

Jag Patel - Written evidence (IUD0013)

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INTRODUCTION

1. With the return of state-on-state warfare on the European continent yet again, many western countries are not only hurriedly re-evaluating the risk to their security and territorial integrity, but have also pledged to increase defence spending to counter the elevated threat from Russia, and in the longer term, its ideological partner China.
2. But finding and committing scarce taxpayer funds to procure additional military equipment during this debt-laden post-Covid era and at a time when this country is supposed to be living within its means is a monumental task.
3. Far from spending more on defence, the UK government has actually announced a reduction of £2.5bn in MoD's budget for the current 2024-25 financial year, in the Spring Budget. What's more, there is little prospect of an upward revision anytime soon, even after the general election, because the numbers will simply not add up. But it is legacy risks associated with how MoD goes about spending money which remains the biggest hurdle.

STUCK IN THE MINDSET OF THE PAST

4. The longest lasting risk is that top military officials 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 to serve their ends – when in fact, it is owned by private interests, that is to say, the State is completely dependent on the private sector for the design, development, manufacture, delivery and sustainment of new military equipment for the Armed Forces.
5. They might very well be experts in deterring, outwitting and killing the enemy, but these people haven't got a clue about how the private sector works, what incentivises it or how to harness its creative energy and problem-solving capabilities to realise their vision of a future force that is capable of defending and preserving what this country values most.

GRANDIOSE MILITARY POSTURES

6. Over the years, they have developed a habit of fantasizing about their grandiose military postures in isolation, without having an adequate understanding of how to make it happen, which makes it easy for defence contractors to ruthlessly exploit their ignorance and relieve them of taxpayers' money. This is not entirely surprising. After all, they have spent their *entire* professional lives in their ivory towers of the public sector, completely insulated from the real world outside.
7. This submission offers evidence to support this institutional shortcoming. It considers the reasons behind the inability of defence contractors to solve technical problems, what has brought this about and goes on to explain how this failing has resulted in government deciding to buy off-the-shelf equipment, as its first and foremost priority.

8. But first, this submission looks at the likelihood of modifications and lessons learnt from Ukraine being incorporated into existing equipment in the inventory, and reveals the identity of the true recipient of the grant aid for Ukraine.

INCORPORATING MODIFICATIONS AND LESSONS LEARNT FROM UKRAINE

9. With the widespread availability of free internet connectivity in Ukraine provided by Starlink, much has been made of the ease with which fighters on the frontline have been able to provide feedback on the performance of military equipment that originated from western countries. But if people think that lessons will be learnt and equipment in the inventory of donor nations will be modified to eliminate any reported shortcomings, then they will be sorely disappointed.

10. This is because legacy equipment in the west was designed & developed by defence contractors using *public* money and they will, in keeping with long established practice, again seek funding from taxpayers to incorporate any design changes to address weaknesses or further enhance its performance.

11. Given that much of the defence funding set aside by governments in Europe, North America and elsewhere for the coming years is earmarked for procuring *new* military equipment or replacing equipment that has already been transferred to Ukraine (including munitions), it is highly unlikely that any money will be left over to pay for modifications to legacy equipment. So, it seems that people doing the fighting will be waiting a mighty long time to gain a decisive advantage on the battlefield – which might possibly never come!

NEW ENTRANTS TO THE DEFENCE EQUIPMENT MARKET

12. On the other hand, equipment currently deployed on the frontline that was designed & developed using *private* capital by agile, VC-backed startups and SMEs stands a much greater chance of being upgraded swiftly because these recent entrants to the defence equipment market will immediately put to use their flourishing in-house design, development and testing capability, which is sadly lacking on the premises of the usual suspects.

13. The one thing that legacy equipment manufacturers will not do is spend their *own* money to update their own equipment (for which they hold the intellectual property rights). It is an alien concept to them!

14. What makes these startups and SMEs confident of committing their own (or third party) funds, apparently without a second thought, is their supremely efficient organisational setup which is geared towards serving only one purpose – making it happen by effortlessly solving technical problems, notwithstanding the procedural hurdles put up by government authorities.

PROTECTING THE INTERESTS OF TAXPAYERS

15. Bearing in mind that it is the profit motive that drives private sector players to partake in the defence market that can reward handsomely, the best way to get them to deliver equipment to the Armed Forces is by compelling them to make use of private capital to complete the early design & development work, which incidentally, will also serve to protect the interests of taxpayers because it transfers technical, financial and schedule risks to those who are best placed to tackle them.

16. As in other sectors of the economy, the way defence contractors can recover their upfront costs and associated profit that goes with it is by building them into the selling price, which then becomes chargeable to the public purse.

17. After all, it is called the private sector for a reason – so that it can use private sector funds, *not* public sector subsidy to innovate, grow, create jobs and make a profit.

GRANT AID FOR UKRAINE

18. The Prime Minister has announced an additional £500mn in grant aid for Ukraine, on top of the £2.5bn the government pledged earlier this year. The key difference is that the former is to be paid for from the Treasury Reserve, which is supposedly there for *domestic* emergencies. However, both aid packages are available for draw down during the current 2024-25 financial year.

19. What the government has not made clear to the public is that this money will not go directly to Ukraine. Instead, it will be given to MoD, under delegated authority, with instructions to spend the money on whatever it chooses, in the same way as the normal Treasury-specified budget is each year.

GETTING RID OF LEGACY EQUIPMENT

20. Because Ukraine has an urgent requirement for all kinds of military equipment for the frontline, MoD is in a position to pick and choose what it donates from its inventory. Quite understandably, it wants to get rid of legacy equipment left over from the expeditionary operations era, known as the war on terror. This unfettered pass gives MoD a free hand to let go of equipment that no longer fits in with its vision of a future force concept – like protected mobility vehicles, armoured vehicles & all-terrain vehicles – which were procured at considerable expense under Urgent Operational Requirement procedures to support the wars in Iraq and Afghanistan.

21. The residual value of this legacy equipment, allowing for depreciation, would normally be deducted from the grant aid and returned to HMT, in the same way as proceeds from sale in the second-hand market would. But it will be quietly retained. In effect, the *full* amount of grant aid will be used by MoD to buy new equipment (as well as munitions) for UK Armed Forces, not necessarily on a like-for-like replacement basis.

22. So, MoD has managed to secure a tidy increase of £3bn in its defence equipment budget (which can now be used to reconfigure its future force mix aligning it even closer to its military posture), got shot of unwanted equipment and misled taxpayers regarding the true beneficiary of the grant aid – all on the back of Ukraine's plight!

23. And because the financial assistance benefits MoD, this uplift counts towards NATO's 2% of GDP spending target on defence.

SHOWN NO INTEREST WHATSOEVER IN SOLVING TECHNICAL PROBLEMS

24. The reason given by liberal democracies for maintaining the vast arsenal of military materiel and men under arms is to counter the threat from

authoritarian states by dissuading them from engaging in aggressive behaviour against their neighbours, and others beyond. But far from upholding the rules-based international order and territorial integrity of member states which is at the heart of the United Nations Charter, democratic countries have ended up deterring *themselves* from acting against this brutal war on the European continent and bringing it to a swift end.

25. So, what is the point of amassing all this military equipment at considerable expense and keeping it at high readiness levels?

SERVING THEIR OWN BUSINESS AND COMMERCIAL INTERESTS

26. The answer lies in the highly unusual relationship between governments and the defence industry which now owns the means of defence production, distribution and exchange, that is to say, the State is wholly dependent on for-profit organisations for the design, development, production and delivery of new military equipment to the Armed Forces. Indeed, the government has no choice but to rely on the private sector for the upkeep of military equipment throughout its period in service as well. The harsh reality is that no department of state in Whitehall is as dependent on the private sector, as is MoD.

27. But instead of putting national security considerations first by supplying equipment that is fit for purpose, adequately sustained in-service and constitutes value for money, defence contractors are using this dependency to further their own business and commercial interests.

28. 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.

29. 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.

DEFENCE CONTRACTORS NO LONGER POSSESS SUCH A CAPABILITY

30. 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.¹ Additionally, they have shown no interest whatsoever in solving the vast array of technical problems that typically come to the fore on defence procurement programmes.

31. 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

¹ Written submission to the Defence Committee, Inquiry into *Defence industrial policy – Procurement and prosperity*, 10 September 2019, pp.3-4.
<http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/defence-committee/defence-industrial-policy-procurement-and-prosperity/written/104907.pdf>

total dominance of the payroll has come about because the last several decades has seen the migration of hundreds 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.

32. 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 enormous 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 development programmes invariably go from one crisis to another, again and again, with delays, cost overruns and shoddy equipment as the only guaranteed outcomes.

THEY HAVEN'T GOT A CLUE

33. 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 had been put in charge of spending taxpayers' money to the tune of £14bn 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.

34. 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, has been erased in the public sector due to incessant conditioning of the mind from an early age.

35. So, instead of employing talented engineers, problem-solvers, innovators and doers to build engineering excellence into their products by tackling technical problems as they arise, 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 takes priority over resolving technical issues.²

² Written submission to the Public Administration and Constitutional Affairs Committee, Inquiry into *Propriety of governance in light of Greensill*, 8 June 2021, p.2. <https://committees.parliament.uk/writtenevidence/35317/pdf/>

UK GOVERNMENT'S PREFERENCE IS FOR OFF-THE-SHELF EQUIPMENT

36. This war of conquest on the European continent has completely changed the security architecture that served the western alliance well for 80 years, or so.

37. Since the UK exited the EU, it is true to say that the remaining EU member states have moved forward with plans to share military research & development work, establish closer defence industry ties and enable joint procurement of defence equipment so they can act independently of the US, if necessary.

38. Of course, it makes sense for the UK to maintain good relations with near neighbours and trading partners. But it is precisely because it has had a longstanding intelligence-sharing and military partnering arrangement with the US, stretching back to the start of World War II that stands in the way of a reinvigorated defence, security and intelligence relationship with the EU.

39. Consider for a moment, recent military hardware procurements made by the UK. In the main, they have been acquired because of their commonality and interoperability with US Armed Forces which not only enables both countries to undertake joint operations seamlessly, but also offers certainty that replacement spare parts will be made available to the frontline via a *common* logistics supply chain – thereby reducing substantially, the burden of in-service sustainment costs, which can be in the order of *four to five* times the prime equipment costs over the whole life cycle, from concept to end-of-life disposal.

40. But there is yet another, *even* more important reason.

FIRST AND FOREMOST PRIORITY

41. The government has quietly revised its defence procurement policy to consider buying, as its first and foremost priority, new military equipment for the Armed Forces which automatically falls in the *off-the-shelf* category – specifically because an off-the-shelf equipment is a *fully* engineered and supported technical solution which satisfies the key user requirements at *no* additional cost or risk to the Exchequer, that is to say, it does *not* require any user-specified modifications or related development work laden with risk to be performed upon it, which everyone agrees has been the cause of persistent delays and cost overruns on defence procurement programmes for as long as anyone can remember.

42. For the first time ever, there is a very real prospect of consigning these intractable problems to history, once and for all.

43. The reason, which it will not admit in public, why the government has moved away from its longstanding procurement policy of procuring equipment designed to a bespoke technical specification requirement set by the military customer is because, it is no longer confident in the ability of its *own* people to identify, manage and control technical risks inherent in a starting-point for the technical solution that requires development work to be performed upon it.

THEY SIMPLY HAVEN'T GOT ANY

44. Whereas the government has always looked to indigenous equipment manufacturers as its first port of call for entirely good reasons, the undeniable

fact of the matter is that, after decades of unwavering support lavished upon them by political parties of all persuasions, *none* of them are in a position to offer suitable off-the-shelf equipment, because they simply haven't got *any* and are unlikely to accumulate anything usable in the foreseeable future – not least, because they have not been self-funding research & development or innovation, which has left them with no new product lines to offer.

45. In addition to the six off-the-shelf purchases which are currently well under way – namely, the P-8A Poseidon maritime patrol aircraft, Apache AH-64E attack helicopters equipped with AGM-179A Joint Air-to-Ground Missiles, MQ-9B Protector armed drones, E-7A Wedgetail airborne early warning & control aircraft and BOXER armoured vehicles, the government has recently signed contracts to buy NLAW next generation light anti-tank weapons, Anti-ship land-attack Naval Strike Missiles and Archer 155mm Artillery guns, whilst the CH-47(ER) Chinook has been down-selected for its heavy-lift helicopter requirement – the last four, after first conducting a comprehensive market survey and then a comparative analysis of *existing*, in-service platforms. All of this equipment, except BOXER, NLAW, NSM and Archer, is being sourced from US-based manufacturers and is *identical* to that operated by US Armed Forces.

46. It is believed that a quarter of the equipment budget is currently being spent on buying off-the-shelf equipment. This slice is set to increase dramatically by the end of this Parliament and beyond, as more and more programmes which involve significant development work are side-lined in favour of off-the-shelf purchases.

DEVELOPING FUTURE CAPABILITIES TOGETHER

47. Furthermore, in an extraordinary turn in transatlantic relations, the UK and US governments have agreed to collaborate in key technology areas so that they can develop future capabilities for their Armed Forces. They have decided to align their equipment procurement activities, to not only narrow the technological gap between UK-US forces during joint operations,³ but also mutually benefit from the network effects of economies of scale.

48. Such is the goodwill between these two firm allies that this US administration, sanctioned by the unreserved consent of the US Congress, is willing to go out of its way to help the UK close the technological gap between UK and US Armed Forces by offering it open access to off-the-shelf equipment of its own choosing.

49. It is for this reason that some EU countries are now following the example set by the UK and begun the process of buying off-the-shelf equipment from the US, so they too can maintain commonality and interoperability with UK Armed Forces.

CONCLUSIONS

50. Far from spending more on defence, the UK government has announced a reduction of £2.5bn in MoD's budget for the current financial year.

³ UK Ministry of Defence news story, *Defence Minister and Head of the US Army sign Modernisation Agreement*, 14 July 2020. <https://www.gov.uk/government/news/defence-minister-and-head-of-the-us-army-sign-modernisation-agreement>

51. The longest lasting risk is that top military officials 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 to serve their ends.
52. If people think that lessons from Ukraine will be learnt and equipment in the inventory of donor nations will be modified, then they will be sorely disappointed.
53. The one thing that legacy equipment manufacturers will not do is spend their own money to update their own equipment. It is an alien concept to them!
54. The grant aid will not go directly to Ukraine. Instead, it will be given to MoD with instructions to spend the money on whatever it chooses.
55. MoD has secured a sizable increase in its defence equipment budget, got shot of unwanted equipment and misled taxpayers regarding the true beneficiary of the grant aid – all on the back of Ukraine's plight!
56. Defence contractors no longer possess a design & development 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 come to the fore on defence procurement programmes.
57. The mass migration from the public sector to the private sector via the 'revolving door' would explain why contractors' payroll is now completely dominated by people who were previously in the pay of the State.
58. These people 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.
59. Their standing is further diminished by the fact that their ability to innovate, solve problems, learn from past mistakes and adapt to change has been erased due to incessant conditioning of the mind from an early age.
60. The government has revised its defence procurement policy to consider buying new military equipment which automatically falls in the off-the-shelf category.
61. For the first time ever, there is a very real prospect of consigning the twin evils of delays and cost overruns to history, once and for all.
62. After decades of unwavering support lavished upon domestic contractors, none of them are in a position to offer suitable off-the-shelf equipment because they simply haven't got any.
63. The UK and US have decided to align their equipment procurement activities, to not only narrow the technological gap between UK-US forces during joint operations, but also mutually benefit from the network effects of economies of scale.

About the Author

Jag Patel has considerable experience of researching, analysing and solving a wide range of entrenched procurement problems on defence equipment programmes.

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