

Written evidence submitted by ADS

1. ABOUT ADS

- 1.1 ADS is the UK trade organisation representing the aerospace, defence, security and space sectors, with more than 1,000 member businesses.
- 1.2 The following submission is drawn from a comprehensive policy paper that has been submitted to the Government (HMG) on the content of the Defence & Security Industrial Strategy (DSIS) currently under development.

2. EXECUTIVE SUMMARY

- 2.1 ADS welcomes the development of a new Defence and Security Industrial Strategy (DSIS), which we believe should lead to a more coordinated and coherent relationship between HMG and the UK defence and security industries.
- 2.2 ADS would support a new approach by the Ministry of Defence towards industrial policy in line with the Prosperity Agenda. This can be delivered through a Defence and Security Industrial Strategy that sets out new ways of working across the whole spectrum of industrial policy. From leveraging the UK's research and development (R&D) activities to encouraging long-term investment to reforming long-standing public procurement rules to delivering rapid innovation, there are many ways in which existing approaches can be reformed, if not revolutionised, to deliver best effect in support of the UK's national security and prosperity.
- 2.3 ADS believes there are five core elements to delivering a successful strategy. The DSIS should:
 - Create the world's best business environment for innovation
 - Improve long term capability planning
 - Co-ordinate Government collaboration with industry
 - Back UK defence and security companies overseas
 - Strengthen productivity and growing skills
- 2.4 Alongside these core themes, a successful DSIS must embrace the work of the Dunne Review on Prosperity and create the structures by which the UK economy can more readily benefit from the work of our sectors.

3. INTRODUCTION

- 3.1. The DSIS provides an ideal opportunity for the Government and industry to set a joint vision for how the UK will strengthen its global competitiveness, security and resilience in the face of an increasingly complex threat landscape, driven by fast-paced technological change and competition between countries and other threat actors to develop novel capabilities.
- 3.2. In the context of the COVID-19 pandemic, UK companies will suffer from global disruption and the likely recession. Presenting clearly articulated, deliverable strategies for how the Government will interact with the UK industrial base is crucial. Indeed, with an effective DSIS the UK's defence and security industries can be major contributors to the UK's economic recovery. Maintaining and increasing elements such as investment in defence R&D and continuation of existing procurements will be vital to sustaining the UK's defence industrial base and capabilities.

- 3.3. In order to maintain the productivity and resilience of our sectors in this challenging time a DSIS should investigate new ways of working. Activities such as expediting opportunities in order to maintain cash flow to the supply chain and reallocating the UK's skilled workforce, facing a dip in demand in some areas, to meet national requirements will go a long way to helping the UK recover.
- 3.4. ADS has submitted a comprehensive policy paper to HMG on industry's priorities for the DSIS. It lays out how the Defence and Security (both private and public sector) can position ourselves not only as the arbiters of national security, but as the forward-leaning, dynamic, technologically driven sectors that we are.

4. CREATING THE WORLD'S BEST BUSINESS ENVIRONMENT FOR INNOVATION

- 4.1. The UK is home to many of the world's leading defence and security companies. Many more multinational companies choose to base their high-value manufacturing and R&D activities in the UK. A DSIS provides the opportunity for industry and Government to align innovation priorities and create the environment for more co-funded activities in order to make the most of the UK's resources.

Encouraging innovation through procurement

- 4.2. The UK faces a technology delivery challenge. Industry and Government must develop mechanisms that facilitate more agile and rapid procurement and delivery of capabilities. It is vital to national security that public sector procurement and commercial rules remain focussed on delivering a technological, doctrinal or systemic advantage to the end-user.
- 4.3. The defence and security procurement landscape is complex, with issues ranging from the over-specification of requirements to the use of onerous selection criteria that inevitably tend to deter SMEs from participating and create barriers to innovation. For the UK to continue to innovate and deploy world-leading technologies the procurement and acquisitions process must reflect and encourage the pace of technology, not hinder it.

Promoting a greater risk appetite in Government

- 4.4. One of the key barriers to adopting innovation inside Government is the culture of risk avoidance in procurement decisions. This leads to a focus on cost at the expense of innovation, hindering SMEs from entering marketplaces to offer new and innovative solutions to National Security threats. Industry would welcome a DSIS that champions a new approach to procurement that promotes a culture of risk understanding and active management.
- 4.5. Programme teams and commercial officials should be encouraged through guidance and training to focus on defining a desired effect or outcome in a tender and avoid over specifying requirements. This would allow industry to develop innovative solutions to the problem facing the end user, instead of simply focusing on offering the same solution as other companies whilst solely competing on a Value for Money basis. In time the Government should review how the Treasury's Green Book, and subsequently procurement mechanisms, can be reshaped to foster innovation, not simply managing financial risk.

5. LONG TERM CAPABILITY PLANNING

- 5.1. The UK must retain influence in a dynamic and challenging global context. The growing influence of digital technologies demand that the UK reassesses what capabilities will be needed to keep the UK safe and prosperous. The DSIS is an opportunity for Government to set a vision as to what will be the national strategic technology priorities in the coming decades, and how industry can support in ensuring the UK remains a global leader.

Providing long-term certainty

- 5.2. For businesses to develop the technologies of tomorrow and help maintain the UK's national security they require a financial environment based on stable long-term planning. Financial stability coupled with a good understanding of the Government's future requirements are important features of a business environment that is conducive to investment.
- 5.3. Funding from Government is often provided in bursts rather than in a stable, consistent manner, resulting in unpredictability, hindering industry's ability to meet national security requirements, and causing greater inefficiencies. This is a particularly acute issue for our sectors, where programmes often have long lead times and can need years of planning and delivery. As part of the Levelling Up agenda early and consistent funding from the Government, particularly for R&D activities, can leverage downstream investment from our sectors.
- 5.4. Where appropriate, moving from annual budgets to multi-year budget assessments would provide industry with greater confidence to engage with a long-term vision and bring innovation into existing programmes.

Balancing National Security and investment

- 5.5. It is vital that the DSIS creates the environment in which industry and Government can have confidential discussions about national sovereignty requirements and how to identify and implement strategic measures to ensure that opportunities for the UK to invest in critical technologies are not missed in the future. Transparency of direction and pragmatism at the early stages of technology development is important in this respect.
- 5.6. Industry would welcome guidance and direction from Government on which technology areas and capabilities are deemed to be Sovereign Capabilities. This would greatly help businesses more effectively plan and compete within the UK marketplace and make appropriate long-term decisions to support UK national security.

Recognising the role of sector strategies

- 5.7. There are existing successful sector strategies, such as the National Shipbuilding Strategy and the Combat Air Strategy that have provided industry with important direction as to the priorities and overarching goals of the UK in certain capability fields. ADS encourages the Government to explore this approach further and consider which areas of UK capability may benefit from similar arrangements, for example the Land sector, rotorcraft or security capabilities such as counter-drone. In doing so, this can encourage collaborative long-term partnering with industry in specific areas, increase inward investment to the UK, and ensure increased national resilience by the long-term sustainment of onshore national capabilities.

6. CO-ORDINATING GOVERNMENT COLLABORATION WITH INDUSTRY

- 6.1. The UK faces a dynamic international landscape: rapid technological change, an ever-evolving threat picture, and challenges to the UK's global influence by peer competitors. Industry is a key partner in helping Government to meet these challenges.

Coherence on R&D priorities

- 6.2. Industry would welcome a strategic and coordinated approach to HMG's funding of national defence and security R&D and innovation activities, with the creation of a coherent concept-to-capability journey that is easily understood by both Government and industry. This could be formed through a 'signposting' service within the offices of the Chief Scientific Advisers.
- 6.3. The UK should develop new mechanisms through which Government and industry can confidently share their S&T planning and ideas, without commitment and in a secure environment as part of wider pre-competitive industrial engagement. Stakeholders being able to share these plans in a trusted environment is essential for coordinated technology

development, increasing the inward industrial R&D investment and then improving the return on investment.

- 6.4. At the other end of the Technology Readiness Level (TRL) spectrum, there needs to be more work to connect R&D projects funded or co-funded by the Government to subsequent major programmes or procurements. A lack of understanding of the exploitation route, and the pull-through to market, can make the business case for approving investment in R&D challenging.
- 6.5. The UK has historically been a leading beneficiary of European Union (EU) R&D funding and has been involved in more R&D projects than any other EU country to date. As part of a wider debate on the level of R&D funding provided by the Government to achieve the 2.4% and 3% targets, the UK should ensure that any loss of EU R&D funding after the end of the transition period is exceeded by new domestic funding opportunities.

Leveraging cross-sector opportunities

- 6.6. In support of the Government's agenda for levelling up the UK economy ADS believes it is important that the defence and security communities (both public and private sectors) set a more ambitious and proactive plan for engaging with adjacent and strategically important industries.
- 6.7. There are many technologies that will continue to be vital for delivering national security objectives but that will not be developed by our sectors. The DSIS must articulate a formal approach to engaging with existing national initiatives, clusters and Catapults that will mean working across sectoral lines to identify potential areas of collaboration. This will also support the Government's wider agenda for levelling up the UK economy, by identifying regional opportunities for cross-sector partnering.
- 6.8. Ensuring the Defence Technology Framework is coherent with this approach, and demonstrating how these technologies may be leveraged on a cross-Government basis will help avoid duplication and inefficiency.
- 6.9. In support of this, the DSIS should look at existing initiatives in the Industrial Strategy Challenge Fund to ensure that there is alignment between R&D funding competitions for the wider economy and for defence and security-specific ones.
- 6.10. ADS members would also welcome the opportunity, alongside the MOD and Home Office, to give a view on the priorities for the new Government ARPA-style initiative as announced in the March 2020 Budget. Industry see significant benefits in a small, project-based, independent research and development unit with enough funding to address problems quickly and effectively, underpinned by a high-risk appetite.

7. BACKING UK DEFENCE AND SECURITY COMPANIES OVERSEAS

- 7.1. ADS members are in prime position to lead the delivery of the Government's Global Britain agenda. The UK's defence and security industries are significant contributors to the UK's export agenda; our industries export novel world-leading technologies and equipment critical to the security of our allies and partners. Moreover, defence and security exports help to strengthen the UK's relationship with its key partners.
- 7.2. However, there is much more that Government and industry can do together. Recognising the importance of exports to the UK industrial base, ADS members would welcome a DSIS that sets an ambitious vision for deeper collaboration and Government support in the export market.

Leveraging Government-to-Government engagements

- 7.3. The UK's defence and security sectors are globally respected, and the UK's Armed Forces are considered amongst the best in the world. For that reason, it can often make a critical difference for companies seeking entry to new markets to be associated with the UK 'brand'.
- 7.4. Working in concert with existing export strategies, the DSIS should demonstrate a newly energised approach to Government-to-Government engagement that includes a strengthened industrial dimension. This should recognise the variety of roles that the Government can play in support of UK defence and security exports, such as:
- *Partner*: Acting in concert with industry for the delivery of particularly sensitive contracts.
 - *Advisor*: Providing guidance to industry on the dynamics of a geopolitical relationship and commercial opportunities that may arise from this.
 - *Influencer*: Influencing foreign customers to actively consider the UK as a supplier to meet their defence and security capability needs, in part by using these capabilities itself.
 - *Guarantor*: Acting as guarantor to the delivery of contracts by industry, often by signing treaties and other forms of collaboration agreement with international partners about the broader UK commitment to a relationship.
 - *Facilitator*: Facilitating industrial engagement with international partners as part of its regular security and intelligence collaborations, as well as by hosting and/or supporting bespoke sector trade missions (both inward and in country).
- 7.5. The UK should show a new willingness to enter Government-to-Government Agreements that underpin the activities described above. Many of the UK's peers (e.g. France) are unapologetically prepared to support their domestic industries access new export opportunities and the UK should step up its efforts across all departments accordingly. This should include a in a coordinated and consistent way across the whole of Government in order to showcase the full breadth of UK capability, both military and civil.

Bolstering the Defence Growth Partnership

- 7.6. Respected widely for its independence, the UK Defence Solutions Centre (UKDSC) is a key part of better informing and preparing a Global Britain for the export market and making UK businesses more competitive globally. The UKDSC should play a more formal role in supporting the MOD in delivering on National Security Objective 3 – support to prosperity, most directly through the UK export agenda.
- 7.7. Funding for the UKDSC is due to end in September 2020. In order to maintain this important national asset it is vital that new mechanisms are put in place by June this year. The UKDSC epitomises a long-term collaborative approach to evidence-based planning that was highlighted in the Dunne Review and that industry believes should be a core part of the export agenda. The DSIS should put in place plans to fully fund the UKDSC on an ongoing basis.
- 7.8. Alongside this, the DSIS should bring together work on reforming procurement processes and export support to ensure that exportability is incorporated at the requirements scoping stage. This should ultimately lead to joint strategies for international sales, starting at the earlier stages of innovation through to procurement and on to export sales.
- 7.9. The Defence Growth Partnership (DGP) is a prime example of the benefits of industry-Government collaboration in support of the Global Britain agenda. If the UK is to be competitive in its target export markets it is vital that the DGP is supported and receives real support from MOD, BEIS, DIT (DSO) and FCO. A more formal collaboration mechanism between these departments to share market and country intelligence and coordinate planning for export campaigns would significantly elevate the UK's international presence and provide industry with the confidence to commit to ambitious long-term partnering bids.

- 7.10. As the military customer, a huge influencing factor when engaging with international buyers and the department closest to our members, the MOD should play a more prominent role as the lead Government department and funder in the Defence Growth Partnership.

Exporting advice for SMEs

- 7.11. DIT DSO offers important advice on what the UK's rules and regulations are in exporting. However, there is a lack of specialist advice on offer, especially to SMEs, about local rules and regulations in overseas markets. It would be invaluable for UK companies, especially SMEs, if there was greater coordination to provide specialist advice and guidance from Government assets embedded within DIT and within the UK's global network of Embassies and High Commissions.

Efficiency in export licensing

- 7.12. It is important that the UK continues to operate one of the most rigorous, effective and robust export licensing regimes in the world. UK industry works closely with bodies such as the Export Joint Control Unit (ECJU) to maintain compliance with regulatory requirements and ensure UK defence exports are ethical and legal. In support of their work, ADS would welcome a review of the resourcing devoted to both Government bodies and industry in the processing of export applications.

8. STRENGTHENING PRODUCTIVITY AND GROWING SKILLS

- 8.1. The long-term competitiveness of the UK defence and security markets should be a major concern for the DSIS. The UK's defence and security industries are dynamic, resilient and innovative, their workforce is highly skilled and earns more than the national average. In order to maintain and build upon this position of strength, Government and industry must collaborate on supply chain initiatives and skills, two key areas that will further boost the UK's productivity at home and competitiveness abroad.

Establishing a strategic national skills plan

- 8.2. Our members recognise the importance of dedicating more time and resources to train their workforces and create meaningful economic opportunities for people across the country in support of the Levelling Up agenda. Inconsistencies in future pipelines of work can lead to fallow periods where complex skills in the workforce are left to drift away and these can be expensive and time consuming to rebuild. In collaboration with industry, the Government must develop a strategic national skills plan to meet the demands of the future workforce. This plan should make clear what the Government identifies as its strategic national skills priorities and how these can be addressed through engagement with wider initiatives. This should also align with wider work on defining Sovereign Capabilities where appropriate.

Supply Chain Initiatives

- 8.3. To keep the UK's defence and security sectors competitive the DSIS should further assess the effectiveness of existing supply chain competitiveness initiatives, including the High Value Manufacturing Catapult and SC21 (Supply Chains for the 21st Century – an improvement programme for accelerating the competitiveness and performance of aerospace and defence supply chains), and make the case for funding to further develop defence and security-specific competitiveness improvement programmes where it is viable for the supply chain.

9. PROSPERITY AND VALUE FOR MONEY

- 9.1. In recent years the UK Defence Industry has engaged with Government on a number of strategic-level activities that have impacted defence industrial policy. Industry has also contributed to the work led by Rt Hon Philip Dunne MP on *Growing the Contribution of Defence to UK Prosperity*. The report provides the UK with a number of welcome recommendations that would significantly increase both the UK's prosperity and the vitality of the UK defence industry.

- 9.2. 'Value for money' must be considered across the entirety of a capability, service or support provision's lifecycle. The lowest initial cost bid that delivers the minimal compliant technical requirements is rarely the most efficient way of delivering modern defence capabilities. ADS encourages Government to make procurement decisions that secure further investment in the UK and incentivise industry to create and sustain high-wage, high-value jobs in the UK.
- 9.3. The defence sector's work on the prosperity agenda has highlighted the excellent contributions that are made across the public and private sector, as well as the value that industry already brings to the national economy. However, ADS believes implementation of the prosperity agenda is in danger of stalling due to the failure of Government to address key recommendations.
- 9.4. The UK defence industry lacks a coherent definition of 'prosperity' and due to this it is not effectively assessed within the procurement process. An effective DSIS should look to develop a clear, coherent and implementable approach to prosperity that both industry and civil servants can work to.

23 April 2020