

Written evidence submitted by Jag Patel

The defence industry's reputation in the eyes of citizens has been tarnished by its less-than-honest dealings with government on defence procurement programmes, not least, because the nature of this sector of the manufacturing industry is such that it is more interested in maximising the amount of money it can extract from the treasury than supplying equipment to the armed forces that is fit-for-purpose, adequately sustained in-service and constitutes value for money through-life.

INTRODUCTION

1. With the onset of state-on-state war on the European continent yet again, suddenly there are calls from the usual suspects for defence spending to be increased.
2. But what is the point of spending more on defence if it is only going to be squandered by defence contractors because they haven't got an engineering design & development capability on their premises, which this AJAX armoured vehicle programme has so aptly illustrated.
3. The story of the AJAX programme is one of gross incompetence, chronic mismanagement and appallingly poor performance.
4. This disaster has come about because the administrative and military elite in Whitehall are stuck in the mindset of the past, behaving as if the means of defence production, distribution and exchange is in the hands of the State which they can commandeer at will, when in reality, it is owned by private interests – that is to say, the State is completely dependent on private sector players for the design, development, manufacture, delivery and sustainment of new military equipment for the armed forces.
5. Over the years, they have developed a habit of fantasizing about their grandiose military plans and postures in isolation, without having an adequate understanding of how to realise this vision, which makes it easy for defence contractors to ruthlessly exploit their ignorance and relieve them of taxpayers' money.
6. This submission takes a wider perspective by looking at the conduct of contractors in general, but specifically it focuses on their unbridled bad behaviour which has contributed to unsatisfactory performance. But first, it reflects upon why they have shown no interest in solving technical problems that routinely arise on equipment development programmes.

SHOWN NO INTEREST IN SOLVING TECHNICAL PROBLEMS

7. The central purpose of any private sector establishment that calls itself an engineering company is to satisfy the equipment needs of its customers, normally expressed as a technical specification requirement.
8. This essential activity requires the entity to maintain an in-house design, development, systems integration, prototyping and testing as a core capability which is normally understood to mean a team of professionally qualified and experienced engineers who would apply the principles of good engineering practice to advance the developmental status of the starting-point for the technical solution from its existing condition, to a point where it will satisfy the qualitative and quantitative requirements expressed in the technical specification, within a competitive market environment driven by the profit motive and winning mindset.
9. But the fact of the matter is that defence contractors in the UK no longer possess such a capability and haven't done so for many years. Additionally, they have shown no

interest whatsoever in solving the vast array of technical problems that typically materialise on defence procurement programmes.

10. The lack of a design & development capability arises from the fact that the engineering problem-solving functions of defence contractors' businesses are made-up *entirely* of people who were previously in the pay of the State. This total dominance of the payroll has come about because the last several decades has seen the transfer of tens of thousands of people in the pay of the State to the private sector via the "revolving door", largely due to the resounding success of the policy instituted by Defence Secretaries of all political persuasions – to encourage for-profit organisations in receipt of government defence contracts to take-on people who are just about to come off the public payroll.

NO EXPERIENCE WHATSOEVER

11. These people, who came across from the public sector in their middle-age (armed with a full government pension), have *no* experience whatsoever of advancing the developmental status of the starting-point for a technical solution, not least, because they were *never* required to do so during the first half of their career. Indeed, nothing in their prior experience of working in the public sector has prepared these people for the challenges they face in the private sector. And yet, they have been inducted into the engineering problem-solving functions of defence contractors' businesses! Not surprisingly, the results are entirely predictable – MoD equipment development programmes invariably go from one crisis to another, again and again, with delays, cost overruns and defective equipment as the only guaranteed outcomes.

12. Yet another problem with people who were previously in the pay of the State is that they are not well-informed about how the private sector works, because they have not known anything *but* the public sector. Indeed, they haven't got a clue about what it is that drives the behaviour of for-profit organisations in the free market – not least, because they have not spent a *single* day of their lives in the private sector – and yet they had been put in charge of spending taxpayers' money to the tune of £17bn a year to buy defence goods and services from the private sector. What's more, these people are very good at *talking* a "big game" but they can't "do it". To make matters worse, they have gone on to transplant the regressive work culture of management by committee and PowerPoint presentations in their new workplaces, which then degenerates into groupthink.

13. Their standing is further diminished by the fact that their ability to innovate, solve problems, learn from past mistakes and adapt to change, which is a distinctive characteristic of people in the private sector, was erased in the public sector due to incessant conditioning of the mind from an early age.

14. So, instead of employing talented engineers, problem-solvers, innovators and doers to build-in engineering excellence into their products by tackling technical problems as they emerge, contractors are hiring people who were previously in the pay of the State for the simple reason that they can bring in new defence business – by lobbying their former colleagues in MoD to swing the decision on down-selection in favour of their new employers, which is even more important than resolving technical issues.¹

ROLE PLAYED BY CONTRACTORS IN DELAYS AND COST OVERRUNS

15. For as long as anyone can remember, damaging stories in the press and media about persistent delays and cost overruns on defence procurement programmes have given the government of the day a bad name.

16. The share of blame attributed to people at MoD for delays and cost overruns has been documented extensively over the years. But what is the role played by MoD's other half of the partnership, namely defence contractors, in this epic tale of failure?

¹ Written submission to the Public Administration and Constitutional Affairs Committee, Inquiry into *Propriety of governance in light of Greensill*, published 8 June 2021, pp.1-3.
<https://committees.parliament.uk/writtenevidence/35317/pdf/>

17. The risk that new equipment procurement programmes will fall behind schedule is driven by three significant factors – *all* of them entirely within the control of the Contractor:
- a. Work allowed to commence *without* the full complement of task performers being assigned to the project performance team, right from the start.
 - b. Task performers arbitrarily (and clandestinely) re-assigned to other priority work during the term of the contract.
 - c. Task performers, who are typically on one month's notice corresponding to pay in arrears, abandon their posts for a better paid job elsewhere.
18. The practice of switching the most capable and smartest people (the 'A' Team members) from existing project commitments, to working on other contracts running concurrently which have gone "critical" or to producing bid phase deliverables for ITT responses, is very common within defence contractors' organisations – because the need to continually bring-in money or win new business takes *priority* over everything else, a foremost characteristic of for-profit organisations.
19. Indeed, such is their obsession with future income (and Share Price) that, once they have got a new contract in the bag, their attention immediately shifts onto chasing the *next* one – at the expense of compromising performance on the contract they have just won!

PAYING THE PRICE FOR TREATING TASK PERFORMERS WITH CONTEMPT

20. This all too familiar scenario is further compounded by the fact that:
- a. Contractors at every tier of the defence industry have mandated enforcement of a minimalist staffing policy of being just "one man" deep in many of their specialist core functions, with no slack or succession plan – which unfortunately, also denies defence workers the opportunity to associate with like-minded people in the work environment, severely impeding their professional development.
 - b. In their desperation to quickly build-up their project performance teams to full strength following capture of a single-source contact, Contractors have been less than honest with new employees (particularly those originating from the public sector) about their individual role in the project performance team, the job content and near term prospects – because they are not bound by a "*Code on Ethical Behaviour in Business*". Consequently, these newcomers have no choice but to align their personal and career goals with those of their new employer on the basis of what they are told. It is the disappointment of discovering a substantial gap between the reality on the ground and what they were led to believe at interview that causes these new starters to leave – creating yet more vacancies and disruption!
 - c. Instead of looking upon people on their payroll as human beings with hopes, fears and insecurities, individuals are treated like "economic units" by Contractors – to be bought and sold like commodities, at will, in the free market to serve their own narrow commercial interests.
 - d. Recent years has seen the working relationship between Indirect and Direct labour types to be strained beyond breaking point on account of:
 - i. The latter (who are all task performers, adding value by producing deliverables which attract payment from MoD) being compelled by the former to partake in activities which are contrary to their professional, ethical and moral convictions. In turn, this has led to Direct labour types to accuse Indirect labour types of "living off their backs" by charging MoD a "tax surcharge" on *their* labour – creating even more bitterness and division.
 - ii. The duplicitous policy enforced by Indirect labour types of making bold pledges in Management Plans, and then promptly rescinding on these work commitments during the follow-on contract performance phase has had the effect of disenfranchising Direct labour types, because they think this is thoroughly deceitful behaviour.

- iii. The burden of responsibility for executing the resultant grossly under-scoped Programme of Work falling on task performers, instead of those people on overheads who made the false, exaggerated claims about the maturity of the proposed technical solution in the first place.

COMMITMENT AND LOYALTY TIME-LIMITED

- 21. Even more disturbingly, in the interests of furthering their careers in today's mobile labour market, many defence industry workers, especially those possessing highly marketable skills (the *crème de la crème*) are now willing to extend their commitment and loyalty only as far as the *next* pay packet – having adopted this tactic from observing, at first hand, the behaviour of their own employers who have for many years demonstrated their willingness to provide a service to MoD, which extends only as far as the next milestone payment! Worse still, whereas every Contractor has got a Staff Recruitment Policy, none has a Staff *Retention* Policy.
- 22. So, when a programme in the contract performance phase suffers a loss in personnel on the project performance team (usually those most difficult to replace), work on producing deliverables to schedule comes to an abrupt stop – leading to delays and ultimately, cost overruns.
- 23. A risk and associated cost burden that has traditionally been borne by MoD.
- 24. It is not only defence procurement officials who are to blame for the malaise afflicting defence procurement – defence contractors are equally culpable in creating a procurement culture which has failed to deliver equipment to the armed forces that is fit for purpose, adequately sustained in-service and constitutes value for money through-life.

UNBRIDLED BAD BEHAVIOUR

- 25. The reason why MoD has consistently failed to deliver equipment programmes to time and within budget is because it keeps making the *same* mistakes over and over again, like for instance, believing what it is told by its industry partners about the maturity of their products, right at the start of the equipment procurement process.²
- 26. In an attempt to pull the wool over procurement officials' eyes, defence contractors have been deploying the old favourite of touting the so-called, minimal development solution as their offering – a commonly used ploy advanced to con procurement officials into believing that they have a nearly-ready technical solution on offer, when in reality, they probably have something in hand which is closer to starting from a "blank sheet of paper"! This is the real reason why the relationship between MoD and its main suppliers is strained.

NEFARIOUS ACTIVITIES

- 27. To add to this wanton act of deception, defence contractors have been caught out engaging in some pretty nefarious activities like:
 - a. Deliberately concealing selected technical risks during the design & development phase, then skilfully transferring them to MoD Abbey Wood where they suddenly morph into "show stopping" risks and come to the fore immediately *after* the main investment decision has been taken, ultimately ending up as an additional cost burden on Front Line Commands.
 - b. Making exaggerated claims about the maturity of their starting points for the technical solution – a scam which has led directly to initial programme costs being grossly *underestimated* by MoD Abbey Wood, a condition referred to as the conspiracy of optimism. This deceitful behaviour is a common trait in the defence

² Written submission to the Public Accounts Committee, Inquiry into *Improving the performance of defence contracts*, published 12 July 2021, pp.5-6. <https://committees.parliament.uk/writtenevidence/37726/pdf/>

manufacturing industry, beginning with the Select Few at the top and extending right down the entire supply chain.

- c. Persuading MoD to disclose the total budgeted expenditure figure or associated year-on-year financial funding profile emanating from its internal approvals process so that they can use it to quote *identical* bottom-line Selling Prices in their ITT responses, which has only served to deny MoD's Project Team Leader the opportunity to choose the single prime contractor on the basis of *price competitiveness* – and therefore value for money.
- d. Conspiring with their first-tier supply chain partners to defraud the government by surreptitiously engaging in *corrupt* practices, characterised by artificially inflated subcontract prices and the obligatory kickbacks that go with them.³
- e. Leaning on MoD to make sure it buys Support Assets for its military equipment on a piece-meal basis via a steady stream of short-term, renewable Post Design Services contracts let during the in-service phase (when prices have gone up), instead of purchasing them *upfront*, at the time of procuring the prime equipment – to satisfy their commercial interests of securing guaranteed revenue during the full period of the in-service phase.
- f. Claiming that they are investing their own investment capital in MoD equipment procurement programmes but no one has been able to provide any evidence to prove this assertion, *including* the Secretary of State for Defence.
- g. Contriving situations which entice procurement officials into partaking in detailed design decisions relating to the evolving technical solution, and then using this involvement to *coerce* procurement officials into raising and processing Contract Amendments, much later on.
- h. Masking any delays attributable to themselves (for instance, because they haven't got adequate numbers of skilled task performers), by building-in intervention from MoD Abbey Wood team members as a dependency into the programme of work schedule, citing partnership and/or collaborative working as a pretext, then *deliberately* stopping progress of planned work and disingenuously blaming MoD for the delay.
- i. Surreptitiously conspiring with procurement officials desperately wanting to leave the public sector to take possession of ITT responses (which may contain commercially sensitive IP related information) submitted by their competitors to MoD previously.
- j. Plotting with competitors at Industry Engagement Days to snuff-out any new market entrants and start-ups (which is against government policy) who could potentially take away their market share in defence goods and services.
- k. Poaching the brightest and most experienced procurement officials from Abbey Wood by offering them alluring inducements, and in so doing, severely weakening MoD's capability as a smart customer.
- l. Lying, cheating and distorting so readily that this generation of elite politicians, senior civil servants, military top brass and front-line procurement officials have been scarred for life.

COMPULSIVE HABIT

28. This compulsive habit of lying, cheating and distorting – from whom did Contractors' people learn this behaviour? Why, none other than from the Ministry of Defence!

³ Written submission to Defence Committee, *Inquiry into Defence Industrial Policy: Procurement and Prosperity*, published 10 September 2019, pp.5-6.
<http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/defence-committee/defence-industrial-policy-procurement-and-prosperity/written/104907.pdf>

29. To be precise, the *famous* here-today-gone-tomorrow procurement officials who have been lying, cheating and distorting without restraint during their short stay at MoD Abbey Wood before migrating to the defence industry via the “revolving door” and infecting it with this habit.

30. Defence contractors may very well call themselves public companies and have their shares quoted on the stock market, but they really are private sector organisations in *name* only, not least, because they are “created in the image” of public sector institutions like MoD Abbey Wood (warts ‘n all) displaying all the tell-tale features of: a workforce made-up entirely of people who were previously in the pay of the State (where they developed an unhealthy penchant for rules, regulations and processes), who have succeeded in transplanting a work culture characterised by failed practices of management by committee & PowerPoint presentations, which then degenerates into groupthink that disallows external challenge.

TARNISHED REPUTATION

31. The defence industry’s reputation in the eyes of citizens has been tarnished by its less-than-honest dealings with government on defence procurement programmes, not least, because the nature of this sector of the manufacturing industry is such that it is more interested in *maximising* the amount of money it can extract from the treasury than supplying equipment to the armed forces that is fit-for-purpose, adequately sustained in-service and constitutes value for money through-life.

32. The appallingly poor performance of domestic defence contractors over the last several decades, characterised by persistent delays and cost overruns, has forced some people to conclude that they pose the single biggest threat to the *financial* security of this country. Indeed, this view found favour with the Prime Minister’s former chief adviser, Dominic Cummings, who has called defence contractors “corporate looters”. Referring to MoD’s defence procurement process as farcical in his now famous blogpost published in 2019, he says:

“Regardless of elections, the farce has continued to squander billions of pounds, enriching some of the worst corporate looters and corrupting public life via the revolving door of officials/lobbyists.”

33. The problem with publicly-funded contracts is that they are highly susceptible to *cronyism* – the nexus between the governing elite and the business elite that contrives to put the interests of business first, *ahead* of the wants, needs and expectations of ordinary citizens. Not least, because the twin evils of lobbying and corruption rear their ugly heads every time taxpayers’ money crosses the boundary between the public sector and the private sector.

TRUST IN INSTITUTIONS HAS COLLAPSED

34. Additionally, this cosy relationship facilitates unhindered transfer of people in the pay of the State to the private sector via the “revolving door” which is one reason why trust in government, public sector institutions and the defence industry has collapsed in the first part of this century.

35. Whereas media focus is on a small number of high-profile political and administrative elite who shamelessly exploit their previous contacts and know-how they have accumulated whilst in the pay of the State to line their own pockets and unwittingly tilt the playing field in favour of their new paymasters in the private sector, the journey made by *thousands* of ordinary public servants underneath them who are also looking to follow the example set by their departmental leaders and cash-in on this bonanza has escaped scrutiny.

36. Of course, everyone has a right to sell their labour in the free market to whomsoever they wish, for whatever price they can command. However, the brazen way the newly-retired political and administrative elite have gone about exercising this freedom without any checks and controls on the way they go about disseminating privileged information

about inner workings of government is scandalous, and *always* to the detriment of taxpayers – which is what they promised they would protect whilst in the pay of the State!

MILITARY- POLITICAL-INDUSTRIAL COMPLEX

37. The military-political-industrial complex has been the *original* model for lobbying and corruption from the earliest of times – indeed, the career prospects of people in the pay of the State are inextricably linked to those with the means to produce weapons systems, facilitated by the “revolving door” and intense lobbying behind the scenes where it matters most, in the corridors of power inhabited by the same, self-serving political, administrative and military elite.

38. At a time when there is considerable pressure to slash the headcount at UK MoD’s defence equipment acquisition organisation at Abbey Wood, Bristol, there exists an extremely *high* risk that departing procurement officials, including those who have *not* previously taken part in the assessment of invitation to tender responses, will be persuaded to pocket corresponding memory sticks and offer them in return for employment, to *competitors* of owners of these same memory sticks – thereby transferring innovative design solutions and intellectual property which can then be used by unscrupulous recipients, to grab a larger share of the defence equipment market.

NOTHING TO OFFER

39. Such behaviour only reinforces the view that lower-level defence procurement officials have nothing to offer potential employers in the private sector (unlike the political and administrative elite), except someone else’s (stolen) property! And when these people arrive on Contractors’ premises, they promptly become a burden on fellow co-workers and the payroll because they do not have the necessary skills (due to being selected for reasons other than merit) as task performers to add value to the business, only costs.

40. What’s more, because many defence contractors do not have a “*Code on Ethical Behaviour in Business*” in place, they will not only happily accept such proprietary information without any qualms, but also encourage its unauthorised removal from MoD Abbey Wood – yet they would not want their own memory sticks to fall into the hands of their Competitors.

41. Such is their twisted sense of morality!

42. There is something very disturbing about people who have previously, as public servants sworn undying allegiance to Her Majesty Queen Elizabeth II, only to then engage in defrauding and ripping-off Her Majesty’s Government on behalf of vested interests whilst pursuing a second career in the private sector.

43. Remember the much-vaunted principles of selflessness, integrity, objectivity, accountability, openness, honesty and leadership in public life which are supposed to guide the conduct of public servants? Well, there is pitifully little sign of them right now. It seems that these values have been *left behind* in the public sector for others to cherish!

CONCLUSIONS

44. The longstanding problem of contractors’ appallingly poor performance needs to be fixed first before increasing defence spending, otherwise it will only be squandered.

45. AJAX may be making its occupants sick, but taxpayers are sick and tired of funding a procurement programme that has failed to deliver a fully compliant vehicle after all these years.

46. Defence contractors in the UK no longer possess a design & development capability and haven’t done so for many years. What’s more, they have shown no interest whatsoever in solving the vast array of technical problems that typically arise on defence procurement programmes.

47. Contractors are equally to blame as procurement officials for cultivating an acquisition culture that has failed to deliver equipment to the armed forces that is fit for purpose, adequately sustained in-service and constitutes value for money through-life.
48. Such is contractors' obsession with future income (and Share Price) that, once they have got a new contract in the bag, their attention immediately shifts onto chasing the next one – at the expense of compromising performance on the contract they have just won.
49. Instead of looking upon people on their payroll as human beings with hopes, fears and insecurities, individuals are treated like “economic units” by Contractors – to be bought and sold like commodities, at will, in the free market to serve their own narrow commercial interests.
50. Over the decades, Contractors unbridled bad behaviour whilst working on defence contracts has become regularised and embedded to such an extent that procurement officials can't tell the difference between good and bad business practice anymore.
51. The appallingly poor performance of domestic defence contractors over the last several decades, characterised by persistent delays and cost overruns, has forced some people to conclude that they pose the single biggest threat to the financial security of this country.
52. There is something very disturbing about people who have previously, as public servants sworn undying allegiance to Her Majesty Queen Elizabeth II, only to then engage in defrauding and ripping-off Her Majesty's Government on behalf of vested interests, whilst pursuing a second career in the private sector.

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