

4.5.2.8.

30 January 2023

Dear Pete,

Firstly, I wanted to thank you for a very engaging session on 6 December. I do hope that you found it useful. During the session I agreed to write to the Committee on several points.

- a. (Q181) You asked for a percentage breakdown of UK spend for the Fleet Solid Support (FSS) ship contract. The majority of the contract spend and manufacturing will be in the UK with most manufacturing activities taking place in the UK at shipyards in Belfast and Appledore. All three ships will be integrated in Belfast, along with all testing and commissioning. I cannot release a precise breakdown of spend as the release of such commercially sensitive information may be prejudicial to the commercial interests of the participating companies, especially where sub-contracts are yet to be awarded.
- b. (Q193) Furthermore, on the FSS contract, I would like to assure the Committee that as the prime contractor, Navantia (UK), has secured the appropriate financial instruments to ensure full performance of the contract is guaranteed. The specific contract terms are commercially confidential, but the MOD has absolute confidence that the contract suitably protects the interests of the taxpayer.
- c. (Q196) In response to your question concerning risk and liability for the Ajax programme, I can confirm that the MOD has a contract with General Dynamics Land Systems UK for this programme. The MOD has no direct contractual relationship with General Dynamics Corporation or General Dynamics "US". As I am sure you will appreciate, I am unable clarify the exact contractual provisions as the contract is commercially sensitive, but there is a parent company guarantee from General Dynamics US and

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therefore, ultimately, they are liable provided liability for any breach was established.

- d. (Q232) On the question of the 'metal box' value of a Type 45 Destroyer, it is broadly correct that the purchase value of the steel in a commercial ship is around 12%, excluding shipyard labour which adds considerable value. Due to the cost and complexity of the internal systems of warships, the steel value is likely to be lower than that of commercial ships.
- e. (Q237) I committed to providing a copy of the Clyde Mission Maritime Opportunities Report. [A copy has been included with this letter.](#)
- f. (Q239) I agreed to write to you on how contractors are held to their Social Value commitments. Contract provisions exist to hold the contractors to account for delivery of their commitments, including those for Social Value. The procurement of the FSS ships exceeded the Cabinet Office policy of providing 10% Social Value in the tender evaluation criteria. The recapitalisation programme will be a contractual requirement alongside the construction of the ships and will be subject to milestone payment evidence and other contractual mechanisms to ensure compliant delivery. Progress will be monitored through regular reporting and joint-governance forums, with additional on-site monitoring of activities by the MOD. There are no plans to publish the Social Value criteria for the Fleet Solid Support ship contract, as to do so may be prejudicial to the MOD's commercial interests in relation to the running of future defence procurement programmes.
- g. (Q244) During the discussion on Small and Medium Enterprises (SMEs), we discussed the Department for Transport's UK SHORE and we agreed to send you a list of those Clean Maritime Demonstration Competition based in Scotland. This can be found at Annex A.
- h. (Q245) Finally, we offered to follow up on the percentage spend with Scottish SMEs. The regional statistics for Financial Year 2021/22 have recently been published and I am delighted to note that £67 million went directly to Scottish SMEs in that year, representing 7% of our total direct SME spend. This is in line with the 2019/20 figure and broadly reflects the proportion of our spend with Scottish suppliers, which is around 9.5% of the MOD's total spend with industry. Latest estimates show that MOD spending with industry in Scotland supported 13,200 direct jobs.¹ It is also worth noting that direct spend only accounts for a small proportion of our overall spend with SMEs in the defence supply chain – three-quarters of the MOD's spend with UK SMEs occurs within the supply chain of prime

¹ Source: [MOD Official Statistics](#). The MOD's spending in 20/21 supported an estimated 219,000 industry jobs; 141,000 direct jobs and 78,000 indirect jobs. It is not possible to produce regional breakdowns of indirect jobs.

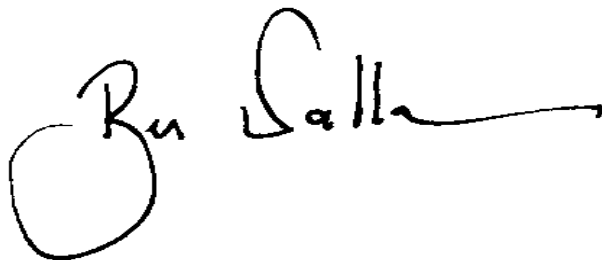
contractors. The true contribution of Scottish SMEs to UK defence will therefore be substantially greater than the direct spend figures alone suggest. Of course there is always more that we can do to support smaller supplies across the UK and as I mentioned in Committee, the MOD has a stretching but achievable target that 25% of its procurement spend will go directly and indirectly to SMEs by the end of 2022 and I expect Scottish SMEs will play a significant role in helping us achieve this target.

It is for that reason that we are working closely with our major contractors to make sure that UK SMEs are supported throughout the defence supply-chain and that they have improved visibility and access to sub-contracting opportunities. As part of our overall engagement strategy, we have found digital outreach (including targeted webinars) an effective platform to reach smaller business. Recent outreach activity includes presentations delivered for the Scottish Supplier Development Programme (SDP) at their virtual "Meet the buyer" events. The SDP are also part of our trade association network who receive our industry communications for wider dissemination to their membership.

Scotland is very much at the forefront of defending the United Kingdom from growing threats in the sea, land, and air environments; and the Government is supporting Scottish business and building skills to keep the UK safe, secure, and prosperous. Our commitment to the Defence industry in Scotland is absolute, reflected by a rising Defence budget that supports Scottish business, jobs, and skills.

I do hope that answers your questions but please do not hesitate to contact me if there are any further questions. I have sent a copy of this letter to the House of Commons Defence Committee.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Ben Wallace', with a large circular flourish at the start.

THE RT HON BEN WALLACE MP

Annex A: List of Scottish Companies

The CMDC Round 1 organisations that reported a Scottish work address are:

Aberdeen Harbour Board
Aquatera Limited
Caledonian Maritime Assets Limited
Cleanship Solutions Limited
Concept Systems Limited
Cromarty Firth Port Authority
Eneus Energy Limited
Jebb Smith Ltd
Lloyd's Register Emea
Logan Energy Limited
Low Emissions Resources Global Ltd
Milford Haven Port Authority PFP Limited Partnership
Offshore Renewable Energy Catapult
Optimat Limited
Orcades Marine Management Consultants Ltd
Orkney Islands Council
Rab Microfluidics Research and Development Company Limited
Rosyth Royal Dockyard Limited
Shetland Islands Council
The European Marine Energy Centre Limited
University Of St Andrews
University Of Strathclyde
Wood Group UK Limited
Zem Fuel Systems Limited
Zero Emissions Maritime Technology Ltd

The CMDC Round 2 organisations that have reported a Scottish work address are:

Aberdeen Harbour Board
Apollo Offshore Engineering Limited
Aquatera Limited
Bae Systems Surface Ships Limited
Malin Marine Consultants Limited
Offshore Renewable Energy Catapult
Simpson Oils Limited
SSE Renewables Developments (UK) Limited
The European Marine Energy Centre Limited
University Of Strathclyde
Waterwhelm Ltd
Wick Harbour Authority
Zero Emissions Maritime Technology Ltd