



Ministry
of Defence

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MINISTER OF STATE FOR DEFENCE PROCUREMENT

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MSU/4/5/2/8/is

25th October 2021

Dear Tobias,

Thank you for your letter of 14 July 2021 requesting a copy of the Appendix to Sir John Parker's Review of the National Shipbuilding Strategy (NSbS) to inform your inquiry into the Navy: Purpose and Procurement.

First, please accept my apologies for the delay in providing a copy of this Appendix. I firmly recognise the important role the House of Commons Defence Committee (HCDC) plays in examining the expenditure, administration, and policy of the Ministry of Defence (MOD). I therefore wished to ensure that the Committee received the most up to date and relevant information.

Sir John was commissioned to provide a confidential assessment of progress on implementing the NSbS and he was frank, open, and comprehensive in his report, for which I am most grateful. In the interests of being as transparent as practicable with your enquiry, the Department has made only minor redactions to the Appendix where information is commercially sensitive.

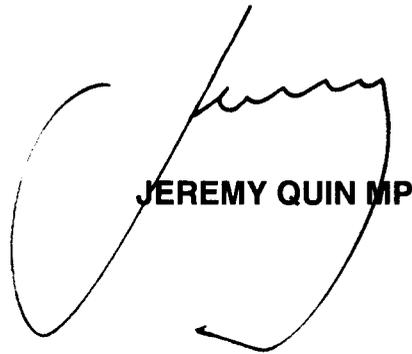
Given that two years have passed since Sir John's assessment, and to assist the HCDC, I have also included a progress update on each action to provide you with greater context and a sense of the progress made since Sir John's review was published in 2019.

As you are also aware, we are currently conducting a Refresh of the NSbS which we intend to publish later this year. Once published, this will provide much more detail on how we have progressed since 2017, particularly how our approach has broadened to look at support for the wider shipbuilding enterprise, rather than naval shipbuilding alone.

The Rt Hon Tobias Ellwood MP
Chair
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Once published I look forward to further engagement with you and the Committee as we work collectively across Government and the whole UK shipbuilding enterprise to implement the Refresh.

With best wishes



JEREMY QUIN MP

Appendix 1: Progress observed against the recommendations in Sir John Parker's 2016 report to inform the National Shipbuilding Strategy			Additional information, not included in the original appendix
No.	Recommendations	Findings	Progress to date
	<u>Governance</u>	-	-
1	The Government must drive cultural and governance changes in Defence that inject genuine pace into the procurement process with a clear grip over requirements, cost and time.	Significant progress made between NCHQ and DE&S, particularly with Type 31e. Efforts must be made to maintain and improve on this in future. Further work is needed to change culture in Head Office.	Significant cultural change, seen through T31, T26 and Fleet Solid Support (FSS). The launch of the Defence and Security Industrial Strategy (DSIS) and the establishment of the National Shipbuilding Office (NSO) assists this.
2	There should be a new governance model of Sponsor and Client for all ship procurement linked to Industrial capacity (i.e. the Total Enterprise).	The governance is in place. The Client Board is working well and seen as a success. The Sponsor Group still needs to find its role. Neither are empowered with funding.	Further detail on governance around shipbuilding will be set out in the Refresh to the National Shipbuilding Strategy (NSbS) - to be published later this year. Spending decisions are made through the Investment Approvals Committee to ensure alignment with overall Departmental spending priorities
3	The Ministry of Defence Sponsor should establish a transparent Master Plan for naval shipbuilding that lays out Defence's procurement plans for each series of naval ships over the next 30 years. This should be backed by "set and assured" capital budgets for each new series of ships. The Master Plan	Navy Command and the Client Board have made real progress. The Master Plan should continue to be a priority for the Client Board with an emphasis on communicating to industry. Set and assured capital budgets have not been implemented. Further work is needed to remove funding annularity once commitment has been made to capital projects.	Further detail on how government will set a clear demand signal to industry will be set out in the Refresh to the NSbS - to be published later this year.

	should be reviewed at each Strategic Defence and Security Review.		
4	The Ministry of Defence Sponsor should empower a Royal Navy-led Client Project Contracting Board to finalise design, cost and time for each class of ship procurement compatible with the Master Plan.	The Client Board is seen as a great example of department-wide working, breaking down barriers, and ensuring involvement of all stakeholders. Momentum needs to be maintained with the handover of the First Sea Lord role. A Client Contracting Board is in place for Type 26 and is planned for Type 31e.	As part of restarting the competitive process for T31 in Dec 18, the project took its procurement & contracting strategy to the Client Contracting Board which endorsed the approach to test the market against the schedule and cost targets set by the NSbS. Three contracts for the Competitive Design Phase were later successfully awarded. The Design & Build contract was awarded in Nov 19.
5	Current Ministry of Defence governance processes and procedures should be simplified and aligned with the new governance recommendations 1 – 4 above, with a degree of financial freedom granted to ensure project pace is not hindered.	Governance processes have not been simplified, although Director General Finance has initiated a project looking at this. Further work is urgently needed to fit the Client Board and Sponsor Group into Departmental Governance, in particular formalising the link with the Investment Approvals Committee.	Further detail on governance around shipbuilding will be set out in the Refresh to the NSbS- to be published later this year. The Acquisition and Approvals Transformation Programme is trialling a streamlined internal approvals process.

6	<p>The Royal Navy-led Client Project Contracting Board should appoint a Project Director with extensive modern project management, commercial and technical experience. An integrated project office should be established with a multi-disciplined team drawn from Defence Equipment & Support, Navy Command and the lead shipyard etc. for each new class of ship procurement.</p>	<p>The Type 26 project is using this concept to good effect and should continue this approach. There is the intention to adopt the approach when Type 31e reaches contract. A virtual Client Contracting Board has been established to advise the SRO at this stage of the Type 31e procurement.</p>	<p>In 2018 NCHQ established a shipbuilding Programme Management Office to act as the Client interface with the Delivery Agent for the three live shipbuilding programmes at the time (T31/T26/FSS). The Organisational Design included the necessary programme and project controls disciplines to support the SRO and work collaboratively with Delivery Agents to develop a "one team" culture.</p>
7	<p>The Ministry of Defence should take steps to ensure it is an intelligent client for warship design and build, to better understand the cost implications of naval standards, preferential engineering and bespoke equipment. This should enable proper trade-offs during development of the specification.</p>	<p>Progress has been demonstrated in the procurement of the Type 31e and work should continue to improve this. Bidders report that DE&S is responsive though naval standards remain a challenge. Navy Command is working well with DE&S and is realistic about trade-offs.</p>	<p>A key tenet of the T31 procurement strategy was "commercial where possible military where necessary". The competition gave the bidders the ability to trade off within the requirement. In order to ensure all the key user requirements could be delivered, the Navy clearly articulated where the absolute 'red lines' were and this flowed through into the contract. Government Furnished Assets demands were reduced to a minimum to enable the bidders flexibility in provision of equipment and systems to achieve VFM, which also reduced</p>

			the Department's contractual obligations and exposure to risk
8	In addition, an external technical consultant should provide constructive challenge during trade-offs on the inclusion of specification standards, innovation, the minimising of through life and operating costs, ensuring design has flexibility for export and facilitates modern methods of construction.	A "Client Friend" has been employed to carry out this role for the Type 31e.	The Client Friend contract remains in place to date.
9	Once these trade-offs have been agreed, the design specification should be frozen to allow the project to progress rapidly to contract signature. No further requirement changes should be allowed.	Contract negotiations and final design development are occurring [sic] in parallel on Type 31e. This recommendation should be put into practice once the appropriate stage is reached.	The Design & Build contract was let in Nov 19 - no preferential customer led change has since been made.
10	Contracts should be tautly drawn to properly incentivise Industry to invest in support of their "global competitiveness plan" and deliver to time, within the agreed cost envelope. This should provide a firm cost base and delivery to the milestones laid down in the Master Plan.	Contract negotiations for the Type 31e are in progress. The intention is to comply with this recommendation but that cannot be assessed until the contract is finalised. MOD must recognise industry's need to invest to support their "global competitiveness plans" and reflect this in contracting margins.	As part of the successful bid a proportion of the contract value was proposed to be spent on investment in modernising the shipyard making it globally competitive. This was met with equal investment from the contractor. As a result there is significant international interest in exports in the design as well as facilities.

11	<p>Post contract management should be driven by a joint project management team (Defence Equipment & Support, Navy Command and the lead shipyard etc.) and a governing Project Delivery Board with an Independent Chairman that will foster discipline and overall effective control. A shipyard Trade Union (TU) representative could be appointed to attend the regular progress meetings of the Project Director and his team in order to enhance transparent communications. The post-contract Project Delivery Board is the final authority on any change contemplated post contract. None should be accepted that could impact the programme.</p>	<p>Joint project management processes are in place for Type 26, with the "3 CEOs" review (1SL, CEO DE&S and CEO BAES) being highlighted as particularly successful. The intention is to implement recommendation for Type 31e once the contract is signed.</p>	<p>A Programme Delivery Board is in place for T31</p>
12	<p>The risk assessment process, led by the Client Project Contracting Board, should result in the allocation of risk provision partially to the Project Director and partially to the Client Project Contracting Board as the final authority on change.</p>	<p>The Type 31e project has not reached this stage yet. The recommendation should be implemented when appropriate. No information on application to Type 26 was considered.</p>	<p>In the absence of a Client Project Contracting Board, risk inside the project approval is shared between project and the Programme Director and managed as a joint activity.</p>
	<p><u>Type 31e</u></p>	<p>-</p>	<p>-</p>

13	<p>The new Type 31e should not set out to be a complex and sophisticated warship based on traditional design approaches. It should be a modern and innovative design on a standard platform which should provide a menu of choice to support exports and beat the competition. It should be termed Type 31e. The “e” means that export flexibility is inbuilt, not a variant.</p>	<p>Agreed and the procurement is progressing well. One bidder noted that the requirement was for a more complex ship than initially indicated. Exportability [sic] is inbuilt, and recognised in the assessment criteria for bids (using adaptability as a proxy). The Defence Support Organisation from the Department for International Trade has been involved throughout.</p>	<p>There has been considerable export interest in T31, as shown by the recent design export to Indonesia. The 'e' has been dropped from T31, however the emphasis on exportability remains. The chosen T31 is based on an industry owned design. The design is agile and can be adapted to meet the specific user requirements. The Contractor has provided an Export Strategy, progress against which is built into the Governance of the project and DSO DIT are engaged on all export campaigns. The combination of the T31 capability, adaptability, and price point make it extremely attractive in the international export market as evidenced by the current campaigns.</p>
14	<p>The Type 31e should be prioritised, and act as a pathfinder project to pilot this new governance and virtual Shipbuilding Industry approach (see recommendation 19). It should be rapidly procured and placed into service as early as possible in the 2020s. If necessary, wider Government financial support should be</p>	<p>Agreed and the procurement is progressing well, despite some delays. If the project remains on track, it will be a substantial improvement in pace from previous projects. Funding has been made available if industry meets the challenge. A challenging target price was set to drive competition and innovation. [REDACTED]</p>	<p>The contract for T31 was awarded in 2019, the first ship will be in the water in 2023 and all 5 ships will be delivered off contract by end 2028. Having tested the market there is no alternative that could deliver these ships any faster. An average build cost of £250 million per ship has been achieved, with wider</p>

	<p>provided to allow early build of the vessel. This will enable the new governance approach to be embedded in order to deliver medium to long-term savings in ship procurement.</p>	<p>[REDACTED] Success will be a ship that is capable and competitively priced on the export market.</p>	<p>costs falling within the overall approved cost of the programme.</p>
15	<p>Type 31e should be designed so that the price/capability point is an attractive export proposition and then it should be delivered to a hard target cost.</p>	<p>A very challenging target price of £250m per ship was set to drive competition and innovation. [REDACTED]</p>	<p>Price point has been highlighted as an attractive part of the design in feedback from export discussions. An average build cost of £250 million per ship has been achieved, with wider costs falling within the overall approved cost of the programme.</p>
16	<p>The Ministry of Defence should determine the economic service life for a naval ship and then replace ships with new ships at that point, rather than operate longer and thus avoid expensive major refits. As a pathfinder, Type 31e should also be procured as a Royal Navy asset that stimulates exports including via sales from the Fleet.</p>	<p>Work on the economic service life of a ship should be prioritised. Type 31e is being procured with exportability in mind.</p>	<p>The Royal Navy has accepted this recommendation. It should be noted that the design life of the ship is 30+ years.</p>

	<u>Export-led Growth</u>	-	-
17	<p>There should be a stronger national co-ordinated effort, including Government to Government trade deals, placed on the exports effort for ship sales, project management, design, equipment and sub-systems. This should be driven by the Department for International Trade, with support from the Foreign Office, Department for Business, Energy and Industrial Strategy, and Defence. A dedicated professional should be appointed to concentrate on the national effort.</p>	<p>The export success of Type 26 is very encouraging. Type 31e is gathering international interest, although at an early stage. Department for International Trade are represented at the Client Board and Sponsor Group, and their Head is leading on the national export effort.</p>	<p>The export success of T26 and T31 is very encouraging. Further detail on governance around shipbuilding will be set out in the Refresh to the NSbS - to be published later this year.</p>
	<u>Vibrant UK Maritime and Defence Supply Chain Sector</u>	-	-

<p>18</p>	<p>Warships should be built in the UK for reasons of national security and the sustainment of National Sovereign capabilities.</p>	<p>The definition of warship for this policy has been limited to frigates, destroyers and aircraft carriers. [REDACTED]</p> <p>[REDACTED]</p> <p>It is recommended that more classes of ships are subject to UK-only competition, driving greater volume into the industry supporting efficiency and sustainability of a competitive bidding capability.</p>	<p>In DSIS we set out our new approach to MOD shipbuilding procurements, removing the definition of warships as frigates, destroyers and aircraft carriers only. The procurement approach will now be decided on a case-by-case basis but can now consider a broader range of factors including industrial capability. We were clear in DSIS that for national security reasons, the UK needs to maintain a shipbuilding enterprise with the industrial capabilities to design, manufacture, integrate, modify and support current and future naval ships for both the Royal Navy and Royal Fleet Auxiliary as all these vessels operate in support of national security.</p>
<p>19</p>	<p>Industry and the Government, as part of their Industrial Strategy, should establish a virtual shipbuilding Industry model that harnesses the UK regional shipyards that have demonstrated their cost competitiveness and the capability to build fully outfitted "blocks". The intention should be to build these in series and in</p>	<p>[REDACTED]</p>	<p>Builders are encouraged to offer the optimum build solutions for the individual procurement programme, including block build.</p>

	parallel to capture the learning curve productivity benefits.		
20	The virtual shipbuilding construct should be used to build and integrate the Type 31e via a lead shipyard or alliance with sufficient financial and industrial capacity and capability to construct and to enter into the key sub contracts. Contracts should be taut, eliminate cost growth, and incentivise delivery while allowing reasonable profit.	<p>[REDACTED]</p> <p>Contracts for Type 31e are being negotiated at present but should comply with this recommendation, in particular allowing industry to make sufficient profit to invest in improving competitiveness.</p>	Block builds were explored for T31, however block build was ultimately not a part of the winning T31 bid. Despite this T31 has been very successful and a proportion of the contract value has been invested in modernising the shipyard to make it globally competitive.

21	<p>UK Industry, utilising the virtual shipbuilding approach, should be able to compete effectively, against international competitors for RFA procurement (starting with the Fleet Solid Support programme), and should be strongly encouraged to put forward strong bids for this work.</p>	<p>It is encouraging to see that a UK consortium have been involved in the competition for the Fleet Solid Support vessels.</p>	<p>The FSS competition remains on track to deliver the ships the Royal Fleet Auxiliary need to support the Royal Navy, while maximising the social value contribution shipbuilding can make in the UK, including encouraging investment in domestic shipyards, whilst balancing the need to deliver value for money.</p>
22	<p>“Global competitiveness plans” should be developed by each shipyard, and the supply chain, with a focus on tight scrutiny of overheads and targeted investment in skills, modern working practices, digital systems, and modern tooling.</p>	<p>The Maritime Enterprise Working Group is undertaking work on skills and collaborative investments. Individual companies are strongly recommended to take action on this recommendation.</p>	<p>Further detail on how Government will set the conditions for success in the shipbuilding enterprise will be set out in the Refresh to the NSbS- to be published later this year.</p>

23	<p>Industry and the Government should invest in a small, specialised virtual Innovation Centre to challenge existing naval standards and introduce new ones, and to force through advances in design, new materials including composites and manufacturing/ assembly methods that contribute to productivity improvements and cost of build. The leader of the Innovation Centre should oversee the “global competitiveness plans”.</p>	<p>The Department for Business, Enterprise and Industrial Strategy, the Maritime Enterprise Working Group, and the Society of Maritime Industries are involved in work in these areas, particularly the setting up of MarRI-UK, a national maritime research centre aiming for shared funding from Industry and Government.</p>	<p>Further detail on how Government will set the conditions for success in the shipbuilding enterprise will be set out in the Refresh to the NSbS - to be published later this year.</p>
24	<p>Companies will need to invest and embrace the full potential design and production benefits of digital engineering technology in the same way as world leading manufacturers, for example Jaguar Land-Rover in the car Industry and Meyer Werft (Germany) in the cruise ship Industry. These targeted investments should attract Government support. Local Enterprise Partnerships, Scottish Government and Invest Northern Ireland should be encouraged to support the transformation of the Industry.</p>	<p>Digital engineering is one of the research areas highlighted as a focus for MarRI-UK.</p>	<p>Further detail on how Government will set the conditions for success in the shipbuilding enterprise will be set out in the Refresh to the NSbS- to be published later this year.</p>

25	<p>BAES has the breadth of technical and engineering talent and the most recent experience of building sophisticated warships. They should build the Type 26 series with adherence to schedules supported, if required, by the virtual shipbuilding yards via block build. BAES' immediate operational priority should be to use the build of Type 26 to maximise productivity in order to be competitive in future and win sophisticated warship, and other naval ship, design, build and systems engineering work for the Royal Navy and exports customers. Their "global competitiveness plan" should focus on capturing the industrialisation benefits of digital engineering and ensuring, with the TUs, flexible skills in the workforce that are compatible with what can be achieved in a digitally engineered driven production world.</p>	<p>A decision for BAE Systems which was not examined during this review. It is noted that BAE Systems are part of consortia involved in both the Type 31e and FSS competitions.</p>	n/a
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26	<p>There is no precedent for building two “first of class” Royal Navy frigates in one location in the UK. Type 26 is a critical project for the Royal Navy and the Nation. Type 31e is urgently required to maintain Royal Navy frigate fleet numbers and to establish a UK exportable light frigate. Against this background risks need to be assessed and evaluated in a responsible way by all stakeholders. A separate lead shipyard or alliance appears to be the best way forward for Type 31e to minimise overall risk. Regardless of choice, BAES would remain in a position to compete for Type 31e work on combat systems, design support and in block build if capacity is available.</p>	<p>A decision for BAE Systems. They are involved in a consortium bid for the Type 31e and their ability to deliver as part of the consortium will be assessed with the rest of the bid.</p>	n/a
27	<p>Given the export potential of design, technical engineering and consultancy services, Industry should consider combining their Maritime Design and Combat Systems Engineering resources into separate subsidiary Companies to make these more visible to the world.</p>	<p>A recommendation for Industry. No evidence presented.</p>	n/a

28	<p>Industry and the Government should recognise the importance of the UK maritime supply chain as a provider of specialist equipment and services, through the opportunities offered by a series of Type 31es which further enhances export opportunities given Royal Navy selection and endorsement of UK (or UK-based) equipment manufacturers (thereby stimulating new product and manufacturing investment).</p>	<p>The importance of the supply chain is recognised by all concerned but more priority needs to be placed on work to support it through work led by the Defence Growth Partnership, the MOD Prosperity team and the Maritime Enterprise Working Group.</p>	<p>Government recognises the importance of the rich supply chain that supports the shipbuilding enterprise. More detail will be set out in the Refresh to the NSbS - to be published later this year.</p>
29	<p>To address future affordability challenges, the Ministry of Defence should consider conversion of commercial shipping to meet certain support shipping needs (as was the case with RFA Argus), hire commercial ships to meet low threat tasking and for other duties, such as minesweeping through using frigate or offshore patrol vessel platforms to host capabilities, including unmanned vehicles, rather than procuring bespoke ships.</p>	<p>Conversion is being considered as an option for future ships when concepts are developed.</p>	<p>Conversion is being considered as an option for future ships when concepts are developed. Uncrewed vessels are increasingly being used, for example for minehunting.</p>
	<p><u>Socio-economic Benefit</u></p>	<p>-</p>	<p>-</p>

30	<p>Industry and the Government should, with the Trades Unions, support the creation and sustainment of high skilled jobs along with modern apprenticeships, and expansion of Technician and Graduate recruitment, to drive performance, particularly via digital engineering, and to address the age profile of the current workforce at the shipyards.</p>	<p>The Maritime Enterprise Working Group are carrying out work on skills. More focus is needed from MOD Head Office, led by Strategic Programmes and Prosperity teams.</p>	<p>Further detail on how Government will support skills in the shipbuilding enterprise will be set out in the Refresh to the NSbS - to be published later this year.</p>
31	<p>The Ministry of Defence should seek to better understand the socio-economic benefit of awarding work to UK shipyards, or UK suppliers, and should give this more weight in non-warship building and all ship outfitting procurement decisions.</p>	<p>No action taken yet. MOD Strategic Programmes and Prosperity should prioritise this work, noting the link to the skills and supply chain agendas.</p>	<p>Progress has been made since Sir John's 2019 review.</p> <p>In establishing the Joint Economic Data Hub, Government and Industry are working together to collect and aggregate economic data from across the Defence sector.</p> <p>Social Value weighting is now mandatory in all Government procurements. The NSO will work with project teams across Government to ensure relevant socio-economic benefits are factored in.</p>

32	<p>The Defence Growth Partnership, as part of the Government's sectorial Defence Industrial Strategy should, bearing in mind the demands on busy Executives' time, take the lead and work with the extensive network of Industry and Industry/Government discussion and lobbying forums in order to galvanise the maximum national effort on the implementation of this strategy.</p>	<p>The Maritime Enterprise Working Group was set up to lead on this work, with the intention of bringing in suppliers from outside the typical defence world. [REDACTED]</p>	<p>The NSO has been established to cohere effort in Government; further detail on how we will cohere industry will be set out in the Refresh to the NSBs - to be published later this year.</p>
	<p><u>Implementation</u></p>	<p>-</p>	<p>-</p>
33	<p>Work will need to be commissioned to assess the detailed effects, if any, that these recommendations may have on naval ship support solutions.</p>	<p>[REDACTED]</p>	<p>Further detail on how Government will measure success in the shipbuilding enterprise will be set out in the Refresh to the NSBs - to be published later this year.</p>
34	<p>The Government should appoint a senior civil servant to ensure that the accepted recommendations are embedded within "the Total Enterprise" and to place the Secretary of State for Defence in a position to report on delivery against these recommendations annually.</p>	<p>[REDACTED]</p>	<p>The NSO has been established, with R Adm Cox as CEO. The NSO will develop a comprehensive implementation plan for the NSbS Refresh and monitor delivery. The NSbS Refresh will set out measures of success which will be monitored by the NSO.</p>

