HOUSE OF COMMONS

Defence Committee

Oral evidence: Defence Industrial Policy: Procurement and Prosperity, HC 163

Tuesday 12 May 2020

Ordered by the House of Commons to be published on 12 May 2020.

Watch the meeting

Members present: Mr Tobias Ellwood (Chair); Stuart Anderson; Sarah Atherton; Martin Docherty-Hughes; Richard Drax; Mr Mark Francois; Mr Kevan Jones; Mrs Emma Lewell-Buck; Gavin Robinson; John Spellar; Derek Twigg.

Questions 1-55

Witnesses

I: Professor Trevor Taylor, Professorial Research Fellow in Defence Management, the Royal United Services Institute (RUSI); Francis Tusa, Defence journalist; and Sir Mark Poffley KCB OBE, former Deputy Chief of Defence Staff (Military Capability) at MoD (2016-18).

II: Rt Hon Philip Dunne MP, former Minister for Defence Procurement (2015-16), author of 'Growing the contribution of defence to UK prosperity'.

Written evidence from witnesses:

– Professor Trevor Taylor

Examination of witnesses

Witnesses: Professor Trevor Taylor, Francis Tusa and Sir Mark Poffley.

Chair: Welcome to this House of Commons Defence Committee evidence session. This is the first session on the effectiveness of the Department's approach to procurement and prosperity. We intend to look at the relationship between the MoD and industry, and between policy and implementation, as well as exploring the impact of covid-19 on current procurement programmes.

We are pleased to welcome to our first panel Professor Trevor Taylor from RUSI and Francis Tusa, who has worked for a series of broadcasting companies on both sides of the Atlantic and for what looks like a full house of the written press as well, including *The Guardian,* the *FT*, *The Times* and the *Military Logistics International* periodical, which I think once made a guest appearance on "Have I Got News For You". I am also pleased to see General Sir Mark Poffley in his place. He recently retired from the MoD, where he was Deputy Chief of Defence Staff (Military Capability) from 2016 to 2018.

Our first session will last for 90 minutes and involve those three guests. We will then turn to the right hon. Philip Dunne and his report "Growing the contribution of defence to UK prosperity", which will take the last 30 minutes of the session.

Thank you very much indeed to all our guests this afternoon. I am pleased to have you here today. I invite John Spellar to kick us off with our first question.

Q1 **John Spellar:** Can I ask the witnesses, starting with Trevor, whether they think the United Kingdom has a defence industrial strategy and, if so, what is it for?

Professor Trevor Taylor: No, I do not think we can say that there is a strategy. As everybody on the Committee is perhaps aware, since 2012 there has been a host of policy statements and there have been some organisational changes. There have been some real programmes established, but whether it all adds up to a strategy—I don't think we can say that.

A strategy involves not only a clear sense of direction, so where you want to be; it also means how you are going to achieve it, and the risks that you are going to take. For instance, I think that we have a contradiction between the statement in 2012 that the ability to use your forces in the way that you see fit is the essence of sovereignty and, then, a basic position for procurement that we would do international competition for many of our needs. Whether international competition gives us the freedom of action is a real question. So I think that there is a very mixed picture.

One of the things that needs to be addressed is how the Ministry—and it is the Ministry—plans to reconcile the needs of the services, and integrate the needs of the services, with the very real needs of industry for a range of the right sort of work, so that industry can maintain the capabilities that it needs to have in order to generate top-of-the-range military equipment.

Q2 **John Spellar:** Are some of the problems that you have rightly identified generated from within the Ministry of Defence, or is this substantially created and stimulated by external Treasury rules?

Professor Trevor Taylor: I think the Treasury rules as they stand at the minute seem to be pretty permissive, but of course that could disguise the amount of difficulty that the MoD might have in dealing with the Treasury. When you are thinking of the prosperity agenda, in particular, then there is a reference to hard evidence, but of course hard evidence depends on being able to state the counter-factual. In other words, if we didn't give this contract in this way, what would happen? That access to the counter-factual is always a matter of judgment, so it rather falls short on hard evidence.

If you make very optimistic assumptions about how people will be taken into different sorts of employment, it gives you a very different picture. A lot of the issues are generated, nevertheless, within the Ministry of Defence—particularly by financial pressures and temptations to take the lowest price, despite some reference to best value, and so on. So it is not a single pointer, but I think there are issues within the MoD and between the MoD and the Treasury.

Q3 **John Spellar:** What about the Treasury rules that refuse to take into account taxation that would be paid either by companies or by the workforce?

Professor Trevor Taylor: I find that a little difficult, because I looked at the Green Book and it talks about the net cost to the Government. Therefore the net cost to the Government obviously should allow you to take into account tax revenues. There is also a reference to accounting rules, so it may be something that is hidden in our commitment to international accounting rules and things like that, rather than simply rules that the Treasury has come up with. However, it has long seemed to me absurd that we cannot calculate the tax revenues. It is not as if the tax revenues are a minor piece. It depends on the particular contract, but they are north of 30% in many cases—even as high as 37%.

Francis Tusa: Just apropos of the return from taxation, both for the workers and for companies, I have certainly looked at the Queen Elizabeth carrier programme, and when I do these calculations I cut them in half to avoid over-exaggeration. You can see a reasonable return from taxation, and not indirect, so none of those ones of the corner shop that gets set up; this is just from workforce working on the carrier. The return to Treasury was a minimum of 20% of the cost of the contract. I have looked at other programmes, and it varies between 15% and 25%. To reinforce the fact this is not difficult to do, I frequently see figures from French,

Italian and German defence sources, which are able to calculate return to the central Exchequer incredibly easily.

I have to say that I think it is a perverse issue with both the Ministry of Defence, which doesn't want to be, as it feels, constrained in how it procures—they don't want to collect this data, and the Treasury doesn't either, because they feel it might perhaps clog up the system. But this data is available. It is calculable and it does show on the vast majority of occasions net returns to whichever Exchequer.

Q4 **Chair:** General, can I ask you, from having worked on the fourth floor, to explain to the uninitiated how procurement operates in the MoD? How do we make sure that we look at indigenous capability versus competition? How do we endeavour to consider whether we are going to make something exportable? Are you able to give an overview from a layman's perspective of how you approach any challenges in procuring a new asset for the Armed Forces?

Sir Mark Poffley: I would make a couple of points. The first initiative really comes from a statement of a requirement—in other words, is there a military capability output that you require?—and then there is a discussion about other factors. Having proved that case, you then need to make a value-for-money judgment. That inevitably goes through committees such as the investment approvals committee, and obviously up to the board and the Defence Secretary.

Again, if you come back to the original question about whether this is strategy, there is a real tendency across Government for us to look at this with a financial lens and only a financial lens. If you are asking the question more fundamentally about whether there is a need for a strategy and do we have one, that goes to the heart of whether there is a cross-Government view and a genuine ambition to start to align agendas in various Government Departments towards a particular end. Across Government that has been a struggle over the course of the last 20 years or so.

Interestingly—this is a reasonably mature example—Sir John Parker's work in the national shipbuilding strategy, which wasn't a national shipbuilding strategy but a national warship-building strategy, essentially looked for a cross-Government consensus about what was in the interests of the yards and the military, and what was likely to further our international agenda. By and large, the document succeeded in that broad aim. How it distils down and whether individual Departments have been able to enact a strategy is a very different question, and I would suggest that the jury is out on that.

For the purposes of the Ministry of Defence, its aim is to identify a pure requirement and then demonstrate the value of that proposition. The real struggle is whether the way that you judge value is something more than fiscal. There has been a tendency for it to always have been defaulted down to a fiscal calculation.

Q5 **Chair:** To probe that a bit further, let us take a real example that we can get our heads round. The Type 31 was given a name as the next multi-purpose frigate. Which documents did you then lean towards to say, "This must give the MoD some guidance about how we should venture forward with this"?

Sir Mark Poffley: There was an interesting dynamic with the Type 31, because we set a very clear set of ambitions for it. It had to be in the water and operational by a particular date. It had to service a basic constabulary task and be able to operate inside task routes, accepting that there was always going to be a degree of risk when you put a platform to sea. It had to operate—it was a design-to-cost exercise—inside a financial threshold of £250 million.

If you accept that you are changing—I suspect we may come on to this later in the session—some of the cultures associated with the judgments that are made about whether or not that is a good investment decision, and where you might lay that work, you quite clearly get some interesting dynamics. Sorry, there was a third dynamic, which was that it had to be fit for an export market.

Those basic requirements were a change to the way the Ministry of Defence was thinking about these things. By and large, as I understand it, that has held sway through the last couple of years.

Q6 **Chair:** Okay. So with the documents that you reached for, there was no industrial strategy to give you some guidance as to the milestones that you should be trying to achieve. You came up with these parameters—costs, exportability and so forth—quite separate from any other wider package of measures that fits into a Ministry of Defence approach.

Sir Mark Poffley: They were borne out of the work of Sir John Parker on the national shipbuilding strategy. The MoD, other Government Departments and industry inevitably had a big interest in the content of that document. That set the first procurement under that sort of regime being the Type 31s. That was the basis for judging it. The navy had already inputted into that work to say what a basic requirement for a general purpose frigate ought to look like.

Q7 **Chair:** Okay. We have a combat air strategy and we have a shipbuilding strategy, but there is no land strategy for our land vehicles, is there?

Sir Mark Poffley: Not to my knowledge, unless one has been hiding in a dark cabinet in the course of the last 18 months or so. The reality of this was sequential. We were effectively testing the market for this type of document with Sir John's work. Is there a need for one? I would argue that there needs to be a cross-sector approach. The air strategy needs to be broader than that; it needs to be an aerospace strategy and to incorporate both non-breathing and breathing platforms in all forms. This can be packaged up in lots of different ways. Essentially, the more you can deliver a clear sense of direction through some decent strategic documentation, the better, because people can align around it. The absence of one clearly makes it more difficult.

Chair: Let us look at how we compare with our allies. Sarah, will you take us forward on that subject?

Q8 **Sarah Atherton:** Thank you. In the last 15 years we have seen a raft of key defence industrial policy documents—there have been about 12 in all. The national security strategy, the strategic defence and security review, the national shipbuilding strategy, the combat air strategy and, of course, the Dunne review. Have these strategies been generally successful? What aspects of success can we pick up on, Professor Taylor?

Professor Trevor Taylor: On the issue of how the documents have gone so far, the impact has been fairly modest. We just heard about the Type 31. There is a bigger story attached to the Type 31. What is signalled by all this is that from a low point in 2012 the Government are now slowly realising and taking on board the strategic and economic significance of a defence industry and trying to work out how best to deal with it.

The point I should have made earlier about strategy is what you mentioned: there are a lot of words and there have been a few organisational changes, but I have looked at the money—I will just glance at my notes to make sure. The reality is that if you compare this with the end of the cold war—which was not a peak of British defence spending—our spending on development is now less than a quarter in real terms than what it was in 1990. It is now down to less than 25% of what it was. Industry is expected to have made great advances, but the funding in real terms has been cut so much. The defence budget has been cut by very little, but the development part has been cut by a lot.

That can be compared with, say, the people with whom we are trying to compete, particularly the United States. When you look at the American figures, you see that the Americans have not taken any kind of research and development holiday on their defence budget at all; their spending in real terms on research and development is the same now as it was at the end of the cold war.

One can speak of a strategy effect when we can see those numbers changing. Defence industries essentially have only one customer, which is their home Government. If they do not meet that, it is very difficult in the wider world. If the Government are not providing the R&D spending—particularly development—the industry will have an increasingly tough time.

Chair: Sarah may have a follow-up question, but Francis wanted to come in first.

Francis Tusa: On learning from other countries, and the broad sense of the point of a defence industrial strategy, if you look at America, it is often quite a difficult example from which to draw comparisons for the UK.

France, Italy, Spain and Germany—basically all those countries—have an active defence industrial policy. The key to the success of their policies is that they actually apply them. In Italy, Spain and France, for instance, the starting point is that, wherever possible, equipment should be built in that

country; if not, the support and maintenance should be in-country, which will require technology transfer to French, Spanish or Italian industry. The key to their success is that they actually follow the strategy.

If you look at what the French were able to achieve with a procurement budget that is markedly lower than the UK's—it's a good few billion pounds—you see that they achieve about the same outturn, if not slightly higher.

One small point on Type 31e. For Type 31e—export—in the assessment phase for the downselect, which went to Babcock, the marks awarded to both exportability and national prosperity agenda were sub-5%. In other words, no specific consideration was given either to exportability or national prosperity. That is not a good poster child for an industrial—*[Inaudible.]*

Chair: We lost Francis for a second there. Sarah, do you want to come back in?

Q9 **Sarah Atherton:** Yes, please. The defence industrial strategy was criticised for a number of things, one of which was the lack of a plan to regulate suppliers, which to me is quite a fundamental flaw. You may throw money at that, but if the content of the strategy—*[Inaudible]*—then how will we achieve success in the future? I wonder whether any of the—*[Inaudible]*—about what should be contained in any future strategy—

Chair: Sarah, we are losing much of your voice. Trevor, did you pick up enough of that to give an answer?

Professor Trevor Taylor: Could we just have the last bit again?

Sarah Atherton: Is there anything that should be contained in any future strategy, such as regulating suppliers, which we could learn from other countries and apply to our future strategies?

Professor Trevor Taylor: Let me take the question as asking what we can learn from other countries and whether we note it. Francis has already made some points on that.

First, defence industrial strategies and providing military equipment that is the right quality for the Armed Forces is a difficult balance—it is not straightforward—but the mass of other countries think that it is worth the risks involved in trying to do this. When you look at Japan, South Korea, Singapore, Israel, Brazil, and even the Saudis, they are all building on this idea that it is worth the risk of building up your defence industrial capabilities. Most of those countries are pretty satisfied that you don't have the great moanings coming out. Certainly, smaller countries such as Sweden, Singapore and Israel have managed to achieve a great deal with a determined approach.

One of the keys to their success is the capacity to put together a national team; industry and Government are seen to be in the same game. They

are competing against external companies, but they also have external adversaries to think about. Industry and Government work very closely together. Industrial strategies in the defence sphere in which the relationship between industry and Government is basically adversarial have a very poor chance of success.

I will pick up on what Mark said a few minutes ago, which is that you start with a requirement. In fairness to Mark, that is a bit of a myth, because a requirement is a function of what would be useful, but it is also a function of what is technologically possible at a given point in time for an amount of money, and industry tends to be more expert on that. Unless there is a close consultation between Government and industry, a kind of cheap way—an easy way—to address the requirement is to say, "Well, what will the Americans be able to do? What can the Americans do now, and shall we add a bit on to that?"

So I think the key is a team approach and the key is a close relationship—a positive relationship—between Government and industry, which is what you find during wartime and not necessarily during peacetime.

Q10 **Chair:** Thank you. Mark, do you want to come in on that?

Sir Mark Poffley: Yes, I was just going to say a couple of things. I take Francis's point about Type 31. It may not be the poster child, but it sets a slightly new trend as to whether the right percentages were considered in the various categories. I suspect not and, dare I say it, we would like to see them in a different direction.

When I talk about the requirement, and coming back to the Professor's comments, I think the reality of this is that the requirement should be distilled by a raft of different inputs, one of which definitely ought to be industry giving some sense of what is in the art of the possible, or what is deliverable and, more importantly, what is likely to be, in export terms, a credible proposition going forward, because it attends to a broader security requirement. Frankly, no one is going to buy military equipment unless there is some justification for it in output terms, certainly in developed democracies anyway.

I think the reality of this would be that that requirement needs to have a broad conversation conducted well in advance of setting that requirement. The requirement may well need to be modified and, dare I say it, the three services may need to compromise on their ambitions, in order to service some wider agenda.

Have we got to that stage? We have certainly got to that stage in principle, although I take Francis's point that we have not necessarily got to it in detail, on things such as the Type 31. But it is a leading edge of a cultural change programme, frankly, that needs to pervade not just the Ministry of Defence but wider Government as well, because we still have some issues about how we might unlock the delivery of a sensible strategy going forward.

To pick up the question most latterly, if you just assume it is about the equipment in that transaction, you are failing miserably to exploit the opportunities in training systems, in logistic support architectures and in infrastructure in a raft of different areas, which basically form the capability suite that you are looking to deliver. And those things have an export and an industrial component to them that we should be looking to exploit, and we do not as far as we should, at this stage.

Chair: Okay. Thank you. We will move forward. Can we turn to the Army—the British Army? Stuart, do you want to take us forward on this one?

Q11 **Stuart Anderson:** Thank you, Chair. Francis, you have spoken very openly about what other countries do, and about the point of a defence industrial strategy. I would like to know your views on why we do not have a land strategy. More importantly, do we need one?

Francis Tusa: To answer your second question first, I think most would agree with Sir Mark that it should be a pan-sector defence industrial strategy covering absolutely every area. To give one specific example, yes, we have a national shipbuilding strategy, but we lack a national naval equipment strategy. So, great, build the ships—the physical hulls—in the UK, but the greatest value cost in a ship are things like missile systems and radars, and we do not have an industrial policy covering that; we should do.

Should we have a land sector strategy? Yes, we should. I think what you can say is that one of the reasons why the UK land sector is so weak at the moment is because in 2000s the Army, and it was specifically the Army, went out of its way not to have a strategy—it fought it tooth and nail. And that is why we saw consolidation towards, in effect, at one stage, just BAE Systems. I think this is why we are partly seeing problems with the delivery of both the Warrior capability sustainment programme and Ajax Scout. Crucial skills inside the UK simply atrophied because there was no work, and so engineers do what engineers do: they go off and find interesting, well-paid work elsewhere.

Can we rebuild aspects of the UK land systems business? Yes, we can, but it will require the Army to be told "No, you are not going to buy American equipment. You are going to buy equipment that is going to be built in Britain with significant input by British engineers." I know an awful lot of people at Andover would have kittens to think that was going to be the strategy.

Q12 **Chair:** You touched on something that I have always wondered about, which is why there isn't a more mature missile strategy—*[Interruption]*. Sorry, Trevor; I know you want to come in, but let me just pursue this for a second. You look into the magazine on the Queen Elizabeth and it is automated—it is one of the most state-of-the-art magazines that you have on any ship. The question is, whatever lands on the aircraft carrier can only pick up whatever missiles are kept on board. We have the Brimstone, which I think is one of our best and most state-of-the-art

export missiles, yet it is not utilised on every air platform we have. Would it make sense for us to focus on this? The Hellfire is a good missile system, but why isn't the Brimstone used on Apache? Why isn't the Brimstone strapped to the side of a Merlin, for example?

Francis Tusa: Ask the Army air corps about that. They have fought. They love the idea of buying the joint air-to-ground missile—an American missile, American produced—but constantly come up with almost entirely bogus facts and figures to suggest that JAGM is cheaper than Brimstone. It isn't, and it also lacks a significant number of the capabilities. Yes, the Army air corps has been responsible for the dragging of feet on that.

Looking at Merlin and whether it should have a larger suite of weapons, the best explanation I can give—it is probably apocryphal, but I don't think it is—is that when it was suggested that Merlin should get the Sea Eagle anti-ship missile back in the 1990s, it was rejected by the surface warfare officer branch of the Royal Navy because they disliked the idea that the longest ranged weapon of a frigate would be in the hands of a pilot, and not of a person standing in the command centre. That was told to me by an admiral, so I have reason to believe it.

Yes, there is not a coherent strategy to say: if you were to use Brimstone across all three services in every possible role, what would the cost savings be? At times when this has been raised, people have either given the traditional answer: "It's too difficult to work out what the costs are," or, again, it has been the siloes between the three services: "Not my job." Again, one thing you pick up in passing is that Army was never really that interested in Brimstone because it was seen as being an Air Force weapon. It is a real problem of the Levene reforms, which I think shows that the Levene reforms have failed. We have now got four service siloes that deal with everything independently, without a thought of what could be done for defence as a whole.

Q13 **Chair:** This raises all sorts of questions about the challenges with the inter-service rivalry. There is no reason why the Wildcat could not fire Brimstone, and there is no reason why it could not be strapped to the side of a Merlin. There is actually no reason why you couldn't fire it off the top of a Challenger, is there?

Francis Tusa: Challenger, or put it as a fast inshore attack craft weapon on any of the frigates: Type 23, Type 26 or Type 31. There is no reason at all, except that I think it does come around to inter-service rivalry and to NIH—originally an American expression—not invented here.

Q14 **Chair:** Trevor, you were keen to come in here.

Professor Trevor Taylor: I was just going to say, apropos the earlier question, that we don't have a land strategy because in 2005, when the sector strategy was done, the conclusion was that there were lots of suppliers and a pretty open market and therefore there wasn't the kind of security of supply or assurance of supply—you could get what you want from the market. That has sat since 2005.

What Francis said is exactly true: whatever capability there was has died away. With the missile piece, you have to take into account the carrier. The carrier carries the F-35, and the F-35 carries the weapons that have been integrated. That is in the control of the US and Lockheed Martin, and the price that they charge for that. I very much agree on British systems: we ought to be able to do it. However, there are sometimes additional hurdles on putting it on to a foreign platform.

Chair: Before Gavin comes in with the next question, Mark is keen to jump in, judging by his hand waving.

Q15 **Mr Francois:** Thank you, Chairman. Just briefly, one of the problems with a land strategy is that the Army's vehicle procurement was completely skewered by the conflicts in Iran and Afghanistan. Whereas we have many bits of heavy armour that are now 30 years old or longer, it has taken us years to replace them because a few years ago in Afghanistan we did not need a new main battle tank, we did not need a replacement for AS90 and we did not need Ajax. We were looking at building very different types of bits of kit, and now we have to come back and address the obsolescence in the Army's vehicle fleet if we are looking at competing, as it were, in higher end conflicts.

Is not one of the challenges that we are going to face that in the intervening period, our defence procurement industry has effectively been consolidated into one Anglo-German joint venture—part Rheinmetall, part BAE Systems? How would we maintain some competitive pressure if we gave all the programmes to them? Would we not just end up paying through the nose? For instance, the main battle tank competition had two teams. Now it is effectively one. How do we make sure that we get value for money on that programme?

Francis Tusa: To take your last point on how to ensure value for money, you can do cost comparison. God knows, Rheinmetall and Krauss-Maffei are selling enough Leopard 2s and upgraded Leopard 2s around the world as we speak. Because a number of the systems are analogous—control systems, laser range finders, thermal imagers—it is very easy to say, "Okay, the Leopard 2A7 sold to Qatar. What are the systems and how much did it cost?" You can come up with a price and then, for the sake of argument, if the Rheinmetall BAE Systems joint venture is quoting a price—a ridiculous example—six times more, you can have suspicions that the price is not a particularly good one.

I know we are going to be talking about competition and how it can work, or not, in general, but we need to go back to a concept first coined back in 1992 or 1993 for the procurement HMS Ocean, where there was going to be no competition. The phrase coined was NAPNOC—no acceptable price, no offer of contract. Basically, you say: "Look, we have this budget, what can we get?" If you cannot get a suitable product for that price, either the MoD has to find more money or you walk away. That is one of the problems the MoD has—it never really walks away, and/or it is never realistic about the budget.

Q16 **Mr Francois:** Quickly—and then we will go back to the original order—I agree with you completely. One of the reasons the MoD gets ripped off so frequently is because it hardly ever cancels a programme unless it absolutely has to, and it hardly ever fires or sacks a contractor that goes massively over budget. It always fudges it somehow, and eventually you end up with fewer and fewer units that individually cost more and more. The MoD is a weak customer and is very bad at managing the contractors that it deals with, who often end up leaning the MoD over a barrel or even something worse. Would you agree with that?

Francis Tusa: To a certain extent. In terms of never sacking anyone, I think that is another issue. It was put to me by a contractor—they would say this, wouldn't they?—that the services in the current budget arrangement have authority but no responsibility. They have budget and they can spend it, but as and when a programme goes wrong—and you can see a number of them happening at the moment: the Protector unmanned aerial vehicle; the Wedgetail, which is an airborne early warning system that has seen its cost price rise 45% in one year—who is responsible? The answer is: no one, because individuals tend to get promoted and they wait for someone else two or three years down the line to sort out the problem. It is across the board.

I would agree with you that the management of programmes is not brilliant, which is why—again I will flag this up—I think we are going to see a perfect storm in about five years with both Type 31 and Type 26 delivering their first of class ships almost to identical timescales, and the Royal Navy will not have the resources to take both ships into service. It does not have the skilled manpower and the expertise to manage the introduction of two complex warships at the same time. This is where an industrial strategy would have helped them.

Mr Francois: Thanks, Chairman. I'll come back in later.

Chair: Okay, we'll move on to Gavin.

Q17 **Gavin Robinson:** Thank you, Chair. One of the other aspects, which I will put to Francis quickly, is that the Ministry of Defence—maybe this is a product of the lack of authority or responsibility on the part of individuals engaged in procurement—is that it is never clear what they wish to purchase; or, within a year or two or within a financial year, they continually change the ask. The industry would indicate that that necessarily increases cost. Would you agree with that?

Francis Tusa: It is absolutely true that the more you change specifications, the more you veer and haul on end of service dates, delivery dates and quantities, there is only one thing that happens to cost—it goes up. This has been proven time and time again; not just in Britain but in almost every other NATO country, there are documents showing this. But for some reason, tinkering with specs for programmes is still an area where the MoD is a global champion, and trying to tell people, "Stop fiddling. Just go with what you've got," is incredibly difficult.

I think one reason you have this—again, this is flagged up by the National Audit Office repeatedly—is that the churn of programme officers is so great that you get the tendency for a new programme officer to go in and not say, "Oh, actually, my predecessor did a pretty good job." The need to make your mark leads to people saying, "Oh, I'm going to change this, change this and change this." I think you can see that, coming back to the armoured fighting vehicle fleet, with the two main programmes: Ajax Scout and Warrior CSP. The number of changes to spec over the last 10 years has been pretty dramatic and has undoubtedly led to both programmes being late and both programmes seeing costs increase.

Chair: Trevor wants to come in, Gavin.

Professor Trevor Taylor: I am a bit more sceptical about formal competitions, at least, for major development projects. I think that when a product is available and you are buying it, if you like, from a shelf, a competition is feasible. But many formal competitions where you ask people to make firm promises on a once-in-20-year opportunity, when you are actually not sure of what you will need because the world changes as well as requirements, too often lead to things like price increases, delays, blame and the MoD tending to point to industry, and industry tending to point to the MoD, and say, "It's your responsibility."

I am very sceptical about formal competitive processes. You see it in the US, where frequently you have things that are not delivered according to the promises made, but also you have a culture where people are more ready to protest bids and protest the choice of winners, because in almost every major competition, there tend to be demonstrations that it is not actually fair. So a formal competition, with bidding rules and everything—I think we have to find different ways of doing this. I am much more in favour of a more collaborative approach from an early stage and taking the risk that Team UK will not rip off the country, as it were, but will see the wider opportunities. When we have military operations, we see this type of thing, but formal competitions very often end in tears. It's a source of reassurance that I absolutely agree with almost everything that Francis has said.

Gavin Robinson: Thank you. Chair, I think Sir Mark is interested in coming in as well; I'm not sure whether you noticed.

Chair: Yes—General.

Sir Mark Poffley: I listened with some interest to the last series of interchanges, and some of this I agree with. Coming back to the comments from Mr Francois about the state of the Army's programme, I think his analysis is broadly correct that the conflicts in Iraq and Afghanistan were major distractions to the organisation; working within a fixed headroom, it is inevitably going to have to make some compromises, and it has made them in the more profound area of armour.

Going forward, I think that last series of interchanges draws out a couple of things for me. The first is that open architectures in most platforms

would allow for systems to be fixed across platforms in a way that we do not do as well as we should currently. I do not think that we should underestimate the implications of systems integration when we are looking at taking a complex weapon, in this case, and trying to integrate it into a ship, aeroplane or, dare I say it, downstream a land systems vehicle.

I think the wider issue of why some of this has not gone as well as it might is broadly recognised, certainly inside the Ministry of Defence. The question will be what happens next about it. It is the professionalisation of the commercial function, in the setting of those contracts, the customer input to those contracts—indeed, it could not change—and the management of those contracts once they are adopted.

A number of comments have already been made on this, but unless you genuinely assign accountability and responsibility, this is always going to drift and you will always be chasing the error around people who will say, "Well, it wasn't me." Those general themes are well understood, and one would hope that, certainly when we come to the integrated review, some of those components will sit inside the reforms that undoubtedly need to be made.

Q18 **Chair:** General, can I put you on the spot for a second? I am just looking at your resume. First, thank you for your service. We do not say that enough to people who have served our country. You are a decorated officer. You served in the Gulf war, the Balkans, Afghanistan and Iraq. Prior to your career in the Armed Forces, you were in banking—I think that is correct. In the latter part of your career, you moved into being the commander for force development and training for the Army—the introduction of the UK's attack helicopter.

I think you know where I am going with this. I am not trying to apportion any blame or anything like that; it is the way it is. You and I worked together when I was a Minister. We place officers—General Richard Wardlaw is another example. He is somebody I was at university with—a close friend. I remember going around Larkhill. He had become an expert in plugs and sockets for the new estate that was for soldiers and families. That was his specialism. That is probably the last thing that he ever expected to be doing when he and I were at Sandhurst together.

It is a long-winded question, but on these big procurement decisions that we are talking about, going back to Francis's point, is it right that we are placing people who join the Armed Forces in specialisms, and who excel in doing the green Army activities, with responsibilities on procurement? It takes some time for them to get their head around that particular business.

Sir Mark Poffley: I think there is a certain legitimacy to that argument. These things have two strands to them. First, there is a degree of contextualisation around any of the senior leadership appointments. You have to have had some understanding of the environment that you are procuring for, but that does not excuse a need for people to go away and professionalise themselves, whether they are military or civilian, in the function that they are engaged in.

If you are in the business of writing contracts or supervising contracts and you are not properly trained, that opens up the obvious risk of a malfunction somewhere. I am pretty clear in my own mind that there are probably too many traditional military inside some of these activities. Again, getting to the heart of where you would make those changes, you have to have someone to go into those appointments, and this will be a training task for quite a lot of people, both military and civilian, over the course of the next five years.

This is not something that you can flip on its head. I would say that the professionalisation of that commercial function is an absolute must. If you have military candidates who are able to get themselves properly competent, they should be allowed to do those jobs, but the criteria are based on a set of competences rather than necessarily a traditional: "Well, we'll post somebody into that job."

Q19 **Chair:** That is why I culturally challenge the MoD's current construct. Without going too far down memory lane, another person I was at university with was David Wilson, who you will be familiar with. He was in the SAS, the SBS and the Engineers—another decorated veteran. He was then moved from doing frontline SF work to smart missile procurement, I think on the third floor of the MoD. He said, "No, thanks. This isn't for me." He quit, and we lost an incredible soldier. That was not the right fit. That was not the right course for the right horse. My concern is that we are getting people to do these things—it was touched on before. They come in to do some form of procurement job for six months to 18 months, then they rotate out. By the time they start to get good at it, they are moved on to their next appointment. I know Mark wants to come in here. Let's go to Richard Drax first, then Mark.

Q20 **Richard Drax:** Sir Mark, on Portland, I saw a tiny example of where this procurement is all going wrong. There is an engineering company that builds moulds, and it was going to build moulds for the ships that we are currently building. The moulds do not last—the integrity, apparently, doesn't last for more than a certain period of time—and because the ships are being built one after the other, there will be a huge period of time or gap, and the company may not even build all of them. The cost to the owner is millions of pounds, whereas were he allowed to continue building all these for all his ships, he would double his workforce and double his everything else, and everyone would benefit. If this is one little microscopic example of where things are going wrong, surely right across the whole defence industry this has probably been happening again and again, and we are wasting literally millions of pounds. Do you agree with this, and can anything be done to ensure that, if we are going to buy kit, we buy it and we do it definitely, rather than delay it, which costs God knows how much money?

Chair: Sir Mark, can you just prepare your thoughts for that but hear what Mark Francois has to say? Let's not venture too far down this cul-de-sac. We need to get back. Interesting though it is, we need to make some further progress. Mark Francois.

Q21 **Mr Francois:** Thank you, Chair. My question is to Sir Mark, but it also bears on what Francis was saying. In the United States, for a major programme such as the F-35 or Abrams tank but even for smaller ones, their culture is very different. They will keep the programme manager in place for six, seven or eight years—the equivalent of three cranks of the handle in terms of UK MoD postings. That means you have a consistency of approach for almost a decade in managing a multi-billion-dollar programme. Sir Mark, could we make that one change in our system so that we have a more consistent approach, rather than constantly rotating in and out different people?

Sir Mark Poffley: I think you almost certainly can do that. Whether we will do that is another question; it's not for me to answer. The reality of that is you will set a series of expectations that inevitably will have a consequential effect on the retention or the recruitment of the current force. If individuals are to go into this line of work having had, let's say, their first 20 years in operational roles, and they then make the switch—as many do—into these procurement-type areas, there is some sense in giving them a head mark well beyond their military career into a future organisation *[Inaudible]*, whether that is private or public sector, that allows them to make those transitions. Then you would get the right quality of people coming into those roles. Most people, I have sensed, have started on their careers thinking, "Well, if I can get past the company command, life will be great." Then, all of a sudden, their ambitions change as they go through. There would need to be a bit of work to analyse the second-order effects of a policy change of that type. From the professional acquisition, procurement and support lines—in terms of whether I think it is a good thing—it makes absolute sense that, if you are looking for a decent, resilient structure that really holds people to account, greater longevity in those appointments is a pretty important factor. You sacrifice that at your peril.

Mr Francois: Thank you.

Q22 **Chair:** Thank you. Trevor, do you want to quickly come back?

Professor Trevor Taylor: Just to say that it would help with longevity if people could be promoted in post for their success, rather than having the post designated at one level because of the project that they were dealing with. If people have to move to get promoted, it leads to the kind of consideration that Sir Mark is talking about.

Chair: Thank you for that. Martin?

Martin Docherty-Hughes: I am just wondering if my colleague in Belfast, Gavin Robinson, has actually finished his question.

Chair: Quite right. Gavin, did you want to come back?

Q23 **Gavin Robinson:** Thank you, Martin, and thank you, Chair. There are two subsequent issues that I think are worth canvassing on, particularly with Francis. He alluded in part, in his initial answer to Mark Francois, to the benefits associated with competition necessarily being part of the procurement process, and whether that leads to a successful outcome.

However, we also want him to consider whether he feels—now that we are leaving the European Union and there are no longer constraints on pursuing an offset approach to procurement—that that is indeed something we should consider, or whether he believes that our defence industry is mature enough that it is not required.

Francis Tusa: In terms of the value of competition, competition has certainly been wrong for the last decade or two in the UK; it has rarely if ever achieved the advantages claimed. In fact, if you go back to, I believe, 2004, a RAND report on naval shipbuilding in the UK said that there was absolutely no evidence from 25 years of data that competition had actually led to any reduction in price whatsoever, and I confirm that in the report that I did on naval shipbuilding. Competition tooth and nail leads to, first, monopoly, because it drives out the weak. When we did competitions and said, "We will give you two ships, and we will give you two ships," and so forth in the '70s and '80s, prices rose inexorably.

Again, sorry to hark back to the whole Type 31 and Type 26 thing, but the UK does not have the size of budget to run two complex warships at the same time, and we will end up with rising prices for both Type 31 and Type 26. That is just a fact of life. Both France and Italy spend about the same on surface warships as we do, but they both have one complex warship yard, and they run one programme at a time.

On offset and things like that, I am not so sure that the old-fashioned offset—"If you do this, we will then invest a bit here and a bit here"—is necessary. What does need to happen, and again what the MoD is very bad at doing, is saying, "Great. If we buy your system, you must provide the complete datapack, so we can then decide which British company will support, maintain and upgrade the system." That is frequently deemed too difficult, or the price of the said system rises too high. Again, coming back to NAPNOC—no acceptable price, no offer of contract—if a company says, "I'm sorry; if you want us to give you the datapack, the price doubles", you should shake them by the hand and say, "Thank you very much for coming. You are obviously not interested in doing business with this country."

There needs to be a far more ruthless attitude at the Ministry of Defence to technology transfer and to work being done in the UK. Again, to give one example, the Wedgetail AWACS E-7, the contract was awarded to Boeing, and we will now work out what work will be done in the UK. Once you have actually told Boeing that they have won, they have the whip hand in any future contract, and they can basically come up with any figures that they like, because they know—largely because a Prime Minister will have said, "We are buying this"—the political embarrassment of having to say, "No, actually, we have negotiated with whichever company, and they can't satisfy our needs." I think Mark Francois also mentioned that the MoD just does not cancel contracts.

On offset, the MoD just has to get ruthless on datapacks. If you want the sovereign capability, that is where to get it. If you look in the past at whether we have got it, I know that talking about the 1970s, and actually

even the late 1960s, may seem silly, but when the UK first bought a version of the Hercules C-130 specifically tailored for the UK, one requirement was that a complete datapack was handed over. As a result, Marshall, of Cambridge, got the datapack and was able to maintain, support and upgrade the Hercules for the next 35 or 40 years, and is still doing it. Not only that, but it was able to sell those services overseas very successfully, because it was cheaper and better than any of the US contractors. We also did it with Chinook, and we ended up with the cheapest and most cost-effective Chinook support system in the world. I fear that with the future Chinook support contract, let alone the future support for Apache, we are not going to have those freedoms, and we are not going to have those financial successes.

Chair: Gavin, any further points on that?

Gavin Robinson: No, thank you; that was very helpful.

Q24 **Chair:** Can I just ask, Francis: are you suggesting a Dr Beeching moment for Cammell Laird, Babcock and so forth?

Francis Tusa: £250 million for a Type 31 is, by every single metric you can find, simply unaffordable. No one else has come remotely close to providing a warship, something that can be sent anywhere down range—to use the Blackadder one, against people even using spears—for £250 million. It is not affordable; it is just not achievable. Even for Russian and Chinese frigates—and you are talking about countries that subsidise their exports heavily, for political reasons—the equivalent design for a Type 31 is between £400 million and £500 million.

I think Babcock is going to have a surprise, but also the Royal Navy and the MoD are going to be in for a bit of a shock. They are either going to have a ship fitted for, but not with, almost everything, or they are just going to have to find more money. The evidence of the marketplace is that it is not possible to get a warship for £250 million, end of, and I am happy to go toe to toe with anyone who wants to produce any of the data. It is not doable.

Q25 **Chair:** Is the point not more that the "e" in the Type 31e was supposed to be for "export"? The reason why this price was supposed to be so cheap was that we were going to be able to flog these things around the world. We have ended up with—is it the Huitfeldt class? It is a Danish hull that was built in 2012, or first came to sea in 2012, and therefore it is not even exciting. It is not like a Dreadnought moment back at the start of the 20th century.

Francis Tusa: All I would say is that I would love the MoD to release their assessment of the marketplace. They have completely missed the fact that the old marketplace, which was dominated almost entirely by European shipyards, is now massively diverse. You have Turkey exporting ships, Indonesia exporting ships, South Korea—you name it. It is not the old-fashioned warship export market, and as I say, the Chinese are happy to give ships away for political purposes. On that basis, even if it were possible to get a £250 million frigate—it isn't—the Chinese will undercut

us. By the way, the Turks, the Brazilians and the South Koreans have all said that they will happily subsidise any of their exports to build up market mass. I see no sign that Her Majesty's Government will ever start mass subsidising ships to win market share.

Chair: Thank you.

Q26 **Martin Docherty-Hughes:** I wonder if I can ask Francis about the impact that covid-19 will have on current programmes, and how the upcoming review of the defence and security industrial strategy should take account of it.

Francis Tusa: I think it is pretty obvious that because of social distancing and factories closing, many programmes are going to see delays to delivery, not least ones such as the F-35 where there have been interruptions in the international supply chain. We are probably going to see delays to the vast majority of the programmes in the equipment plan today. It is a fact of life, and I hope everyone is adult about it and does not try to enforce penalty clauses; we just have to deal with it. That is the basic one.

In terms of looking forward and the review, but also things like the prosperity agenda and the Government's election promises to rebalance the economy, there is a place for the defence industry in this country to help. Again, I would look across the channel to France. They are already looking at however many billions they can put into French defence companies, which will then go straight into the supply chain to bring employment back into France. As an example, after the financial crisis in 2008, the French MoD plumbed an extra €1.8 billion into defence procurement in a single year, bringing forward programmes, accelerating other ones and getting new ones under contract. It had an incredibly positive effect. There is a lesson here—

Martin Docherty-Hughes: Can I maybe—sorry.

Francis Tusa: No, just that the lesson is that all of that money, as far as possible, was spent in-country. I have a fear that if you did, for the sake of argument, give the MoD an extra couple of billion, they would go, "Great! We can now buy loads more F-35s, or we can buy more Chinooks", so you would basically just be exporting the jobs overseas. If the MoD is going to show that it can help the country in this specific area, any extra money it is going to spend has to be seen to be spent in Britain—in British factories—and not overseas.

Q27 **Martin Docherty-Hughes:** Let us take that slightly further, then. What would you say are the wider implications of covid-19 for different defence industrial sectors and regional economies across the UK?

Francis Tusa: The broad one, in terms of commercial aerospace, is that it is going to be a nightmare for the next few years. In terms of areas where I can see defence procurement's upsides, the UK needs to get a nuclear, biological, chemical reconnaissance regiment capability back. We have the bioscience capability in the commercial sector. I can see that joining with

defence companies, and you can see an upside that is then exportable, so that is a pretty obvious one. If covid-19 is showing us in a broader sense areas that UK defence needs to consider, you can call it resilience or you can call it home defence, unfashionable though that term is. Any audit of UK defence, especially in the aftermath of covid-19, will show that the UK home defence base is perilously weak and that we need to have significant reinvestment in capabilities to defend the home base.

Q28 **Martin Docherty-Hughes:** Francis, before I conclude, do you not agree that there is something substantive lurking behind the idea that the defence industry contributes to local economies, and while much of the risk and sometimes the fluctuation of defence spending is devolved to the nations and regions of the UK, the stable and secure aspects of, for example, basing and headquartering, tend to be overwhelmingly focused on the wealthier parts of these islands? Some would say a disproportionate number of senior military positions are based in, say, English counties like Hampshire and Wiltshire. Do you think there could be a case to take into account the impact of all MoD spending on regional—for example, in the north-east of England—and national economies, and not just the industry spend?

Francis Tusa: Without a shadow of a doubt. I would hope that anyone looking in absolutely the broadest sense at MoD basing of all the services would recognise that one of the problems facing services in recruitment, let alone their getting the budget, is that the services have largely disappeared from much of the country. You have got super-garrisons, often some way away from the population centres. As for naval bases, you could say Portsmouth is in a pretty populated part of the country, but in Plymouth you're heading towards the far south-west. The Clyde? The services are not seen as often as they used to be. I agree with you. I think there is a case, even though it may not be as efficient, to use an accounting phrase, for seeing whether the service and the defence industry footprint could be spread more widely across the country.

You are right. We are in a situation with covid-19 and the aftermath where you can turn the defence industry taps on really quite quickly. You can go to MBDA and say, "Programme X. We had a delivery schedule of six months. Can you double it?" You can go to General Dynamics in south Wales and say, "We'd ask you to produce Ajax at the following rate. How quickly can you boost it?" You can go to BAE Systems in Glasgow and say, "Type 26 in-service date. Can you bring it forward by two years?" They can.

Q29 **Martin Docherty-Hughes:** Just to finish, are you basically saying that covid-19 demonstrates the need for a national industrial self-sufficiency?

Francis Tusa: You will never have a tooth to tail every single part of every defence system built in Britain. That ship sailed a long time ago. However, the MoD has got to look much more closely at the fact that things can be done in Britain. One big example, especially with the cost of covid-19: are we really saying that all the steel for all future warships will come from overseas? Someone will say that that is value for money. I

would go back to Oscar Wilde: a cynic is someone who knows the cost of everything and the value of nothing. Just because a tonne of steel from a Polish steelyard is cheaper than one from Port Talbot, does that make it better and value for money? Again, this is where the MoD really has to reconsider—I agree with Sir Mark—the basis of decision making, and it is not just the pound value.

Chair: Thank you, Martin. I think both Trevor and Mark would like to come back. Trevor, you indicated first.

Professor Trevor Taylor: First, going back to the competition point, the more that you run competition to the lowest price, the more you drive prime contractors to look for the cheapest subs. If they are overseas, they are the ones that you will use, so you have to build that into the competitive considerations. It is clear that what covid has really highlighted is that defence has become a point of stability for many industries. A lot of industries have collapsed entirely; defence has not. Demand has stayed, and there is consciousness that the MoD should pay the primes promptly and that they should pay their subcontractors promptly. That is obviously a massive problem, but does something to reduce the scale. In the US, interestingly, it has already been observed that, at a time when American unemployment is absolutely leaping up, the defence companies are hiring, because they have work—so, the counter-cyclical part.

The basing point is an interesting one, because the services have been pressed by efficiency considerations to go into fewer and fewer areas. To a certain extent, that is thought more appealing for the Army, but the consequence of that, as Francis said, is that there is less consciousness of the Armed Forces, and the benefits of having Armed Forces in your area are being cut back. I absolutely agree with Francis: the calculations of efficiency have to be thought through carefully.

Chair: Thank you. Martin, is that okay with you?

Martin Docherty-Hughes: That's all, thank you.

Q30 **Richard Drax:** What capability the UK must have has been touched on—I think by you, Francis—so may I ask you, Mark, what capabilities must remain sovereign, and is that a meaningful concept anymore, given the international nature of defence businesses?

Sir Mark Poffley: As Francis pointed out, very few capabilities are purely national. Indeed, if pressed hard, there are one or two very niche technology areas that are purely national—largely for technical reasons.

You should remember that capability is a function not just of equipment but of everything else. This tends to be an international issue and, dare I say it, it is important that it continues to be that, because when you start to look at the volumes of capability around all the areas, the volumes mean that not many people are going to go it alone—or fight alone, certainly—these days. Therefore, interoperability becomes an important component.

The notion of sovereignty has some important areas of significance. That goes to the heart of real technology areas that deliver you operational advantage, commercial advantage or, perhaps, even political advantage. There are one or two niche areas that those fall into, but this is probably not the forum to discuss those. They tend to be at very high classifications and where we are likely to see some commercial advantage downstream—though there is a second-order question as to how we realise that advantage, or whether we do it to maximum effect.

We can certainly prioritise those capability areas and, indeed, that is what happens. They tend to be in areas such as space, surveillance, complex weapons or, dare I say it, emerging disruptive technologies. The UK is a leader in many of those areas, so we shouldn't underestimate their importance, but they do not translate naturally into a capability, because each of them tends to service sub-systems, rather than major systems.

With those major systems, let us take our favourite subject of the day, a warship: the bolt-ons to that need to be capable of a spirally developed solution that keeps pace with modern technology. You have seen it in the aircraft carriers and certainly in the Type 26s and the Type 45s' development. All those have had to have refreshers, even though the Type 26 isn't yet in the water. The technology is moving on—think about the computer you bought seven years ago; it is not quite as up to date as you can get on the market today.

That notion of technology and sovereign importance on technology is more important today than the idea of capability sovereignty.

Q31 **Richard Drax:** May I ask one more? Should the basic platform—take your ship, for example—be sovereign? So the making and the building of the platform, but then having the acquisition of what goes on the platform—the technology from America and so forth, because it is advancing rapidly. They might have a better missile than us, so we buy theirs. We keep the platform here, but we get the additions elsewhere.

Sir Mark Poffley: There are some advantages to that, because you have ultimate control, but the reality of life is that you are probably therefore not getting the specification that you could realise by collaboration. Indeed, when you get into resilience in that sense, more broadly, on operations, it is our ability to work alongside particular partners, whether *[Inaudible]* that is principally Australia and the United States. With those two countries working alongside us, we can share things that we do not share with many other countries.

The notion of sovereignty is an interesting one. You could block it up in alliance terms, so the Five Eyes community has a certain importance in that direction and, dare I say it, NATO to an extent. Increasingly, however, platforms tend to be, as Francis pointed out earlier, multinational endeavours. If you look at the number of suppliers, let us take our aircraft carriers and the tier 13 suppliers, I think we were up to about 3,000. The chances of all those being national are pretty limited, I would have thought.

Q32 **Chair:** On that point of collaboration, when we look at the helicopter procurement of the United States versus Europe, there are about—I do not have the exact numbers in front of me—40 variants of helicopter that are designed in the United States covering six essential platforms: transport, recce, SF, general purpose, maritime and attack. When you look at the rest of NATO, there are about 150 different platforms to cover those six purposes. There is a big question, which you touched on before, about how the character of conflict is changing into cyber, into space and so forth. If we want to remain a full spectrum, tier one, day one capability, do we not need to actually be working more vigorously with our colleagues to procure the necessary equipment that we need?

Sir Mark Poffley: I think I would say yes, but I am not sure that it is as simple as that one-word answer suggests. The realities of this are that we have a multitude of different partners, all with slightly different agendas that need to be merged. This is a particularly difficult area.

Let us take our helicopter example. There is an important dynamic here in generating what I would describe as dual use or utility platforms, through which you can incrementally provide modules to make them at a particular specification, and you can scale that up and down as necessary. That sort of approach puts the emphasis largely on the sub-systems rather than the prime mover. Actually, all the prime mover is really doing is either moving a human being or a sensor or a weapons system. That is all they do. Their survivability is judged by which boxes you put on, by and large.

From the point of view of that sort of dynamic, that is going to change the way we might look at the industrial base to say, "Is the effort put on the prime movers or is it put on the sub-systems?" Of course, there is a debate to be had there.

Q33 **Chair:** That is an example. The United States have the Black Hawk programme as well as the Seahawk, for example. It is the same rotary system that is able to work with variants in different military scenarios.

Sir Mark Poffley: I call that resilience.

Francis Tusa: Apropos of that point about it not being the platforms, but the sub-systems, I come back to my point that if you are going to exploit your ability to rapidly insert sub-systems, you require the core datapack of that platform. Otherwise it is proprietary to the manufacturer and they will exert all their influence to charge pretty high costs to integrate systems. We have seen that to a degree with Chinook.

Again, if we were to buy Black Hawk, if we did not get from Lockheed Martin the core intellectual property, software and so forth, we would be their servants as regards any national systems we wished to fit. By all means, say that the platform is not as important as the sub-systems, but if you do not have the sovereign capability to integrate, test and fit, it is pretty much worthless; you are a helot.

Chair: I think the Apache suffered from that particular aspect as well. Can we turn to the integrated review? Mark Francois, do you want to take us

forward on that?

Q34 **Mr Francois:** This is to Sir Mark in the first instance. As you know, the defence market is almost unique. In the UK context, you have one customer—the state—and the suppliers are dominated by large, oligopolistic companies, which are very powerful: the BAE Systems of this world, the Boeings and the Lockheeds. That is the reality that the MoD has to cope with. When the NAO looked at the MoD's equipment plan recently, they concluded that it was still unaffordable by between £2 billion and £13 billion, depending on how optimistic your assumptions are. Of the 32 most significant programmes that our national auditor analysed in detail, only five were due to be delivered on time. Isn't it true that our old paradigm of defence procurement is effectively broken?

Sir Mark Poffley: From my point of view, I think it has some significant shortcomings, which need to be addressed very quickly. There is a classic burning platform that sits there right at this moment. You describe some of the circumstances, and there will be others. Dare I say that there are some genuine opportunities going forward that might allow for a revised system that could attend to some of the dynamics that you alluded to.

From my point of view, that goes to the heart of how you reform places like the DE&S; more importantly perhaps, the Ministry of Defence's approach to acquisition; and more importantly still, the Treasury's approach to how it views the judgments that are made at the various levels. If you go back to the commentary that we made about accountability and responsibility, at the heart of this is trust. If it takes you tens of signatures to get out of one organisation and progress to the next level, that suggests to me that nine of the people who signed off on the proposition are not trustworthy, and therefore you have to have a tenth. Dare I say that we were certainly into double figures in the approval and scrutiny process. There is an acceptance of risk and an acceptance of failure.

As far as industry is concerned, there certainly needs to be a closer relationship between industry and the Ministry of Defence. There needs to be an organisation that brings greater coherence, not just inside the MoD and its associated subordinates, but more broadly in the Department for International Trade, the Treasury and the Foreign Office.

If you go back to your basic proposition, none of our programmes are going to generate the volumes that would make setting up production lines uniquely for the Ministry of Defence particularly commercially attractive. As a consequence, you end up with a financial overhead that accrues with that. If you can broaden that to an international customer base, which requires you to have strategic campaigns to go after international business, you stand a better chance of making that calculation more commercially attractive.

From my point of view, this is a multi-dimensional problem that requires a wholesale strategy—to come back to the very first question of this session—that sets out how you are going to make the acquisition system,

our approach to commercial sales overseas, and the linkages between the military and industrial partners, closer. All those things play into this debate.

Q35 **Mr Francois:** Okay. You have talked about the need for reform. In 1986, Michael Heseltine, as Defence Secretary, supported I think by Peter Levene, produced a report called "Learning from Experience" after all the problems of the failed Nimrod AEW programme, which cost the taxpayer about £1 billion. It didn't work, and we had to buy AWACS instead. Thirty-four years ago the MoD publishes a big report about the need to reform its procurement system and here we are, a third of a century later, with you saying we need to reform the system. Now at what point are we actually going to do something fundamental to change it? Because the MoD has proved, again and again, incapable of managing the system effectively. I say that more in sorrow than in anger because, as I hope you would appreciate, all the people on this Committee—we are completely cross-party—we all want to see more money spent on defence, but the first thing the Treasury always says to us is "Well, look at the MoD. They can't even spend what we give them properly." You hinted at some quite broad reforms in your previous answer. As someone who had to juggle all these different programmes on a daily basis and somehow try and make it affordable, what would you recommend in terms of really meaningful reform, as opposed to tinkering? We tried tinkering for decades, and that doesn't work. It is broken. How would you fix it?

Sir Mark Poffley: Well, from my point of view you need to reduce the process. It is too complicated. It is difficult for industry to interpret. There is less interaction than there should be. There needs to be a complete review of how we approach risk in the programme—both technical and financial—and that needs to be matched to the notion of matching responsibility and authority. So someone takes a proposition; they need to be locked to it for a period of time to make sure that they don't just set off a proposition and leave it behind. So, again, we tripped on that before. I think the industrial engagement and the co-ordination needs to be better, and I would probably recommend something like a trade commissioner with an organisation that actually set out what were the benefits for the industrial base in the defence sector, and then match them to the military ambition and the departmental ambition and, indeed, dare I say it, that is going to have a cross-Government dimension to it.

Then the final thing I would say is, probably, have a look at the cultures, because the cultures at the moment are fundamentally parochial. So you get a lot of internecine battles not just in the Department but within the Department at the soft level. Again, you could take that even at a governmental level. It would be fascinating to hear subsequently from the right honourable Philip Dunne about whether he felt there was a cross-Government internecine battle going on—and I suspect there is, on the defence industrial side. So I think there are several things like that that should be imported into some form of review.

Can I just say one thing about reviews? We seem to be constantly reviewing this. There are only a few fundamental things that need to change. One of them is process. One of them is about making sure that the levels of risk—both technical and financial—are sorted out. The third, probably, is to give us the financial headroom to be able to make the cross-DLOD judgments—lines of development judgments—that are needed in any of these compromising decisions. If we had a conversation about infrastructure, do you know what? If your budget is squeezed and you have to make some compromises, guess what—you are going to go where the cheapest is. So investment decisions are principally fiscal, associated with a confined budget at the Ministry of Defence.

Q36 **Mr Francois:** Yes, but look, the MoD can't even manage its infrastructure contracts properly. We know that from the Trident infrastructure. The NAO report on that was excoriating. We know that from the accommodation infrastructure contract. That has been very poor. There is a general weakness across—you mentioned in a previous answer about needing to improve the MoD's commercial skills to be able to manage these contracts. It seems to me that however much you put into procurement—whether it is x or 1.5x or 2x or 5x—unless you can spend x properly in the first place you are never going to get value for money. You have got thousands of people who work at Abbey Wood—thousands—and only five of 32 major programmes are going to be delivered on time. It is completely unacceptable and yet it goes on again and again and again. One last go: you have given us some ideas for fundamental reform. If you could change one bit of the procurement process, what would it be?

Sir Mark Poffley: Almost certainly that commercial function. I would streamline and professionalise that root and branch.

Q37 **Mr Francois:** Do you accept that at the moment it is relatively unprofessional?

Sir Mark Poffley: It is not current. Let's put it that way.

Chair: Thank you, Mark. Philip Dunne was mentioned. I am keen to get to him. We are running out of time, but we have two more questions that we will have to rattle through quickly. First, we will have Kevan.

Q38 **Mr Jones:** First of all, Chair, in relation to one of Mark's statements about land vehicles, I tried to get in but you obviously didn't see me. I accept the difficulty in Iraq and Afghanistan with land vehicles, but the farrago of FRES was clearly the fault of the MoD and the Army in particular. I don't think we came out of that with any degree of credit. That set back not just the Army's capability in terms of land vehicles, but the UK industry's sovereign capability. Trevor, regarding our strategy, in terms of retaining skills, sovereign capability and the wider economic benefits, how do you get those features into a procurement programme and how would you measure them?

Professor Trevor Taylor: The bigger companies already have a long-term view of the skills they will need today and in the future. In order to

develop and keep those skills they need the prospect of orders—matching the orders and reconciling the industry's needs. Sir Mark said earlier that no one will buy equipment that you don't actually need, but that is not true in the United States, where, with their tank production, in order to keep the factories viable, they have placed orders for things that are not directly pressing.

The need is to integrate better the conversation that takes place—a better conversation—between industry and Government as to what industry needs in the future, what the MoD will ask for and what the single services will ask for. That is key. There is technological forecasting in terms of skills development. You have seen increased emphasis the companies have placed on cyber, electronics and computing. That has been the case in the major platform firms.

We must remember—this has been raised about land vehicles—that many areas of industrial capability are on a one-way valve; that is to say, if you lose it, it is extremely difficult and very costly to get it back. I sometimes tritely say that it is easier to build a modern air force than it is to build a modern aeroplane. That is a significant thing that the Government must remember. If things go away, it is very difficult to get them back. We need to give attention to that.

Tied into that, from the point of view of the services and the users, it is important to recognise that what the frontline can do is only a function of what the supply chain can deliver reliably to them, rather than what you get delivered on the day. It is the support that matters in the long term and the ability to keep that support going.

Measuring the wider economic benefits is extremely difficult, and it depends on the time. The economic benefits of defence have gone up markedly in the last three months, because so many other sectors of the economy have gone down. We do not know what kind of economy will emerge from this. But it is pretty clear that in particular regions defence is very important. The size of defence supply chains is very important. I would guess that practically every engineering company in the UK is involved one way or another with some aspect of defence. They may not even know it, but they will be. Therefore, when you cut programmes or when you decide you will buy a foreign product, you actually don't know what the spin-down effect is.

For some companies, defence is long-term business; it helps with investment. For smaller companies hidden in the supply chain, if that goes away, a very important part of their business disappears. It is extremely difficult to put a precise figure on it, but everybody who has looked at this realises that defence generates a lot of employment. It generates a lot of useful, reliable work for companies. It is high-technology work that, if they are any good, they can use in civil sectors. Sometimes there are strong regional considerations—the most obvious ones are Barrow, the Clyde and so forth. Another factor that weighs very heavily with me—I will stop after this—is that, when we look at the wider economy, you have to ask about the elasticity of the economy. The major areas that have deindustrialised

in the UK are coalmining, textiles, steel and pottery—I lived for a while in the Potteries. When you say, "Okay, those industries have disappeared. What's taken their place? How's the agility of the economy?" and it takes a very long time to adjust, so there is a long period of pain, how do you put a price on that? The overall picture for defence is very positive. It has a lot of advantages, and cutting it—it is very difficult to measure—perhaps creates disadvantages.

Chair: Thank you. We need to press on. Kevan, are you content with that? Can we move on to Emma?

Q39 **Mr Jones:** There was the next question for Francis.

Francis Tusa: I will just back what Trevor said. Basically, what defence companies need is a degree of certainty. If they are to invest tens of millions of pounds in skills, training and so forth, but then have the MoD change its mind frequently on a whim, it doesn't really give a good basis for investment. Certainty is the best thing to get programmes coming in on cost and to time; change is frequently the enemy of cost and time.

Chair: Finally, on foreign ownership, Emma.

Mrs Lewell-Buck: Good afternoon. Trevor, my question is to you, but Francis might want to come in too.

Chair: We can't hear you very well, Emma.

Mrs Lewell-Buck: Can you hear me now?

Chair: Much better.

Q40 **Mrs Lewell-Buck:** What are the risks of foreign ownership of defence companies? Does what you know so far about national security and investment building mitigate any of those risks? Should such takeovers—*[Inaudible.]*

Professor Trevor Taylor: I think that question was pointed initially at me. To a certain extent, we already have a very substantial and beneficial foreign armed presence in the UK, particularly with Leonardo, Thales, Airbus and so on. They have served their purpose very well. What we have to remember about foreign ownership of major defence businesses is that the boards—the controlling authorities of these companies—have to be persuaded that the UK is a good place to invest because of the kinds of things that have just been talked about: because there is certainty and confidence in the market, the UK will be committing to projects that are valuable. So far, we have had quite a good run. Airborne radar is a very good example of foreign ownership that has done very well under that condition.

There is an issue that arises at the other end of the supply chain with the smaller, potential companies or SMEs—we have had some discussion of SMEs. There is an increasing worry in the UK and in the US, where the debate is normally louder on these things, that these companies are often companies of potential, rather than of real importance immediately. Quite

often, foreign investors come in—particularly Chinese investors—and provide them with capital that they need, and then we worry about what happens to the intellectual property that these people generate, and it goes off. So there are two issues about foreign ownership. One is about the big companies—Airbus and so on—and how they are going to proceed in future. There are some issues, obviously, when large investment houses buy somewhere like GKN about whether they will see it as a good source of profit, or whether they will want to not invest in it.

Those are the big companies, but then we also have the smaller company issue about how we control, understand and regulate the purchase of the small but potentially very important companies. There was mention earlier that we are very good at some very sensitive, high-tech areas, and some of this may come under foreign control, because we do not provide the capital in the UK.

Q41 **Mrs Lewell-Buck:** I think Francis wanted to come in.

Francis Tusa: Just a couple of things. Am I worried, say, about Thales being part of a French company, or Leonardo Italian? No, not at all, although they still have to be given the same sort of confidence in the business environment in the UK as they would expect to get in their own countries. However, we have got to be really aware, and speaking to Trevor's point, of Chinese companies—investment companies, aerospace companies—buying up small and medium-sized enterprises.

There was a very good report by Deborah Haynes of Sky News—I believe it was in July or August last year—about a printed circuit board company in Gloucestershire, called Exception PCB, which produced the printed circuit boards for the F-35 engine control unit, for parts of the Meteor missile, for the Typhoon fighter aircraft. It looks like it is not a particularly sexy, interesting company, but they are at the heart of key subsystems of all of those products, and it was bought by the Chinese. The MoD did not really seem to have any interest. I am led to believe that the day after the programme was broadcast, an MoD security team was taken straight down to Gloucester to find out what was going on. And I will, sadly, make a bet: there is no knowledge about what elements of the defence and aerospace supply chain in this country—the SMEs—are owned by Chinese companies.

There is one thing you have got to say: there is no such thing as a Chinese aerospace company that is not involved in defence. They all are involved in defence. If they have bought a small, family-owned titanium milling company, they are not doing that because they are interested in expanding their commercial aviation. They are looking to buy technology that they will then be able to leverage into defence schemes, and they are willing to do it over a number of years. And that level of knowledge—I suspect the MoD says, "Nothing to do with us. That's probably down to BEIS," and people just slope shoulders.

In France they set up, probably about 10 days ago, partly because of covid, a committee to look at the complete defence supply chain of SMEs across the piece—which were in danger of going broke and also which

were in danger of being bought out—to get complete visibility of where the points of weakness are. If they can do it, we can do it.

Q42 **Mrs Lewell-Buck:** If I can ask a quick follow-up, so I am clear on what both the witnesses have said there, it seems, in terms of the protections in place for our security when there are foreign takeovers of defence businesses, that there are none in the UK.

Francis Tusa: If a Thales or a Leonardo has got a viable business going on in the UK, they are going to be very happy to support it, invest in it, keep it going and also to keep restrictions on who has access to technology. The same cannot be true, I would suggest, from non-NATO sources. You have probably got to suspect, as a matter of course, that if Chinese companies are sniffing around defence and aerospace SMEs in this country, it is not for good reasons.

Chair: Thank you. We will have to call a halt there. We have got a little bit of extra overtime, if that is okay with you, Philip Dunne. But can I thank for this first session Professor Trevor Taylor, Francis Tusa and General Sir Mark Poffley for your time and your contribution? You are welcome to stay online, as such, but we will now turn to the right honourable Philip Dunne.

Examination of witness

Witness: Rt Hon Philip Dunne MP.

Q43 **Chair:** For transparency, you are Chair of the Environmental Audit Committee—is that correct?

Philip Dunne: Correct. I am also deputy chairman of the Defence Growth Partnership.

Q44 **Chair:** Absolutely not to be forgotten. You wrote a report, "Growing the contribution of defence to UK prosperity", which was published in 2018, I think. Who would like to kick off with this one? Kevan Jones—back to you.

Q45 **Mr Jones:** Thank you, Chair. Philip, could you explain now why the MoD is incapable of managing big programmes or even balancing its budgets?

Philip Dunne: Thank you, Kevan; as a former Defence Minister yourself, you will have a good view about this. I would say we have to recognise that defence budgets all around the world have come under significant pressure and very few countries managed to do it well. The defence equipment plan that Mark Francois was talking about is about £15 billion a year. It is a bit more than that now, but it was when I was the Defence Procurement Minister. About half of that is spent on capital expenditure—that's the new equipment—and about half on supporting existing expenditure. Under the Government accounting rules, it has to spend that money within the year end, come what may, or else it loses it. That imposes a discipline at one level, but it also imposes significant challenge on the Department to land this budget, and in particular its capital budget, within the envelope on projects that in many cases, as we heard earlier this afternoon, are multi-year and multi-billion pound. That is a problem.

Certainly when I was in post under Philip Hammond when he was Defence Secretary, we were talking to the Treasury about a way we could establish some form of accrual system whereby you would not have to spend the capital necessarily by the month end without fear of losing it. It can lead to very perverse decision making and I think the recently published NAO report identified one example where a contract was deferred because it couldn't fit within the budget and compensation payments had to be made to the contractor.

Q46 **Mr Jones:** Philip, if there was one reform that you could instigate in terms of the procurement process, what would it be?

Philip Dunne: I think that much of what was said by Sir Mark earlier was on the money on this. The decision-making processes and skills of those who are making decisions has a huge impact on the way in which actual projects get delivered. On personnel, this is not just people who were working at DE&S, it was also, frankly, the political construct that we have. We currently have a Defence Secretary in post. Since 2010, we have had an average of 24 months for all the Defence Secretaries if you take out Penny Mordaunt. For my position, as the Minister for Defence Procurement, we are now on our sixth in the last four years. Lack of consistency in decision makers through the MoD and through the Armed Forces is one thing. Within DE&S, which is the agency charged with delivering procurement, when I was in the post, we tried to address this. One of the recommendations of Levene, and also of Bernard Gray in his report when he was chief executive, was to encourage personnel and particularly military personnel to serve double terms. Instead of doing two years in post, they did four years in post. I think that needs to be extended.

I would share Mark's recommendation that we should be looking at professionalising the commercial functions of DE&S. We will come on to my report shortly, I am sure. One of the things I was recommending is that we needed to have a greater understanding of what happens to service leavers. Any service person who has served within the engineering functions of the military has built considerable expertise and many could continue to serve in a civilian capacity if we provided them with a lifetime appointment. Not necessarily a commitment for a lifetime, but if they felt that they could move backwards and forwards between military and industry, having completed their military service, that would give a residue of expertise that DE&S and other branches of the services could draw on.

Q47 **Mr Jones:** You mention the NAO report, Philip. In terms of the over-programming of the defence procurement budget, do you think that by the Levene reforms that pushed budget heads down to the service chiefs, that it has actually weakened the centre in terms of having control over which programmes either should be accelerated or slowed down or, in some cases, cancelled all together?

Philip Dunne: I am in favour of greater agility in decision making. The centre has done one thing that is commendable. From the outset of procurement processes, it has introduced strategic outlines of the business

case to be used across other branches of government. That gets together all the actors who will have a say in making a procurement decision around the table or around the decision-making process. There was not that kind of buy-in for a project from the outset in the past, and when I was in post. We would get strategic factors coming into a programme that might divert a decision later down the process. Change is a big driver of additional cost and delay, as was pointed out earlier by Trevor or Mark. Bringing in decision makers at the outset is a good thing. Equally, it runs the risk of slowing agility in procurement, which is the other key driver in getting capability to the front line quickly. That is where driving down to the command the ability to be more agile in the way they bring capability is a good thing. They decide what capability is required and bring it into service. Each command has set up its own equivalent of the Rapid Capabilities Office in order to accelerate procurement. That is really important for new technology and innovation. We have not talked much about that in this session, I had hoped we might get onto that.

Q48 **Mr Jones:** Philip, one last question: you already mentioned Treasury rules and the limitations set by them in terms of programmes. Would you be in favour of multi-year settlements for individual programmes? There has been talk about running some of the larger programmes rather like others, including HS2 for example. Would that be more efficient?

Philip Dunne: Absolutely. That is exactly what should happen to measure military procurement. During the covid crisis, the Treasury has shown commendable flexibility in changing the way it approaches a problem. One of the benefits that might come out of this virus crisis is a more flexible approach to the major capital projects across Government, and it could also be extended to the military. That would be a great outcome.

Mr Jones: That seems optimistic, as usual.

Philip Dunne: Like you, Kevan, I always look on the bright side.

Q49 **Derek Twigg:** What are the key insights from your report into the contributions defence makes to UK prosperity?

Philip Dunne: I was very pleased to have been asked to do this. It was the first time in my political lifetime—and probably for a long time—that there has been any attempt to try to identify what contributions are made by defence to the UK economy in its routine operations. First off, we found that we need to re-establish an economic understanding of the contribution made by defence, which is the key recommendation that I made. The Office for National Statistics stopped calculating defence contributions some years ago. One of the reasons for that was that it is difficult to disentangle what element of a business's activity is defence and what element is not. As people said earlier, most engineering companies may well have a defence element to their business and may not necessarily even know it.

Establishing defence economic teams—the Joint Economic Data Hub established within the UK Defence Solutions Centre with the support of King's College London—is a really good consequence of my report. That

needs to be populated throughout defence. The work they are doing at the moment is macro. I would like to see a prosperity element included within decision making for individual procurement, and for project teams to use metrics to identify what element and weighting of the procurement should be given to UK prosperity factors when making decisions, either on a position or on deciding whether to self-source or go out to competition. That would be a really useful intelligence for the procurement team. It would provide some degree of comparison between projects. A question was asked earlier about the extent to which Type 31 used metrics. We might get on to this, but there has not been a metric available for procurement teams to use to determine the UK prosperity element and that was the first procurement where they tried to introduce one.

Q50 **Derek Twigg:** In general terms, what is the progress in implementing your recommendations?

Philip Dunne: The first is getting some data together for the impact assessment. That is a good thing. The second thing, picking up on what Trevor was talking about, and maybe Francis as well, about supply chains security risk, is that it is really important in the industrial strategy that comes out after the integrated review that we are looking at the full supply chain both for security risk and for viability of domestic supply chains. That is very important. I understand that that is due to be a strand within the defence industrial strategy. In that case, that would be helpful.

Another aspect of this strategy is to include prosperity as one of the strands of work and try to ensure that it is taken into account as the industrial strategy develops in order to show the impact of defence on the economy. We will come on to this later, perhaps, but its impact has not been widely well recognised.

A couple of things have not been taken forward well enough yet. One, again, which I think we will see coming through the industrial strategy is innovation. When I was part of the 2015 SDSR we allocated £800 million of a very taut budget to renew innovation across the strategy over 10 years. As of now, nearly £100 million of that has been spent and we are nearly halfway through the 10-year programme. A great deal more needs to be invested in innovation because the threats of tomorrow are not the threats of 10 years ago, when we were developing a capability that would be coming into service now. Innovation has to be critical in keeping our Armed Forces fit for purpose tomorrow.

A smaller issue, again, touched on by your earlier panel, is problems over intellectual property. When I was in post, we identified a need to get control over intellectual property, in particular to be able to support capabilities within service. Again, I think Trevor talked about how effective this was in some of the air platforms with the Hercules, supporting and being able to develop that. There is still a row between industry and the MoD on how to deal with intellectual property. We have to get a grip on this. Apart from anything else, it would be very difficult to pay international defence contractors or non-defence contractors to be able to supply MoD until there is a clarity about who owns intellectual property,

what happens if the MoD wants to procure it in future? There needs to be a balance here and that has yet to be struck.

Chair: Thank you. We are running out of time that we are on air. We have two more questions that I would to get in. Can I turn to John Spellar first?

Q51 **John Spellar:** Can we be clear that neither in doctrine nor in percentage weighting does the Department give very much weight to industrial prosperity or, indeed, to the whole prosperity agenda?

Philip Dunne: I think that has been the case in the past. I very much hope that part of the output of the work that I did a couple of years ago, and is being done in preparing for this new defence security industry strategy, that that will not be the case in the future and that weight will be given to the impact on the UK economy.

Again, going back to Type 31 that we discussed before, that was the first time a significant platform development attempted to measure within its criteria for selection in a competition the element of a prosperity for the UK and the exportability of the platform. I understand that the combined weighting initially was 5% and was then reduced during the course of the competition which meant that the weighting—I do not know what it ended up at—was lower than the original model suggested. I think that that speaks volumes about how this has been regarded within the Department up to now, but I hope that that will change.

Q52 **John Spellar:** Let us take the fleet solid support ships. This is in the news today. The Department is refusing to release the details of the report commissioned by Penny Mordaunt. My recollection is that prosperity and industrial value was at something less than 1%. Frankly, no other major industrial country behaves like that, does it?

Philip Dunne: I am not familiar with the fleet solid support ship criteria, because that is obviously current and I am not privy to that, but the decision over the Tide class of vessels happened to be taken just before I came into post back in 2012, and I think that, because of the 2010 SDSR and the pressures on the Department's budget, that was primarily a financial decision, taken to get the best value for money through competition.

I think that, as we come out of the EU, we have an opportunity for vessels that are not classed as warships to take a different path, if we want that. In the case of the fleet solid support ships, I personally think it's arguable whether they are warships or not. They are handling all the munitions for the F-35, which has a degree of classification; you couldn't just put them in a commercial vessel and hope for the best. So I think it's arguable that they may be warships, in which case even if we were remaining in the EU, a case could be made for UK manufacture.

I think we have to be a little bit careful about hull construction. I know Francis was saying that we should be able to make the steel in the UK. The fact is that we have not been able to use UK steel as specified for a Type 26, which I was familiar with—I'm not sure about the Type 31, but I expect it was the same—because steel of the strength required for naval

vessels simply isn't manufactured in the UK any more.

Q53 **John Spellar:** Well, that is simply because we have not provided the market and done like other countries; we have not provided support to maintain that capability.

Philip Dunne: But the volume of steel required is not sufficient to keep a steel mill going all year.

John Spellar: I suspect our Navy is a bit bigger than the Swedish navy. But I must say that, with our coming out of the EU, at least the MoD won't have that excuse any more. Quite frankly, France and Italy, just to take two examples, had no difficulty in designating these ships as warships and insisting and ensuring that they were built in their own yards. At least it takes away that area of discretion from the MoD.

Chair: We will have to leave that there. I am going to write to the Secretary of State to ask for clarification on this. It does seem that there are some double standards being followed or rules being ignored, especially given that, as we are leaving the EU, there is an opportunity there. Finally, can I ask Stuart to wrap things up for us today?

Q54 **Stuart Anderson:** Thank you for coming before us, Philip. I am conscious of time, but I would like to look at what the Government should do to address the skills shortage in the defence industry.

Philip Dunne: I think that one of the consequences of the dreadful covid crisis is that it is highlighting that defence has a vital role to play in manufacturing in this country. One of the things that my report identified was that the average package or average salary paid to defence contractors is significantly higher than the average in most of the areas where they operate. That is not the case everywhere, because some defence work happens in more affluent parts of the country, but much of it doesn't, and there is a real opportunity for levelling up and for investment to be made in parts of the country where there are skills opportunities.

I think what needs to be done first off is that the Armed Forces, the MoD and the defence industry need to collaborate and identify what skills requirements are going to be going forward, on a programmatic basis, for the next 10 to 15 years. When I was in post, we were doing that, prompted by significant skills shortages within both the civil and the defence nuclear industry. I chaired meetings where all the participants were being straightforward about what their requirements were and were willing to break down some of the barriers between them to encourage personnel to move from one to another to gain more experience, and to help recruit together.

I think that some of the key engineering skills will be in the high-tech areas, where there will be the biggest demand. We need to get industry working well together. If I can give a quick plug for it, the Defence Growth Partnership highlighted that as one of the areas where they can play a role in trying to encourage the industry and Government to work together in identifying what is required.

The other thing I would say on this is that managing service personnel departures is a real missed opportunity. I have touched on this before. We don't have as good a feel as I think we should have on what is happening to people as they come up to the end of service. We know what happened to you, Stuart. I suspect that nobody in your unit put you on a register of people who have skills in your particular area of activity before you were so magnificently elected in Wolverhampton, and could encourage you, if the good electors of Wolverhampton decide at some stage in the next few years that your services are no longer required in Parliament—of course, I hope that won't be the case—to come back in a civilian capacity to do a similar role. I think we need to be much more proactive in managing our leavers.

Chair: Is that okay, Stuart?

Stuart Anderson: Yes, I think you have touched on an excellent point. We are too keen to wave goodbye to our veterans, when they have had many years of experience that could be key in the defence sector. Thank you very much.

Chair: Mark, we are out of time. Is it a really short point that you want to make? Go for it.

Q55 **Mr Francois:** Very quickly, Philip, you talked about procurement needing to be more agile. Could we use the UOR—urgent operational requirements—process far more often and run procurement competitions much more quickly and tightly, and therefore spend the money better, rather than having competitions that sometimes last literally years?

Philip Dunne: Thank you, Mark. I should give credit to your work on personnel, which is much more your area of expertise than mine.

The short answer to your question is possibly. Undoubtedly, the agility that is used in UORs needs to be more widely displayed. Let me just go back to the Type 31 and compare it to the Type 26 for a second. From the concept and market testing phase to contract, the Type 31 took 26 months, and that included a hiccup of about four months in the middle. The Type 26, for a similar period, took 19 years. The reason for that is primarily to do with setting requirements, both within the Navy and between the Navy and the MoD, and also, frankly, political decisions—not being prepared to commit. I think politicians have to take some responsibility here. We can't always pass the buck to the service personnel and say, "It's all their fault that we are not bringing things in on time."

The aircraft carrier story, highlighted prominently at the beginning of the year by people in senior positions in the Government, started in 1998 and undoubtedly went way off course, in terms of time and budget, until 2012. The Aircraft Carrier Alliance was brought into being. Between 2012 and the delivery of the Queen Elizabeth, and now the Prince of Wales—nearly eight years—it has been run almost to cost and time. That has been done as a result of collaboration between the various contractors and the Government/customer side, and working it out. At that point, the

requirement had been fixed. A lot of the risk in determining the requirement had passed, and it was a question of delivery.

Chair: Thank you for that. I have people all around me waving their hands, because we have run out of our time to be on air. Clearly, they need to move on to "Cash in the Attic" or whatever it is that follows us. Thank you very much indeed, Philip, for all the work you have done and for your contribution today. It is very helpful indeed as we end our first evidence session on understanding the effectiveness of the Department's approach to procurement and prosperity. Thanks again to my Committee colleagues.