DIP0027](#))
- Ministry of Defence ([DIP0021](#))

Examination of witnesses

Witnesses: Jeremy Quin MP, Damian Parmenter, Huw Walters and Air Marshal Richard Knighton.

Q157 **Chair:** Welcome to this Defence Committee hearing in which we are focusing on the industrial policy, procurement and prosperity. This is the final session in which we will explore the implications of delaying the multi-year spending review for the integrated review and we will also be looking at the security industrial strategy and the equipment plan.

I am pleased to welcome our four witnesses today. Welcome back to the Minister for Defence Procurement, Jeremy Quin. We have the director for defence and security industrial strategy, Damian Parmenter; the Director for economic security and prosperity, Huw Walters; and finally, Air Marshal Richard Knighton. Unfortunately, we are not able to have a video connection to the MoD, so we have audio only, but we are going to persevere.

Thank you very much indeed for joining us this afternoon. Before we get into the details of the procurement questions, I have one opening question to do with the AWE and the change of contract that took place on 2 November. Minister, could you just explain why there has been a sudden change of direction to do with the £20 billion contract to run AWE?

Jeremy Quin: Willingly, Chair. We put out AWE—I say “we”, but it was a long time ago: 1993 was the first occasion it was established with a very unusual operating model. It was Government owned, but corporate controlled and run. That went through another iteration, I think, in 1998 with three shareholders¹. How it currently works at present, and it will continue to work this way until July of next year—and I have to say that we have had great co-operation with the three corporate shareholders and we are working closely with them—is that we pay a management fee to AWE to run that process and to deliver the product for the MoD.

What we are doing is basically bringing it in-house. A lot of work has gone into this and it has not triggered any penalty clauses or anything similar. We have been discussing it and the shareholders were aware that we were looking at the governance structure. As of 21 July next year,² it comes under Government control as an arm’s length body. The plc structure will still exist and we will still have that structure, but there will be far more agility and control exercised by the MoD over what is a critical supplier to the Department.

¹ The contract was awarded in 1999 and began in 2000

² This was intended to say July 2021



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While we are grateful for the work of the three shareholders over a protracted period in AWE, there will be value for money in taking this in-house through an arm's length body. We also believe that it will, as I say, improve our agility and our direct responsibility for the outcomes. That is the strategic rationale for the move that we announced in November.

Q158 **Chair:** You can confirm there will be no cost increases under Project MENSA?

Jeremy Quin: On the contrary: by creating an arm's length body, I am hopeful and indeed determined that we create cost savings as a result. I can specifically confirm that while there is a payment to be made because there is still a period to be paid for under their governance, there are no penalty fees of any sort for exercising this option that we have. I think it will be VFM—I am certain it will be VFM—on an ongoing basis.

Chair: Thank you for that. We can now turn to the impact of the pandemic.

Q159 **Richard Drax:** What will be the impact of the second lockdown on defence companies and their suppliers, and how are you monitoring the impact on industry and its programmes?

Jeremy Quin: I am sure Air Marshal Knighton will come in on this as well, but I have had a number of direct conversations myself and I am pleased to say that actually the second lockdown is going to be far less onerous than what occurred the first time round. That is not to belittle the impact of coronavirus as a whole. So the positives of this are that right from the outset, after a brief hiatus, defence companies really leaned in. We have had a really good working relationship with them.

We have been dealing with about 600 suppliers. We have been in direct contact from ministerial level right way through the Department, and they did lean in. It does create costs—the impact of safe working in covid has definitely increased costs and reduced productivity. Air Marshal Knighton might pick up on some of that, but the second lockdown in that context has not had the same dramatic impact that happened right at the start. Frankly, companies are used to dealing with it.

The other positive is that not only have we been assisting the primes and dealing with our larger suppliers; we have also been checking that they have been applying the same good working practices throughout the supply chain.

From the contacts that I have had with trade bodies, SME fora and the defence suppliers' forum, we have definitely been seeing that reach down through the supply chain to support companies right the way down through the process in what has been a very challenging time.

Air Marshal Knighton might want to pick up on some of the specifics about the impact of coronavirus as a whole and of the second lockdown in particular.



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Air Marshal Knighton: Mr Drax, you may recall that when I was in front of the Committee during the first lockdown, I paid tribute to the defence industry more generally for the remarkable speed with which it responded to the constraints on working practices required as a result of the first lockdown.

I spend quite a lot of time with senior colleagues from industry and have been speaking to them about how they are dealing with these challenges. As the Minister describes, this second lockdown has been easier for them to cope with because they had already put in place covid-safe working environments.

For example, companies have been putting workforces who need to come into manufacturing facilities on shift patterns—spreading the work through the day, to reduce the density of people in the workplace. They have been putting people on to shift systems, over seven days in many cases, to sustain the output asked of them by Government. We are working very closely with industry and getting a really excellent response from industry. So far in this second lockdown, industry has been able to cope very effectively.

Q160 **Richard Drax:** Air Marshal, thank you for both your answers. Those are the sort of generalities that we completely understand, and we expected an answer along those lines.

May I ask you to be more specific about certain programmes? A huge amount of money is being invested in all kinds of things for the defence industry and for the defence of this country. Have they been affected or delayed in any way? Have costs risen? Can you be more specific?

Air Marshal Knighton: I am happy to offer a number of specific examples. To some extent, the impact depends on the project and where it is in its life cycle.

I am sure the Committee will be interested to hear about Type 31, the new frigate for the Royal Navy. Because that was in a very early stage of its project lifecycle and much of the work associated with it was design work, the companies involved were able to rapidly enable their workforces to work from home and continue to deliver their outputs. In those circumstances, we found that there had been no slowdown in progress against that project.

In other areas, where it has been harder to work on the equipment because of a constrained environment, there has been an impact on the progress of projects. We are working with industry to understand what the impact is going to be and also how we might recover things over time. As I say, the industry has been really helpful and responsive in working through that with us. We understand how things have played out over the past few months; obviously, this second lockdown might have further implications. But as we go through the next few weeks, we will understand better what the impact is on the various programmes.



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For a large part, the vast majority, things have worked pretty well, but in some areas—working in tight spaces: manufacturing submarines, for example—it has been harder to put in place safe working practices. I am sure that will have had an impact on the progress made in the last few months. That does not mean to say that it has had an impact on delivery because we are working with industry to identify how we might be able to recover any of the impact of lost productivity over the past six or seven months or so.

Q161 Richard Drax: I understand. The difficulty is that you cannot build a ship or submarine from home, can you? It is impossible.

Air Marshal Knighton: Exactly right.

Q162 Richard Drax: Have you considered bringing forward programmes to support industry and does industry have the capacity to do this?

Jeremy Quin: That is a very good question, Mr Drax. Our main cash support has been through forward payments for orders to ensure that we continue to lubricate the supply chains. About £137 million has gone out through that. There is what Air Marshal Knighton referred to—the impact on productivity may well come through in additional costs, so I would not wish to shy away from that. You raise that issue, Mr Drax, and I think that is a very fair observation and something we are certainly working through.

There are other areas of defence where we have put money to work to help the fiscal recovery and the bounce back. In the area of service housing, there is a very welcome £200 million investment in that, with £175 million of that being new money.

In terms of defence orders, our responsibility has been to maintain the drumbeat of orders, which we have done, and to maintain business as normal, to keep it flowing. We have not been saying, “Okay, we will suddenly splurge money in this area or that area.” We have our own processes to run, and I think you ask a very good question. No, we have not tested it, but given the impact on productivity we have been pleased and grateful for the good working relationship we have had with suppliers. Throwing new projects into the mix which have not been tested—it is a good question as to whether that would have been deliverable had we had a sudden expansion in defence equipment acquisitions at this point.

Q163 Richard Drax: Minister, I am sure you would agree that the defence industry is a good place for economic recovery. What actions are you taking to ensure that is the case?

Jeremy Quin: You are absolutely right: defence has got a role at the heart of our manufacturing industry, and it has traditionally—and I believe it will be proved to be the case through this downturn—been an area that beats the lows. It has got good, strong resilience because we continue to spend money on ensuring that our Armed Forces have the best equipment. There are 119,000 jobs directly supported by defence industry, and it is about 200,000 if you include the wider supply chain. Continuing to place orders, continuing to ensure that the supply chain



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stands up and continuing to ensure that we are putting cash through the system has definitely had a role in stabilising the economy and helping manufacturing industry.

I also think that there is a long-term impact from the 21,000 apprentices across defence, and the work we do on R&D, be that DASA projects or the major projects such as the future combat air system. So both short term and long term, I think there is a powerful role that we have been playing.

Given the work we have been doing on DSIS, Damian may wish to add into that.

Damian Parmenter: Thank you, Minister. Obviously, defence has a crucial role to play, particularly in our industrial base. There are lots of opportunities for what we do to align with the civil base, and we have been working very closely with BEIS, as it looks at future industrial strategy and future investment. Because of Government involvement in defence, and obviously we drive much of the market—we are the customer for a lot of defence activity, and we also have a key role in potential exports—we can obviously play a very big role in future economic recovery.

Chair: We now turn to the defence industrial strategy and the integrated review.

Q164 **Stuart Anderson:** Minister, could you start by giving the Committee an update on the IR and the defence industrial strategy and when it will be published?

Jeremy Quin: I very much regret, Mr Anderson, that I cannot give you a date. That was the position I was in last time round when I was in front of the Committee. I am afraid that I still cannot provide a date. There is a huge amount of work that has gone on, so you can rest assured that we are in a good place with both the IR and with DSIS, but as the Committee is very aware, there have been announcements regarding the fiscal position from the Government, and we are working through with other Departments where that leaves us and what that means for the integrated review and DSIS. So I am not yet in a position to give you a date, I regret to say.

Q165 **Stuart Anderson:** Are you able to give us an expected timeframe? Are we talking weeks or months, Minister?

Jeremy Quin: I am afraid, whichever way you try to ask the question, Mr Anderson—and I respect your perseverance—I am not going to be able to help on that. I apologise, but that is the reality of where we are. We are working through what the implications are in terms of decisions being made about spending rounds.

Q166 **Stuart Anderson:** As you say, Minister, a huge amount of work is going into it, and I am keen to find out what the key objectives of this industrial strategy are. I would love to hear Damian's view on that.

Damian Parmenter: Thank you, Mr Anderson. The first thing to say is that the DSIS review is still ongoing, and any recommendations will need to be agreed and finalised with Ministers. Noting that caveat, the key



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objectives of DSIS are to put in place an industrial strategy that best delivers the UK's long-term defence and national security industrial needs in a rapidly changing world. We also need to create an environment that supports competitive, innovative and world-class defence and security industries that drive investment and prosperity across the Union.

Importantly, DSIS is an opportunity to recognise and act on the pace of threats and opportunities that arise from greater competition in the international system and new technology areas, such as the speed of digital transformation, AI, robotics, swarms, automation and so on. It is also an opportunity to establish where we need to do things differently inside Government to take advantage of those opportunities for defence, security and our industries.

Therefore, DSIS aims to have a strategy that is realistic about the state of the market and sustains the high-level skills, technology, capacity and industrial base needed to support our overall defence and security policy. It is key to understand that it is a strategic approach to industry that supports the overall defence and security strategy of the nation. Most importantly, we can conduct military operations free from external political influence—we have operational freedom.

Q167 Stuart Anderson: Thank you for the update. I would also be keen to hear why this iteration of this industrial strategy is going to be more effective. How can you be sure that it is going to be more effective than previous versions? I would like to turn to Air Marshal Richard Knighton for that.

Jeremy Quin: I know Richard will have something to say, but I have had to go through this in a great deal of detail, Mr Anderson, so would you mind if I popped in first, and then the Air Marshal can back me up?

You are really getting to why we think we are going to be more effective in this strategy, rather than what has gone on in the past. If you look back on how this has evolved, there has definitely been an evolution. Clearly, it is yet to be published, so we are waiting for the final result with bated breath. There are though three themes that I would draw to your attention.

First, there has been an ongoing evolution, which has been quite wide, in how we look at how we procure. Going back to 2012, the focus was very much on sovereign capability, of course, and competition by default. Competition will always have a powerful role, but by 2015, with the SDSR, prosperity was included as a defence task and people were looking more clearly, I think, at the impact of the decisions we were making on UK plc. That came through in a series of points in the 2017 industrial strategy. There were a whole series of positives, such as the national shipbuilding announcements, the work on complex weapons—using them as a portfolio—and the announcement about the future combat air system, which is more collaborative in its approach with industry.



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The Secretary of State also asked Philip Dunne to produce his excellent report, which came out in 2018, and that gave rise to the defence prosperity programme. All those were steps in a positive direction towards greater collaboration and partnership with industry, providing strategic direction. Competition is still important, but one theme that you will see in DSIS is how we collaborate and work more closely with industry, giving them that strategic direction—so more partnership.

The second theme is not just saying “the defence sector” and using it en masse, because that is a bit daft: it covers everything from complex elements of the nuclear enterprise through to sleeping bags. There is a vast amount that we procure, and you can’t look at it as one sector. This is about segmentation of the sector, what we need to do in each segment and how you have partnerships in each. The second theme is a greater focus on individual aspects of the sector.

The third theme, which I am not pretending is brand new—£800 million of resources were put behind this in SDSR 2015—is that science, tech and innovation is absolutely key. The Committee knows very well that we are in an increasingly technological age. We need to make certain that we have the capabilities that meet those future requirements. I think the third theme would be around science and tech, and innovation, and how we work with industry to deliver the research that we need for the future.

Those are three themes that we should look for in DSIS: improvements in the partnerships and the way we work with industry, rather than just sitting back and saying, “Hey, it’s a competition, and the best person wins”; increasing segmentation as to how we look at the sector; and ensuring that we maintain and enhance that emphasis on science and tech.

We have a good base here. There are 119,000 people directly employed in the defence industry, and over £19 billion a year is spent. It is not that a lot of things are going wrong, but there are certainly areas where we can improve and enhance what we are doing, and that is what we are looking for in DSIS. You did ask the question to Air Marshal Knighton. Air Marshal, I don’t know if you want to add anything to that, or give further colour on it?

Air Marshal Knighton: I would add a couple of things, Minister. One of the real shining examples of where this kind of strategic collaborative relationship with industry has worked well is in complex weapons. Coming out of the 2005 defence industrial strategy was a recognition that we risked damaging and losing our complex weapons skills in the UK, and that we also needed to find a way for industry to consolidate around the requirements such that we could drive a more efficient, more effective delivery of capability to the UK Armed Forces.

A concerted effort has been required over a long period of time to deliver that, but the complex weapons pipeline and the partnership that we have with MBDA has secured world-beating capability for the UK Armed Forces. It has secured the skills and technology inside the UK, and it has given



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industry the confidence to invest in order to generate the kind of intellectual property and technology that we can exploit. It has also supported the industry in generating exports around the world. We need to learn the lessons from the success of that particular segment to make sure that we apply appropriate resources, in terms of people and expertise, and focus in delivery, on those bits of the industrial base that we really care about.

The second thing I would add is that Damian, myself and other elements of the Department involved in the work on the defence and security industrial strategy are already thinking hard about how we implement it from inside the Ministry of Defence. We recognise that this is an issue that is with us for decades, not just months. We recognise that perhaps in the past we did not put sufficient focus and organisational resource into monitoring and managing our relationships with industry, as we know we need to do from the analysis that we have done under the defence and security industrial strategy.

Q168 Chair: May I pick up a point that Stuart posed? You said that you are in a good place with the integrated review. May I suggest that you are not in a good place at all? You are actually in a very embarrassing and worrying place at the moment. It was billed as the most profound review of defence and security since 1945. How can you stand by that claim when we do not even know where things are going or how much money you are actually going to spend?

The purpose of this review was for us to understand the threats that we face, Britain's ambitions in the world and what our defence posture should be. This is a time when the United States is now recalibrating its resolve on the international stage. We are about to take ownership of the G7 presidency, and here we are this week cutting the aid budget internationally, and we are unable to pronounce on how many tanks, ships or aircraft we are going to have.

Minister, I ask you please to reconsider the words that you chose, and to take back to the MoD, and indeed to No. 10, that we need clarification and a sense of resolve as to where the integrated review is going to go.

Jeremy Quin: I think there are two distinct points. The first is whether a lot of work has been put into the integrated review, which I emphasise is a cross-departmental review covering all aspects of foreign policy and security policy, as well as defence. In addition—can I just check, Chairman, that you are still with me?

Chair: Yes.

Jeremy Quin: You are. Perfect. I apologise; we suddenly lost you. It is a cross-departmental review, and a lot of good work has gone into it, which is the point I have been making. I fully acknowledge that you are keen to see that report published and out in the public domain, so that you and the Committee can test our assumptions of the threat and our ambitions for the future. That is something that we look forward to, but at the moment I cannot give you a date for when that will take place. I am sorry



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about that situation, but that is the reality of where we are at present. As soon as we are in a position to publish the report, we will do so, but it is still being worked through.

Q169 **Chair:** There are two ways you can do an integrated review. One, where I think this is going, is essentially the MoD having to work to a budget that it has been set. The second is the way that this should have gone, which is, first, establishing our place in the world and the threats that are coming over the horizon, and then designing the necessary defence posture.

We are still waiting to hear the answer to that first question. What are the threats in the world that we are likely to face? That, at least, could be published, so that we have a better sense of what we are up against. That has nothing to do with how much money you are willing to spend on the defence posture. Why can you not at least make that mark at this point in time? That would give us something to look at and consider.

Jeremy Quin: Thank you for that observation. Just to reassure you, the integrated review has been threat-based throughout. It is looking at what the threat is, how we meet that threat and what our ambitions and aspirations should be for the future. That is the basis of the integrated review.

You, and I am sure the whole Committee, will appreciate the attractions of having—not necessarily on the same day—an envelope that addresses what the integrated review will be and, alongside DSIS, how we would spend money to get the best value for money for the taxpayer and to drive the prosperity of the UK as part of that process, and a funding envelope within that as well. That is the ideal scenario. We know where we stand, for very good reasons, in terms of the financial and fiscal situation, which we are working through before coming back to the House in due course.

Q170 **Chair:** Can I confirm that a threat assessment has already made? Can you share that with us?

Jeremy Quin: Obviously, we have a continuous view of the threat assessment. The integrated review is at an advanced stage—a lot of work has certainly been done on it—but I cannot give you a date yet for when that publication will be.

Q171 **Chair:** Are we likely to see it before Christmas? Could you at least say that much?

Jeremy Quin: You asked me that question last time round, Mr Chairman. I could not give you a date then and I am afraid that I cannot give you a date now.

Chair: Let's move on to the equipment plan and see whether we can get some more information on that. Sarah, do you want to take us forward on that one? Good luck.

Q172 **Sarah Atherton:** Thank you, Chair. Minister, what is your analysis of the



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impact of the suspension of the comprehensive spending review on the progress of the defence industrial strategy?

Jeremy Quin: I could come in on that one; I do not know whether Damian also wishes to make a contribution. A huge amount of work is being done on DSIS, and it does flow through. Clearly, there are advantages for Departments with large capital expenditures of having a multi-year view. That is broadly recognised across Government. However, we also recognise that the UK faces huge fiscal challenges at the moment as a result of covid. It is a once-in-a-hundred-year circumstance. The Government have quite rightly put a huge amount of resource into supporting the economy and supporting the resilience of the country and our people through that period. We recognise that there are particular challenges.

However defence is funded, there is a role for DSIS. We can of course work with single-year settlements, but the themes around DSIS are incredibly important, whatever the background. Mr Parmenter, perhaps you could just run through some of those things and their implications.

Damian Parmenter: Exactly that. From our perspective, whatever decisions are taken with spending reviews, they will not negate the benefits of taking a more sophisticated and strategic approach to the defence and security industry—one that seeks to improve our overall approach and decision making to areas such as acquisition, technology pull through, and international collaboration and exports. Importantly, there is a range of activity in DSIS that we can look at taking forward that will improve how we maintain, how we procure capability, and how we support industry in delivering the strategic outcomes we want.

Importantly, a key thing will be actually developing acquisition strategies that are tailored to the requirements of defence security and that deliver value for money in the context of our strategic objectives and the needs of our longer-term strategic aims. There will be no default option to a particular procurement strategy. There are lots of advantages in taking forward DSIS regardless, as I say, of the spending review position.

Q173 **Sarah Atherton:** Thank you for that. A lot of buzzwords were used there, gentlemen.

Large equipment projects and the transformation projects are awaiting imminent contractual approval on the back of the integrated review—for example, the upgrade of Challenger 2 and the Tempest. How will these be affected?

Air Marshal Knighton: Where we are with the process of considering the case for the Challenger upgrade is that that is due to come to the defence Investment Approvals Committee later this year. It is due to come after the spending review has concluded, and the Chancellor makes his statement next week, so that will give us some indication of what the defence budget is going to be going forwards.



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The case, when it comes to the Investment Approvals Committee, will be considered on its merits in terms of its value for money, its affordability and the capability that it delivers. At the moment, I foresee that happening as planned, and then we can make the decision as we would normally do at the Investment Approvals Committee, which is due to happen before the end of the year.

On Tempest, or the future combat air system or the combat air acquisition programme, you will be aware that the Government set aside funding in the 2015 defence review, continuing through to the middle of this coming decade, for the future combat air system technology initiative. What that does is invest in the basic science and technology to sustain and develop the skills and technologies that we will need to deliver a new combat air system in the future.

However, you are absolutely right to point out that we will not be able to make a decision on an acquisition programme and the next phase of that until we understand the outcome of spending review and we have decisions from Ministers and Government around what they would like to do and how they want to proceed.

Q174 **Sarah Atherton:** Can I ask little more about the equipment plan? The National Audit Office stated that the "risks to the affordability of the...Equipment Plan are greater than at any point" with the 2017, 2018 and 2019 plans being unaffordable. That was before covid. If the equipment plan is modified due to an annual settlement, what is your analysis of the impact of the cost of the equipment plan?

Air Marshal Knighton: Can I just check my understanding of the question? Is that as a consequence of covid?

Sarah Atherton: No, as a consequence of the annual settlement. The National Audit Office has already said that previous plans, ambitious as they were, were unaffordable. We are now looking at a single annual settlement. What do you anticipate the costs of the equipment plan will be now? Will it be unaffordable?

Air Marshal Knighton: Thank you. I understand the question. There are a couple of components to that. The National Audit Office is absolutely right in what it says. When we look at the potential cost of the equipment plan over 10 years, it exceeds the budget that we have allocated against that. As I and the Permanent Secretary and Ministers have said, both to this Committee and to the Public Accounts Committee, our plan was for that mismatch to be addressed through the integrated review and the spending review. That gave us the opportunity to balance our policy and strategy objectives with our budget.

The second point is that defence has plans around its future equipment procurement that always go well beyond the formal period of budget setting from the Treasury. For example, we are committing to nuclear submarines, many of which will not be delivered for more than 10 years. Although we would prefer a multi-year settlement for long-term planning purposes and for stability in respect of our planning assumptions, defence



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has demonstrated over the last few years, as it has worked with one-year additions to the budget, that it is able to continue to deliver the capability we need and manage through that process of a one-year budget.

Should that be the case for the coming year, we are confident that we will be able to deal with affordability and programme requirements for the next year. But it will clearly make it difficult for us to deal with the long-term affordability challenges associated with the equipment plan. I do not know whether the Minister wants to add anything.

Jeremy Quin: That is very clear, Air Marshal. As I said in response to an earlier question, the bottom line is that we will work with what we get and we will make certain that we maximise value for money on the financial settlement that is achieved. If that is single-year, we have shown in the past that we can work within that. It has to be said that last year and the year before we were absolutely within our budget, and we will continue to operate within the budget set. We are very aware of our responsibilities.

Q175 **Sarah Atherton:** So you do not think you will need to prioritise any projects, or cancel any, in the foreseeable future?

Jeremy Quin: There are always views as to the most important projects that we run in the Department, but I have to say that, when you look down the list of projects that we are working on, there is nothing discretionary—they are all there for a reason. They are all there because they involve equipment that we need for our Armed Forces. We continue to assess new projects as they come forward, on the basis of our requirements and on the basis of threat.

Getting back to basics here, that is why the integrated review is so important: it sets out the threat and our aspirations. Then you seek to have an equipment plan that will meet the needs that we have set out and our future requirements in terms of the threat and our aspirations on the world stage.

Sarah Atherton: Thank you.

Q176 **Chair:** On that threat, would you agree that the success of any deterrence does not reside in what we think about our forces and capability, but rather what our potential enemy thinks?

Air Marshal Knighton: Absolutely—I completely agree. The very essence of deterrence is how it affects the calculus of your potential adversaries and enemies. Whatever we think is not really relevant; it is what the adversary thinks about our capabilities that really matters. You are absolutely right.

Q177 **Chair:** I am pleased that you say that because I am concerned that there is a gap in our overall deterrence posture, which makes it less than credible. The purpose is to persuade a potential enemy that he cannot expect to succeed with any military, cyber or other forms of attack without a requisite risk of significant damage to his own interests that is proportionate. Would you agree with that?



Jeremy Quin: If what you are saying, Chair, is that we need to ensure that what we manifest to those who threaten us is a clear deterrent and one to which they are alive to, I would certainly agree. You would also recognise that how we do that is not only with our own excellent capabilities and the highly professional Armed Forces that we are proud to have, but alongside extremely effective allies. We have NATO as the cornerstone of our strategic relationships and our collective defence is the key to the defence of each of us.

Q178 **Chair:** I make the point about going back to understanding what the threat is, first agreeing what we are willing to stand for and believe in as a country, as a nation, and defending that. We have no tactical nuclear weapons, but looking over our shoulders at what our hostile adversaries are doing, we see they are now accumulating tactical nuclear weapons. I put it to you that a tactical nuclear weapon will be used in a theatre of war in our lifetime, yet we do not have any whatsoever. As a deterrent, we are either leaning on our CASD capability, which we are unlikely to use given the size of those warheads, or on our conventional capability, which really cannot match that and is not proportionate in the same way. That is why it is so important to get the integrated review right. I use that as an illustration. We need to understand what the threat is and what our adversaries are doing, and I fear that we are not doing that and that we are failing. I also fear that the integrated review is going the way of so many in the past in just being seen as a clever cost-cutting exercise, which impacts on the MoD's capability at such a critical time.

Jeremy Quin: Without going into any of the specifics, the overall point relates to the importance of the integrated review being a threat-based assessment setting out what we need to do and our position in the world. It is cross-departmental, and you are right that it is an incredibly important document. It is threat-based. I know that your Committee will be looking at it in great detail when it is published, and I or—more likely—the Secretary of State look forward to discussing it with you in detail when it is published. On the importance of the document and the need for it to be deep seated and threat-based, there is no disagreement between yourself and the Department.

Chair: It may not be this Committee that gets to look at it and scrutinise it, because we are having to wait so long. We may have come and gone by the time of its publication. Let's see.

John, will you take us on to value for money and prosperity?

Q179 **John Spellar:** If I could just follow on from the previous discussion: we seem to have had a passive response when the Minister said that we work with what we get. We also stress the crucial importance of all the programmes. In the event that the financial settlement is insufficient for delivering the programme, would Ministers collectively consider resigning because they have been given an impossible task? It has happened before.



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Jeremy Quin: Chair, I would like to thank Mr Spellar very much for his question, which is entirely speculative, about what the settlement will be and what position we are in regarding discussions within Government. The Ministry of Defence will ensure that we have the right capabilities to defend the UK and maintain our strategic posture. Mr Spellar can rest assured on that.

Q180 **John Spellar:** It is not unprecedented. In previous answers, much was also made of the definition of best value for money. In defence procurement, what exactly do you mean by that? By what criteria is that measured? What weightings are given? For example, does that include skills in the UK? Does it include capacity? Is there a premium for resilience as part of that calculation?

Jeremy Quin: You will be pleased to hear that it is an improving situation. There is a lot of technical stuff on that and I am happy to come back later but first I will pass that on to Huw Walters, if I may.

Huw Walters: Of course, Minister. In common with the rest of the Government, our value-for-money assessments follow the rules set out in the Treasury's Green Book. In principle, that can cover all the costs and benefits that we expect the project to deliver, including social, economic, environmental and financial impacts. It is only more recently that we started to set prosperity as a specific objective in our major strategies, such as shipbuilding and combat air, so those will not subsequently be reflected in our value-for-money assessments.

As identified in the Dunne review, we recognise the need to develop Green Book-compliant data on the economic prosperity value of defence. We have a range of ongoing work to do this, including the creation, jointly with industry, of the new joint economic data hub—JEDHub—which looks at how we collect data from companies on the defence sector and its footprint across the UK. That has now reached initial operating capability and has carried out its first pilot, collecting employment data from across the UK. It is giving us the capacity to look at some of these things in more detail. That is how we carry out the assessments at the moment.

Q181 **John Spellar:** In making that assessment, you will presumably provide a weighting for various factors. What sort of weighting do you give to the social and economic impact, in other words? In some cases it seems to have been less than 1%, which is, quite frankly, derisory.

Huw Walters: I am not aware of it being that low. We started doing these things relatively recently, so they are still working through from the strategies that we have. There is not a general answer that I can give you around weightings, because they vary. I can say that there is now new guidance from the Cabinet Office around social value. It suggests a minimum of 10% attached to that sort of area. We are now looking at how that works in defence programmes and at how we can progressively introduce it into our programmes from the start of next year.

Jeremy Quin: I hope Mr Spellar picked up from our earlier comments regarding DSIS that this work is ongoing. The work that we have set up

through the JEDHub gives us a far clearer database, which is still evolving but has already reached its IOC, so we can actually ascertain and have a clearer view of, for example, how a £1 billion order affects the job prospects and the economy in a particular region. That is incredibly important data because whatever we do, we want to have more of an impact in terms of social value, and we want to make certain that that can be crystallised and is demonstrable.

That important work has been put in hand and we are getting to the point of it—a far better database. It is also important that our formulas reflect the emphasis that the Government are putting on social value. The minimum 10% that will come in from January 2021 is the answer to your question on an ongoing basis. I do not think this has had as much emphasis as it perhaps could have. There is a variety of reasons for that, including the lack of data, but for the future, it is an improving position. I do not know whether Mr Parmenter would like to say anything about DSIS in particular, or whether I covered it.

Damian Parmenter: I would just like to reinforce some of the points I made earlier. DSIS is very much about the strategic approach. You mentioned a premium for onshore skills capacity and resilience. There is quite a lot of that in the strategic approach that we are emphasising in DSIS. By making sure that you set clear, strategic objectives and outcomes for procurements that consider that longer term approach and long-term value for money, as opposed to short-term affordability considerations, you are weighting your procurements towards those sorts of outcomes. We have the flexibility to do that sort of thing now, and following the DSIS approach, that is what we have been aiming to do on top of the social value factor that the Minister just spoke about, which can be used to support things such as the resilience of supply chains, skills or new businesses. It gives us a lot of flexibility when we are actually setting out the weightings within procurements and acquisitions.

Q182 **John Spellar:** What weightings did you give in the fleet solid support contract?

Jeremy Quin: If you had the video feed, you would see that we are all looking at each other. I do not know the answer to that. I am happy to go through other aspects of the FSS, but it was before my time and I do not know what weighting was provided to FSS.

Q183 **John Spellar:** If you could write to us on that, that would be useful.

Jeremy Quin: I think Air Marshal Knighton might have something to add on the FSS process.

Air Marshal Knighton: The only thing I was going to say is that, obviously, the previous competition has been suspended, because we recognised that it wasn't going to generate a value-for-money solution or proper competition. As we work through the setting of the requirements and get ready for the tender that the Secretary of State mentioned would be launched in the first quarter of next year, we will examine the weighting criteria for that contract over the next few weeks.



Q184 **John Spellar:** Can I also ask why you do not take account of tax revenues in assessing value for money? You will be aware that RUSI has suggested that something like 36% of the value of a domestically sourced defence contract comes back to the Treasury in the form of taxation.

Jeremy Quin: As you can imagine, I never cease to remind colleagues in the Treasury that that is certainly the case—that there is a good tax benefit from money spent by defence—but the Treasury have their rules. I respect that they need to have consistent rules across the Government. We work to the Green Book. They need to determine how to classify parts of expenditure, so that is how it is. It has been like that for a very long time, as far as I am aware. It is a question for the Treasury, but please do not think for a minute that we lose sight that there is a real benefit when defence spends money on equipment sourced in the UK or from UK suppliers.

John Spellar: I would have thought it was matter for Government as a whole, not the independent republic of the Treasury on its own. Let us move onto regional prosperity. You have actually touched on a number of the issues I wanted to raise there. I defer to Martin on the needs of the UK nations.

Q185 **Martin Docherty-Hughes:** Thank you, John, for handing that over. It is not only national and regional prosperity that need to be taken into account when making these decisions. I wonder Minister, or those who are with you in the room because I cannot see them, if you want to say more about how the needs of the UK nations are dealt within this decision making?

Jeremy Quin: I am happy to pick that up. Huw Walters and others will also wish to contribute. *[Inaudible.]*

Chair: Sorry, Minister, we lost you for a second. Please start the sentence again.

Jeremy Quin: I apologise and of course I will. Huw will probably go into procurement and what we have already touched on in terms of the 10%-plus is important in that context. I think it is more than the actual procurement itself; it is the whole messaging—a consistent message across the Government on levelling up and strengthening our Union, which I know Mr Docherty-Hughes will be keen to see.

In terms of the conversations we have had with our primes and trade bodies, there is a real emphasis on both those agendas and ensuring we do get the fair spread of defence expenditure across the UK. I am pleased to say that Scotland, per head of population, does better than the vast majority of all but two English regions—the south-west and the south-east. I think the same is true for Wales. It is less true at the moment, sadly, for Northern Ireland.

It is an emphasis we have and I assure the Committee that we hear that back from industry. When they come to see me, they say how important these agendas are and how they recognise . I love some of the cast-iron



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examples such as with international partners such as Boeing. There is a £100 million infrastructure project going on at RAF Lossiemouth, as Mr Docherty-Hughes will be well aware. P-8 is going in there. I am delighted that through the Scotland Alliance, Boeing has R&D spend in Glasgow and is working in the Highlands on STEM apprenticeships. There are examples elsewhere in north Wales with the advanced technology centre in Sealand. These are two different examples: one is industry working with us and recognising the agenda we have, and the other aspect is us ensuring that we are putting the investment into skills and STEM so that all parts of the UK continue to be attractive for defence investment.

One of the great things about defence in terms of the Union and levelling up is that it is a genuinely national economy and benefits are felt throughout the UK. We will have more hooks to drive success in all parts of the UK through our procurement policies in the future and that 10%. Huw Walters might want to add in on that.

Huw Walters: I can say a bit more on some of the points. Given the wide footprint that defence has across the UK, it is the case that our investments often tend to naturally generate prosperity benefits, such as employment, in parts of the UK in areas where alternatives may be pretty limited at the moment. We believe the work we are doing right now through the JEDHub is going to give us the data that will help us focus some of those initiatives.

Specifically in terms of what we have been doing with some of the devolved nations, we do recognise is that by the time you get to the final decision point on a programme, it is probably too late, so we have been doing a lot of earlier activity really engaging with companies out in the devolved nations, holding a number of industry events to ensure that suppliers in all four nations of the UK are aware of the opportunities for them to get into defence programmes, either directly through us or indirectly via the primes.

Last week, in fact, we held a virtual cross-Government event with Boeing for UK defence, aerospace and space companies. We actually had over 600 companies involved in that event from all parts of the UK, from all four nations.

Q186 **Martin Docherty-Hughes:** You had all these companies, but my question was primarily about how the needs in the UK nations are dealt with in these decisions. For example, were the Scottish Government, the Welsh Government and the Northern Ireland Executive included in those discussions in that cross-Government event?

Huw Walters: We certainly had Northern Ireland and the Welsh Government there. I am not certain if the Scottish Government were there; I will have to check on that. I think ADS Scotland would have been involved in that. I can talk about some of the direct engagement that we have had with the devolved nations as well, so for instance—

Q187 **Martin Docherty-Hughes:** In terms of defence, I need to be quite clear.



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We all know that defence is reserved. This is a UK-wide issue, but the question again goes back—it is the reason I am highlighting this—to my concern that the Governments of Wales and Scotland and the Northern Ireland Executive should be within these discussions and debates. I need only look to the FCO's Arctic policy report of 2018 to see that because of Scotland's unique interests in the high north and north Atlantic, Scotland should be involved in those discussions and debate. If the FCDO are saying this, what movement is the MoD making in that direction as well and if not, why not?

Huw Walters: I can say that we are regularly inviting Governments of all four devolved nations to be part of the events that we are having around prosperity and economic development. They were invited to the conference I mentioned earlier, where we were looking at how we engage on measuring prosperity across the four nations. We have an event coming up on 3 December in Northern Ireland, where the Chief of the Air Staff, together with the RAF's Rapid Capability Office, is going out and talking to companies across Northern Ireland about opportunities on the FCAS Tempest programme—

Q188 **Martin Docherty-Hughes:** But not the Governments—forgive me for interrupting—which have a policy engagement in industrial development?

Jeremy Quin: Suffice it to say that we are keen to have deep relationships with all the devolved Administrations on how we deliver our defence industrial strategy. My understanding is that we always invite them to events where we think there is a locus; we are very keen to see this developed. There is huge success story in Scotland — for example, the fact that we are about to have two frigates made in Scotland for the first time in a generation. The UK has pulled that off.

There is a very good story to tell in terms of how we work in every part of the United Kingdom, and the more engagement we have from the Governments of the devolved areas the better, as far as I am concerned. We are very happy to ensure that those discussions are ongoing, which requires input from both sides.

Martin Docherty-Hughes: I am sure that Ministers in Edinburgh are more than keen, especially this late in the day in the integrated review. I am sure it is the exact same in Northern Ireland, and I am sure that my colleague in Wales will be asking the exact same question, hoping that the UK Government will be more than keen at this late stage. Sarah, I will hand over to you.

Q189 **Sarah Atherton:** Thank you, Martin. You have really covered my question. Wales does pretty well out of prosperity regional investment and industrial development. We could always do more and I really hope that some investment and prosperity will come to Wales and the devolved nations; but I echo what Martin is saying and will leave it at that, thanks, chaps.

Huw Walters: Just on Wales, if I may, we have been working very closely with the Welsh Government, as the Minister mentioned, on the advanced



technology research centre. What we have been doing is helping them set up a series of engagement sessions with companies who are interested in being part of that centre, who would like to be in there as anchor tenants. We are also joining up very closely between the ATRC team in the Welsh Government and the Defence Electronics and Components Agency at Sealand in north Wales to make the links between those two things, because the new centre will have a focus on electronic sensors and communications. So we have got some really good work, I think, and the Welsh Government have been really proactive in building that relationship with us and our defence companies.

Jeremy Quin: And that is something we absolutely welcome. The most recent per capita figures I have seen show that Scotland and Wales do better than every region of England, with the exception of the south-east and the south-west, and there are advantages that flow for the whole of the UK from defence expenditure. That is something we wish to continue to build on.

Q190 **Sarah Atherton:** I am certainly pleased the Ajax is being manufactured in Merthyr.

Jeremy Quin: Absolutely.

Q191 **Gavin Robinson:** If I can pick up on that briefly, it is very good of the Minister to give figures for Scotland and Wales but I know that from a Northern Ireland perspective there are multiples, beyond 10 times as much, more spent in the south-east of England per head of population than there is in Northern Ireland in defence spend. How do you propose to advance the levelling-up agenda when the Green Book specifically precludes you from proceeding with any bias on a geographical basis?

Jeremy Quin: We are going through the detail as to how that 10%-plus would be applied to defence procurement, but issues like jobs and the regional impact of jobs is something which could be baked in. I think Huw Walters will pick up on that specifically.

It is absolutely right that I am proudly stating the figures for Scotland and Wales and saying how they exceed the vast majority of regions in England. We are behind the curve on Northern Ireland. Mr Robinson is absolutely right that we are behind the curve on Northern Ireland. That is something we want to do more about. I am seeing Diane Dodds fairly shortly, albeit virtually. The Chief of the Air Staff, as Huw mentioned, is there to talk about aerospace and how Northern Ireland firms, where there is great talent and great opportunity, can seize more of a share of the cake in equipment from the UK budget. It is something where Northern Ireland is not at the bottom of the pile, in terms of parts of the UK, but it is pretty close. There is stuff we can do to help, and we are very focused on it, but you asked a specific point regarding jobs and regional development and, Huw, I don't know if that is something you can pick up on.

Huw Walters: Very happy to, Minister. The Green Book as it stands does allow you to distinguish between different regional impacts if you have got



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data to do so, based on looking at the value of jobs created in different parts of the UK. What you do is compare the value of the defence job that you might create with the value of the alternative, so in areas of high unemployment, for instance, defence jobs would be more valuable than they might be down in the south-east. The Green Book does allow you to do that at the moment, but it is dependent on you having the right sort of data, which is why we are putting so much emphasis on things like the JEDHub.

The Green Book review that the Chancellor announced back in March, I think, is looking at how you make those distinctions more apparent. It is looking at whether you can use Green Book processes to spread investment across the UK in a way that meets the Government's levelling-up objectives. There is work on that going on.

It is probably also worth mentioning that we have built a very good relationship with Invest Northern Ireland. We have been running something we launched a few months ago called the defence technology exploitation programme, which INI provided funding for. What we have been doing through that is actually looking at some of the fantastic SME companies that there are out in Northern Ireland, and looking at how we could use that to link them up with the primes, do mentoring from the primes to the SMEs, and provide those SMEs with a better route to market than they might currently have. We are just waiting to see what the results from the programme are and where we go next with it.

Gavin Robinson: We would be keen for you to keep us updated on that.

Q192 **John Spellar:** You have the contracts settled and they are proceeding. There have been promises on regional investment, skills insertion, prosperity and so on. How do you actually measure and assess that, ensure that the companies are actually delivering and follow up on it? Furthermore, what sanctions do you have or do you use for companies that renege?

Jeremy Quin: First, I think the JEDHub data is important, as is greater transparency about the supply chain, which is something that, in the past, people have been fairly relaxed about. We may touch on this when we talk about resilience. Understanding better how jobs flow through the supply chain is something that we are very much focused on, and mapping exercises have been undertaken.

Those are two routes, but in terms of how you hold people to account on this—to go right back to where we started—people are keen to do business with the Ministry of Defence because they know that, sadly, we are always going to be under threat and we will always have national interests that we need to represent and values that we wish to support. As a result, we will always be spending money. They always know that other contracts will come up. Frankly, the best way of testing how straight people will be on the next contract is looking at how straight they were on the last. We will keep a close eye to monitor how people honour obligations that they set out to the Ministry of Defence, assuming that they are not contractually

enforced, which there would be routes to doing. Both directionally and legally, I am sure there will be routes to ensure that the new criteria set out as of 21 January³ are enforceable.

Q193 **John Spellar:** If they do let you down, do you—or are you prepared to—actually debar them for a while or for the long term from bidding on future contracts?

Jeremy Quin: Without doubt, there needs to be consequences if people make commitments, as part of a tender process, that they do not honour. I think it would be a bit too speculative to say what they may be in various circumstances and it really would depend but there are a number of ways in which we would have the capacity to ensure that that pattern of behaviour is not enabled to be established. We will ensure that obligations are honoured and that we monitor the obligations that are made.

Q194 **John Spellar:** If you could, even in confidence, send us any examples of where that has been done, it would be helpful.

Jeremy Quin: I am not wriggling out of this, Chair, but I wish to be clear that the 10% minimum weighting for social value will be coming in new, on 21 January,⁴ so you will see more of it. I think that is something that Mr Spellar and, I hope, the rest of the Committee, will welcome. This is a path that we have been treading along, but it will definitely take a significant move forward come the new year. I think Huw Walters wanted to add to that.

Huw Walters: To build on that a little bit, one of the important things is that we can build this into our requirement setting and then into the data that we collect from suppliers on performance. One of the things that we are currently doing is putting in place a new e-sourcing platform called the defence sourcing portal, and as part of the tendering process for that, there will be a means to capture data on the social value criteria that we have been talking about, which will allow us to monitor and track the performance of contractors more effectively.

Q195 **Martin Docherty-Hughes:** In terms of sovereign capabilities, which capabilities and technologies do the Government consider sovereign and how does this compare with close allies?

Damian Parmenter: The DSIS review is ongoing and I need to caveat that Ministers have yet to make decisions, but a key part of the industrial strategy is identifying those industrial capabilities that we think are necessary for strategic imperatives—an example there would be nuclear—or those areas where we need operational independence in a time of crisis, which mean that we are not going to be under threat from political exertion⁵ from other nations and things like that. We are identifying the

³ This was intended to say January 2021

⁴ This was intended to say January 2021

⁵ This was intended to say coercion, not exertion



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range of capability areas and technologies that are critical for defence and security going forward.

As you have already heard about defence, we are recognising that defence is made up of a number of segments, and there are multiple segments with very different characteristics. In the case of sleeping bags, food and things like that, there is a lot of global choice and global competition to get you the best price for consumable items and fairly straightforward, simple items. However, if you go to the other extreme of nuclear and some of the crypt-key, they are areas of strategic imperative where you need to make sure that you have got capability onshore and that you can assure yourself in time of crisis.

When it comes to military operations, there are a lot of areas where you are going to want to have that operational freedom to act; we have laid out strategies around shipbuilding and combat air, and you have heard about the complex weapons pipeline—areas that are really important and have some critical capabilities that we need to maintain, where we are the sole buyer of very complex systems that, in a time of crisis, you want to have assured access to.

By making sure that you are taking a strategic long-term view, you are also ensuring that you have the industrial skills and the industrial capabilities to support you during that time of crisis. It is not just about technology widgets; is also about skills to upgrade capability and respond to the unexpected. During any military operation, we look to our industry partners to support us, and throughout the conflicts of the past 15 years, industry has supported us excellently, giving us first-rate support as we respond to urgent operational requirements and things such as that.

Critically, what we have to do in DSIS—again, some of the detail will be up to Ministers to decide—is to retain the ability in key areas to design, integrate, upgrade and manufacture capability onshore in the UK. Again, that is very much the sort of approach of our key allies across the planet: you identify those areas that are critical to you in those different segments, although that does not mean to say that you are going to make sure that everything you purchase in that segment is going to be onshore; there are a lot of opportunities to get things from the wider supply base. It is really identifying those critical areas.

The last thing to say there is that you need to make sure that you are able to provide technology and capability into the collaborative effort of allies going forward. If you look at our Typhoon, if you look at the joint strike fighter—Lightning—our ability to contribute industrial skills and know-how has contributed to those collaborative equipment projects, which give us critical capabilities today to conduct operations. Again, it is maintaining that capability to make sure we are still supporting those collaborative efforts going forward.

Q196 Martin Docherty-Hughes: Can I add a final bit to that? Data is a hugely valuable element of any modern nation-state. While I may, for example, politically disagree with the nuclear deterrent, I would be



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interested to know what type of sovereign capability you have in mind in defending the data of not just the individual citizens, but the state itself in the modern age, and how you are dealing with that with allies. How do you defend against an attack on data? That is essentially what I am asking. How are you defending that sovereign asset and those consumables that we all have in the digital sense, and what technologies are used to defend those data consumables?

Jeremy Quin: That is a very powerful point. Air Marshal Knighton, would you mind picking that one up?

Air Marshal Knighton: Of course, Minister, and thank you, Mr Docherty-Hughes; you raise a really important point. Even in the past five years, but certainly in the past 10 years, the criticality of data and of securing and protecting it has become increasingly clear. One area we have focused on in our thinking around the spending review and the integrated review is how we protect our networks and our data to ensure that we are able to maintain the security of that information and of our networks, so that we can continue to operate and deliver our military outputs and just our routine business outputs, but also are able to exploit the data that we are able to collect on the battlefield of today and tomorrow. We expect to prioritise investment in defensive cyber capability as part of our thinking about the future of the equipment programme.

We also recognise that industry holds quite a lot of data that is important to us and to the delivery of capability, so through the National Cyber Security Centre and through work that we do directly with industry, we are working to ensure that industry is taking at least equivalent steps to those of Government, in terms of how it protects that data, so that we do not leave ourselves open with any kind of soft underbelly or easy access to the data.

I have to say that, in my direct experience with our suppliers, they take the issue of data security and protecting their networks incredibly seriously. But this is a real game of cat and mouse. Our adversaries and those trying to do us harm are constantly trying to evolve and develop, and we have to continue to do that. We have some really interesting stuff in our science and technology lab, which is trying to automate that, so that effectively you have machines trying to protect your networks and defend them and they are able to do that at machine speed. That is just going to be a continuous battle of measure, countermeasure and counter-countermeasure in the foreseeable future.

Q197 **Martin Docherty-Hughes:** How does the Department assess the resilience of its supply chain?

Jeremy Quin: Huw, would you like to pick up on this? A huge amount of work has been ongoing, and actually this is pre-covid. I think a lot of people got caught up with covid and thought, "Right. We need to do something on this." Our work goes back to the Dunne review, if not before, and it is ongoing. Huw Walters, would you mind picking up on that?



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Huw Walters: I will of course, Minister. It is a very good question and it is not a new issue for us. Our project teams routinely look at this as part of our overall risk-based approach to procurement. It includes things like balancing where we use commercial kit, where we use stuff that we have bought from the global markets, and where we decide that we are going to rely on bespoke sovereign technology—all the things that Damian mentioned earlier.

What is true, though, is that the risks to our supply chains are evolving and getting more complex. We are seeing growing risks from things like hostile foreign investment. And actually the increasingly diverse and global nature of our supply chains has increased the difficulty of monitoring exactly what companies are in the lower tiers. We know this is an area where our allies have very similar concerns to us. For example, we lead a foreign investment sub-group as part of the national technology and industrial base initiative with the US, Canada and Australia, where we are sharing information on risks and mitigation measures. We are also, I think, increasing the monitoring of the financial health of our suppliers, using commercially available tools to identify potential risks earlier. And on foreign ownership, we have recently introduced new defence contract terms that require our direct suppliers to flow down the obligations to notify us of any change of ownership to all the companies within the supply chains on their programmes.

I think the Committee will be aware of the new National Security and Investment Bill, recently introduced to Parliament by the Business Secretary. That will provide much more flexible powers to intervene in mergers and acquisitions that raise national security risks. Defence has been very closely involved in the drafting of that legislation. It includes a new mandatory notification regime for a range of sectors, including defence and military dual-use, and companies will have to notify us of any takeovers in those sectors. Beyond that, the Government would have powers to call in transactions outside this if they raised national security concerns. So there is quite a wide range of measures that we are putting in place to protect the resilience of our supply chains.

Q198 Martin Docherty-Hughes: Chair, I know you wanted me to go on to the next question as well. I am sure some Members do not want to talk about the b-word, Brexit. Maybe the Minister will want to answer this question. What difference will Brexit make to UK procurement policies?

Jeremy Quin: Some fairly technical changes have taken place. There was an SI a couple of weeks ago on the DSPCR, which was the very limited changes that we are able to make under the EU (Withdrawal) Act, to make certain that we have compliant regulations and that there is clarity as we end the transition period.

Beyond that, we have a more exciting opportunity, which is how we operate our procurement policies in a way that is more agile and has less bureaucracy. The two things that constantly come up in terms of procurement from the MoD perspective is how we can be more agile and how we can make certain that we take decisions and are able to embrace



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new technologies swiftly. The biggest bugbear I get from our suppliers and industrial partners is the bureaucracy and the hassle associated with it, so those are the two objectives.

This is going to be coming through in DSIS, but we can go through some of the thoughts that we have, if that is helpful, Chair, and some of the areas that we are actively considering. Clearly, it is still under discussion, but we can give you a flavour. Damian, would you like to talk through some of those areas?

Damian Parmenter: There are areas that we can improve as a consequence of withdrawal from the EU, particularly around defence and security public contracts regulations.

A really good example of that is being able to engage with suppliers at lower technology readiness levels and then providing them with a very clear opportunity to take that technology development through to production and support, without requirements to re-tender. As you can imagine, that can sometimes be a disincentive to some suppliers—having invested in technology readiness, research, science and technology, they then have to re-compete and re-tender every five minutes. That is a freedom that we will be getting from changes to the DSPCR coming out of the EU.

More generally, as the Minister was saying, we have an opportunity through DSIS and our large programme of acquisition and approvals reform to look at improving our speed and simplicity of contracting.

I will give you some examples of things we are looking at there, potentially for the future. One is to use inbuilt dispute resolution tools to shorten negotiations—to stop you having to repeat some activity, depending on how negotiations are going. We should be able to reduce a lot of duplication across the life cycle of an acquisition. We can provide clearer reporting requirements. The SSCR review gives us a range of opportunities to revisit single-source contracts and, potentially, we will be looking at reflecting the level of risk we are asking companies to take on, whether that is for a simple task or a highly risky task. There is a range of things we can do there.

In terms of making sure we have better choice and flexibility, we can reduce the advertising burden on suppliers and put greater transparency on subcontracts up front. We can provide a greater range of profit rates for SSCR, say around that level of risk on the sorts of tasks that we are asking them to do.

Then we have a range of things—as I was saying earlier, we would like to help stimulate innovation and prosperity. One of the things coming out of the industrial strategy review is the real need to pull through technology more quickly and to make sure that we are encouraging SMEs and new entrants into defence to bring forward ideas and innovation into that supply chain quickly, by making changes to procurement systems. The idea around being attracted to lower technology readiness levels and



focusing our incentive methods on innovation in science and technology is that it will actually encourage new entrants and encourage science and tech to get into our capabilities quicker. We want to make sure that we can upgrade systems fast and keep companies interested, keep them investing in their own capability and keep them innovating, so that we are getting the best, and not just from traditional defence suppliers, but the wider SME base and new entrants.

Q199 Martin Docherty-Hughes: To clarify that question—because the answers felt as though we did not want to do any defence procurement with the rest of the EU and you may want to qualify that—my colleagues in the Scottish National party responded to the integrated review at the weekend, and we were calling on the Government to sign a comprehensive defence and security treaty with the European Union to signal to our friends and our foes that the Government take European security seriously. That also means engagement in procurement and the sale in industry. Can we expect the Government to bring that back on to the agenda any time soon?

Jeremy Quin: The cornerstone of our defence is NATO, and we continue to have an incredibly close relationship with all our European allies, not all of whom are members of NATO. Structures such as JEF also contribute to close working relationships between our Armed Forces across Europe. Interoperability will always be important, and defence has always been something that countries have tended to keep within their own remit. There may be increasing co-operation across the EU via PESCO. We will see how that evolves in due course. I can assure you that when I speak to my opposite numbers, they are very aware of the capabilities we bring. They are also aware that we are the No. 1 defence spender in Europe within NATO and that we work extremely closely together on our common defence. You can rest assured on that.

Q200 Chair: May I pursue Martin's question? You are right, NATO is the cornerstone of our defence, but it relates to state-on-state considerations and threats. It is to do with high-level hard power. When it comes to European security, NATO has an agreement with the EU to cover criminality, cyber and other stabilisation tasks, yet the UK has pulled back from many of the operations that the EU runs. Is that permanent, or will we see a re-engagement once we—hopefully—move forward with a trade deal?

Jeremy Quin: I am focused very much on defence, as you can imagine, and I have close relationships with my fellow ministers around Europe, particularly on the procurement side. You will forgive me if I do not go into details of other security operations—that is not within my brief. I apologise for not being able to give you chapter and verse on that. As you know, we are in the middle of intense ongoing negotiations with the EU regarding our future trading arrangements. I would not wish to speculate about individual security operations. I fear that I am not able to assist the Committee on that.

Q201 Chair: You have made it clear that you do not know. Perhaps you could



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get somebody in the MoD who does know to write to the Committee with those details. It would be helpful to understand how we move forward.

Jeremy Quin: Could you be a bit more precise? I read that to be areas traditionally covered by the Home Office, but I may have misunderstood the question.

Chair: Operation Atalanta, for example, is a counter-piracy operation off the coast of east Africa. We participated in that, and I understand that we have now pulled back from all engagements with operations run by the EU. Another example is operations in the Mediterranean, dealing with migrant movements and so forth. Again, I leave that with you. Let's not spend any more time on that. It would be helpful if you could write to the Committee. Gavin, will you take us forward on wider export questions?

Q202 **Gavin Robinson:** Thank you Chair, and thank you, Minister and your team for your responses so far. I want to draw on what Damian mentioned when he referred to Invest Northern Ireland and the MoD working on a defence technology export programme. Some of the industry leaders we have been speaking to told us that there is a lack of accountability and ownership in supporting defence exports. When asking what more can be done and whether you recognise that there is a problem, is the type of programme advanced in Northern Ireland of any use on a wider UK basis?

Jeremy Quin: I can happily pick up on that, if I may start, and Huw may wish to pick up thereafter on points on Northern Ireland. I am disappointed, actually. There is a point at which perception often follows reality. As someone who is not unused to putting together teams to do complex projects overseas, I have been impressed, in the months that I have been in post, with how Defence works with industry and other Government Departments to support export drives. It is limited—as every member of the Committee knows, for a long time Ministers were unable to travel for parliamentary reasons and we have now had covid, which is very disappointing.

I have been involved in missions visiting Estonia, Poland and Finland. In my experience, they have been well organised. There has been a close working relationship with industry and between industrial partners. The ambassadors' network and the Defence Attaché (DA) network have been well engaged. It is good that Defence is now incorporated within the GREAT campaign and we have national branding associated with it.

DIT has a good mapping exercise ongoing about where opportunities are globally that we need to pursue and the need for a much better, enhanced market intelligence function. That came out of the Dunne review. This is not rocket science, but it is stuff that is being done well and has improved.

I went to just about the only trade fair that happened in Europe this year, since the outbreak of covid, the MSPO in Poland. There was an impressive UK contribution from not only UK companies, but international companies based in the UK but within the same marketing envelope. I feel that we



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are making good steps in penetrating the export markets that we need to and supporting British companies to do that.

You specifically asked about the Northern Ireland model and whether that is something that we should embrace more often. If there is anything that we can add specifically on that, I would be keen to help.

Huw Walters: I am happy to pick that up, Minister. The Defence technology exploitation programme that we have put in place builds on a similar civil sector programme called NATEP—National Aerospace Technology Exploitation Programme—so that we are using the same infrastructure for that.

We decided that Northern Ireland was a very good place to run the pilot. There is a strong core of SMEs there and good relationships between INI and the SME community, which we can build on to take that forward. We did a launch event last year for the programme. We had a large number of companies involved. The core of some of this work was Thales, which obviously has a strong presence out in Northern Ireland and Belfast, and which came up with the concept for some of this.

The idea is that we will now look at the results that start to emerge from that pilot and see whether it worked in the ways that INI hoped, and then look at whether there is an argument for rolling it out more broadly, potentially using the NATEP national infrastructure that is there for the civil programme.

Q203 **Gavin Robinson:** I am not going to drag you down a rabbit hole. I was using the Northern Ireland example to illustrate the point. It may be useful going forward to deal with some of the concerns that have been raised by industry leaders with us. To return to the Minister and his disappointment, he outlined that he was disappointed and said that there is a difference between perception and reality. The two things that I highlighted were lack of accountability and lack of ownership on supporting exports. In the answer, we were given MoD, DTI, our ambassadors and our embassies. Who owns the process?

Jeremy Quin: That is a fair point. I will clarify. I think this has been going on for about 10 years. I think about 10 years ago all Defence exports were within MoD and I think a decision was taken—it may have been more than 10 years ago—that it needed to be looked at on a broader basis. For example, on aerospace, you have Defence and civil, and DIT—DTI as it then was—was the right place to house them.

The strict accountability is that for strategic defence sales, for example complex weapons and combat air, it rests with the MoD. The broader opportunities rest with DIT. I recognise the concerns that you raise. Clearly the Foreign, Commonwealth and Development Office has a responsibility which, in my experience as a constituency MP, is working far better now than I expected it to. Their ambassadors are meant to support all efforts by British companies on a global basis to seize opportunities.



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I recognise what you say. That matrix is one that makes it very hard to say, if you are a company, "Right, that is the person who is accountable." I can assure you that in practice there are good working relationships across the Departments. In practice, when I have been on the road with companies, I have seen that working well collectively, but I am always interested in ways that we can improve that performance. There is a brand refresh, and brand refreshes only get you so far, but it has been well embraced by industry. All I can say is that on the visits that I have made, I have had very supportive comments from the industrial partners. That is three countries out of however many, and there is a lot of work we need to do, but we are determined to get it right. It is extremely important. We are No. 2 in the world at the moment. We have 16% market share, but maintaining that position will be a constant fight in the increasingly technological world, and we will need to continue to up our game in order to maintain that strong position. It's a point very well made.

Q204 Gavin Robinson: I understand the DIT are on the cusp of launching a new export programme, which will be constituency based. Are you aware of that? Does it involve or invoke defence opportunities, and is it something that you will work with in future?

Jeremy Quin: As I mentioned, we have a very supportive relationship, particularly when it comes to defence and security and DIT, so I would include the Home Office in there as well in terms of some of the security aspects. I am always keen to seize opportunities to help on defence, but you will forgive me if I do not delve too far into DIT business on this call.

Q205 Gavin Robinson: I will perhaps pick that up with you again. We talked about weighting previously on procurement contracts. What weighting is given to exportability within any procurement contract?

Jeremy Quin: This is another area where in the past it has been extremely rare that that has been attributed. I think there was an element with Type 31. It is something we can do more of. There are a number of ways to look at this. The most important thing on exportability in many ways is that if a UK company is building an asset that will be widely exportable, the best way that comes into the procurement process is in cost. The bottom line is that whatever you buy in defence, it is expensive. We all know that. If you are in a position where you have a very exportable commodity, that comes over in a lower unit price, for whoever buys it, and the winners include the UK in terms of actually getting the benefit of that export.

There are areas in terms of the social value component, which we have talked about, where the UK's prosperity can be incorporated in terms of skills and the impact on the economy. Without doubt, exports can form part of that. I would also say that this comes back to the opening requirements of some of our programmes—some of our most important programmes. The future combat air system, for example, is approximately £2 billion of R&D, with about 40% of that provided by the companies involved, and international partnerships. From the outset, we asked, "How do we build an export capability?" That is key to that programme and the



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international partnership that goes with it. This comes right back to the points made on sovereignty.

Having a sovereign capability does not always mean that we have to make everything, from the screw to the chip, inside the UK. It might simply mean that we have a real national edge and a sovereign capability that gets us into international programmes right at that tier 1 level, just as we did with F-35, where we are the only international tier 1 partner with the United States in that project, and we have a 15% or so value share. So this all works together, and I believe that we have the components to help support exports on an ongoing basis.

Q206 Richard Drax: Minister, who is responsible for the failure in the procurement process of the fleet support ships? [*Inaudible.*] What lessons have been learnt from the mistakes of your predecessors?

Jeremy Quin: Can I just check? Was that FSS? I think that is what I heard.

Q207 Richard Drax: Yes, the fleet solid support ships.

Jeremy Quin: I hope the Committee approved of the decision taken to end that first procurement when that was decided back in autumn 2019. That was on the back of the big failed competition—there was simply not going to be value for money in pursuing it—and then, rather than trying to allow it to limp on, Ministers at the time took the decision to end that competition and start again.

Q208 Richard Drax: Who is responsible for the failure of that procurement process?

Jeremy Quin: It depends why it failed, and then we can, perhaps, attach responsibility.

The first reason why I believe that failed, was the economic conditions at the time, which were extremely challenging, and that we were attaching a financial responsibility to the companies concerned. That created a concern for a number of the bidders, as I understand it; they were worried about the prevailing economic circumstances, currency movements and the like, while, at the same time, also being worried about the amount of risk transfer that we were planning to place upon them.

The second area was that there was a very challenging—as it turned out—technological spec for what we were requiring from the Fleet Solid Support ships.

In combination, the process ended up with bidders who were not technically compliant. At that point, it was clear there would not be a good value-for-money solution for the process; a line was drawn, and we will ensure that we do not make similar mistakes in the future.

Q209 Richard Drax: How are you going to ensure that?



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Jeremy Quin: Right. The first thing is making certain that we actually do proper market testing around the next procurement, which we are looking forward to kicking off in March—or certainly in spring—of next year.

We are in the second round of that market engagement; it is a heavy market engagement, making certain that we bring in all potential suppliers to meet that need. It is a real case of train hard, hopefully fight easy, by really understanding the capabilities of our suppliers.

There is an advantage of having operated carriers for a period of time—the first time on that scale, as the Committee is well aware, since the '70s—that we are much clearer about the requirement for that Fleet Solid Support ship; how it will work with the carrier strike group, and how it would engage in time of war. That is why we are viewing this as a warship. So we are clearer on what we will need it to do.

We are also clearer on the specification, so it is a simpler vessel that we require. When we look at what is actually required, seeing carriers—again, of that scale—in operation, it does not need to be anywhere near as complex as the first time around.

All this is prior to tender being issued and everything else, but those are three areas where I really think we are setting ourselves up for a successful competition, which will be good in terms of capability, hopefully good in terms of the VFM—we will see when the bids come though—but also good in terms of driving the success of British shipbuilding.

Q210 **Richard Drax:** Finally on this point, how will it affect the operational effectiveness of the carrier group?

Jeremy Quin: The key thing is that we do need to have support; there is existing support RFA Fort Victoria, which is there and is still operating. There is a maintenance period in '22, of that I am aware, but we do have the capabilities to support the carrier group on an ongoing basis.

However, RFA Fort Victoria does not last forever; that is why we need to put this procurement in place, and it needs to be delivered in a timely manner. It is very much front-of-mind as a key capability that we need to provide. We do have capability at the moment, but we do need to ensure that we get these supplied.

Chair: May I pursue this? You have not awarded a contract yet. We have two carriers now that are about to be operational, and they do not have the solid support that they require. You just mentioned that you have the Fort class, which are ageing and will be in long-term maintenance, so there is a massive weak link in our ability to operate the carrier, through not being able to logistically supply it. You have not even given the contracts out yet, let alone built the thing. It is going to take a number of years for this to get to sea. If I was an adversary, I would be laughing at this—us being able to present the world's most upgraded aircraft carrier, but not having the logistical support that goes with it.



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Jeremy Quin: You are well aware, Chairman, that there is terrific punch on these aircraft carriers. They are highly effective, and I don't think any adversaries will be laughing—

Q211 **Chair:** Sorry to interrupt, Minister. We are aware of the punch. We don't need to be reminded of that. But that punch is nothing if there is no fuel on board, no food and no munitions to resupply it. It becomes extremely weak if you don't have that support.

At the moment, you do not have the Fleet Solid Support in line. You have not even awarded a contract. A simple answer, please: when do you think the contract will be signed, and when do you think the first ship will be delivered?

Jeremy Quin: We will go out to market for the Fleet Solid Support provision in spring next year. I can't tell you at this stage when that tender process will conclude, and nor would it be wise for me to hazard a date as to when the ships will be delivered, but I am very mindful of the retirement date of Fort Victoria and that this is a project that has been ongoing for a very projected period of time and that needs to be brought to a conclusion.

It is unfortunate, to say the least, that the last process could not be brought to a satisfactory conclusion, but we didn't have a VFM option, so that was closed. We now have a new option for these warships. That is important, and we need to advance it as swiftly as possible. I don't know if there is anything that Air Marshal Knighton wants to add to that; I have tried to cover it.

Air Marshal Knighton: You have covered it admirably.

Q212 **Chair:** All I would say is, please, get on with this. You do need to have a date in mind. Your plan B needs to cover that period until they are brought into line. I do hope you will be able to square this circle as quickly as possible. Again, can I invite you to write to the Committee with a detailed plan on how you are going to support the carrier programme until the fleet solid support comes online?

Jeremy Quin: We will do so.

Q213 **Sarah Atherton:** We have spoken about defence being a critical UK employer. The statistic I have is that one in every 220 people are working in full-time roles to support defence, which is great, but we also know that there is a future skills shortage. General Sir Nick Carter mentioned to the Committee the introduction of an integrated careers structure as a way of upskilling the MoD workforce, so you have obviously identified the skills gaps in the MoD. Could you let us know what they are?

Air Marshal Knighton: I will go first and then Damian is going to add a few comments.

General Carter is specifically referring to a recognition that the character of warfare is changing, and the skills that will be required of our warriors



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of the future are going to be different from some of the skills that are required today.

I talked previously about the importance of cyber-space. We recognise the importance of that space and our ability to manage, access and work with data. We know that those are skills that are in short supply right across the UK. We know that we are in competition for people with science, technology, engineering and maths skills. What we need to do is make sure that the UK Armed Forces have access to the skills that we need.

The integrated career management and unified career management initiatives try to provide a more porous boundary between the private sector and the Armed Forces, to allow people, much more easily than is the case today, to shift from industry back into the Armed Forces, and to go back out again into industry. That means we think about the capability that defence needs in an enterprise fashion, rather than thinking about what is specifically in the Armed Forces or what is outside. We can do that in a number of ways. The use of our reserve forces is important, and the civil servants that we employ in the Ministry of Defence are vital to delivering this kind of capability.

We suspect this is going to be a continuous challenge for us over the foreseeable future, so the kind of initiatives that the Chief of the Defence Staff talks about are going to be really important if we are going to maintain the skills that the UK Armed Forces need, as this technology and capability evolves and develops around us. Damian may have a few further comments to add.

Damian Parmenter: Richard has covered most of this. This is about STEM skills and how we attract people into defence who have the appropriate skills for all the different technology areas that are key to how we operate in the future. As has been said, it is about making sure that we have a strong relationship with industry and academia, and that we work with other parts of Government, whether that is the Department for Education or BEIS, to make sure that we are getting that pipeline of STEM students and people into defence, to give us the skills we need.

We do a range of things, from very attractive careers in the Armed Forces, with increased flexibility around future career roles, whether that is related to family commitments or interest in careers elsewhere. They are all important parts of making sure that we can attract the right sorts of skills in the future. That is an important part of the industrial strategy that we are setting out, to create the conditions to attract those people.

We have a strong relationship with the defence industry, through the enterprise approach that Richard referred to. A good example of that is the recent engineering skills redeployment trial, where we sought to bring people from the aerospace industry into defence as a result of some of the downturn that came through covid. Again, it is an interactive approach with industry to make sure we can be attractive and keep people in the areas we need them for defence over the longer term.



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Q214 **Sarah Atherton:** How have you identified the areas in which you have a skills deficit? How do you know where to develop? *[Interruption.]*

Chair: I think we have lost the witnesses. They may still be able to hear us, but given the timing, in their absence I can simply repeat to the Minister that the integrated review is the road map. It sits behind global Britain. It is a blueprint to establish Britain's post-Brexit ambitions and a genuine intention to re-engage on the international stage. The more we hear of delays and shortages of funds, the more it diminishes our aspirations on the international stage. I hope that message is heard loud and clear.

I thank all those who have participated today and the Committee as well. Unfortunately, we couldn't see them at all, and now we can't hear them—

Jeremy Quin: Chair, we are back with you. We just heard your final remarks. We didn't catch all of them all, I'm afraid, but I will make certain I catch up on them, and I will read the *Hansard*.

I don't know what has caused this. The comms were working perfectly between your team and our team earlier today. I don't know why we did not have video as well as audio. We are just discussing how we look forward to being with you in person in the future, which is something we take away from the meeting. I apologise that we have not had video as well as audio.

Chair: Not at all. Thank you very much indeed to you and your team. It was very sub-optimal, to say the least, and we need to improve on it if we are to scrutinise what Government is doing, particularly in the MoD. Thank you anyway for persevering, and thank you to Committee.