

Written evidence from Jag Patel

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INTRODUCTION

1. No defence procurement programme in recent times has captured the attention of Parliamentarians and generated as much controversy as the Fleet Solid Support ships procurement programme – all because of a single issue, competition.
2. So, why has competition become such a hot political issue and why now?
3. The answer lies in this government's post-Brexit vision of a *Global Britain* trading freely with countries beyond the EU, so that it can pay its way in the world whilst prospering at home. This ambition requires the UK to become an export powerhouse again, just like the days of old, which means that the goods and services it produces will have to be much more competitive in the global market. The furious pace at which the government is signing-up trade deals with individual countries is proof of its determination to get the UK exporting. Now, it is the job of the private sector to up its game and make it happen, if only to save its own reputation.
4. The naval shipbuilding industry in the UK is nowhere near achieving the required level of competitiveness to make a contribution to this grand endeavour.
5. This submission examines the government's evolving stance on the way it intends to compete the FSS procurement programme, considers the issues that are driving its calculations and what is likely to get in the way of the government achieving its objectives.

REALISING THE VISION

6. The government's intent expressed in its *National Shipbuilding Strategy* published in September 2017 is absolutely clear – to restore the shipbuilding industry's competitiveness and enhance its preparedness for the post-Brexit era, confirmed by its own words (on page 24):

“Our intent is to compete non-warships in order to maintain UK competitive edge for shipbuilding. By testing UK yards against foreign competition we will be able to ensure that the UK sector remains competitive. The Fleet Solid Support ships will therefore be subject to an international competition”

7. It is this policy of subjecting the FSS programme to open competition on the global market that has created all this furore in Parliament. Hitherto, it has been the policy of governments of all persuasions to hand out single-source shipbuilding contracts to selected UK-based defence contractors on a preferential basis – which is one reason why they have become seriously uncompetitive both, in the domestic market and in export markets.

TELLING IT HOW IT IS

8. Constant exposure to the full rigours of the free market, that is to say, making incumbent contractors “feel the heat” of competitive market forces relentlessly is the single biggest factor that incentivises them to sharpen their competitiveness and do the right thing – such as engage in long-term activity like investing in innovation, product research and development, creating intellectual property or upskilling employees.
9. So, it is not entirely unsurprising that in the face of entrenched producer interests, a conservative Defence Secretary has for the first time summoned up the courage to talk about what has gone wrong with defence procurement – the total lack of competition in the procurement of military equipment.

10. Speaking at a fringe meeting hosted by *ConservativeHome* during the 2019 Conservative Party conference,¹ Ben Wallace said:

“It was embarrassing when our troops have ended up with very bad build quality equipment because domestic suppliers have been shielded from competition.”

11. Those who are convinced that a free market economy is what brings prosperity to all should also acknowledge that competition is the essence of the enterprise culture and that it alone fosters innovation, wealth creation and the winning mindset.

12. For an economic system that relies on voluntary exchange between buyers and sellers and seeks to deliver goods and services to everyone at a price they are willing to pay, vigorous competition among vendors on the basis of a level playing field is absolutely essential.

13. This philosophy is as true for the market in defence equipment as it is for the market in consumer goods and services. However, people (especially those in the pay of the State) need to understand and accept that as an inevitable consequence of this drive to sharpen competition, there will be winners and losers in the marketplace.

A RETROGRADE STEP IN THE POST-BREXIT ERA

14. However, in a scene played out countless times over the last 50 years or so when the UK was part of the European Union, the Defence Secretary has *again* gone out of his way to shield UK-based defence contractors from exposure to the full rigours of the free market, that is to say, “feel the heat” of competitive market forces – by excluding continental rivals from bidding for the FSS procurement programme.

15. The difference this time is that he is directing defence contractors to select only *foreign* shipyards as their design and manufacturing partners, at the expense of domestic yards which are, in some cases, wholly-owned subsidiaries of these same defence contractors. For confirmation, see the answer provided on 13 April 2021 to a written question in the House of Commons, shown Figure 1 below.

16. He has been compelled to issue this extraordinary instruction because he knows from bitter experience gained on recent naval shipbuilding contracts that, if UK-based defence prime contractors were allowed to choose their *own* shipyards as part of their teaming arrangements, then they would surely lose out in an open competition to foreign defence prime contractors, not least, because foreign shipyards are so much more efficient and therefore fiercely competitive – on price, quality of products offered and most important of all, on timely delivery.

17. This would leave him with a serious political problem of seeing *all* work on the FSS ships being performed offshore. In an attempt to forestall such an outcome, he has intervened in the market to ensure that at least the project management of the contract is performed here in the UK, thereby placating those in Parliament who are vociferously opposed to defence work going abroad.

COMPETITION-AVERSE

18. But the real reason why the Defence Secretary (aka shipbuilding tsar) wants to keep domestic shipyards out of the FSS programme is because they are *competition-averse* – largely because they are staffed (from the very top to the bottom) by people who were *previously* in the pay of the State, where they never had to face any competition and consequently, have no experience whatsoever of what it is like to “feel the heat” of competitive market forces.

19. 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”, in the main due to the resounding success of the policy instituted by Defence Secretaries of all political persuasions – to encourage for-profit organisations in receipt


¹ *Andrew Gimson’s Conference sketch: Wallace declares that he is not setting out to be a popular Defence Secretary*, *ConservativeHome*, 30 September 2019.

<https://www.conservativehome.com/thetorydiary/2019/09/andrew-gimsons-conference-sketch-wallace-declares-that-he-is-not-setting-out-to-be-a-popular-defence-secretary.html>

of government defence contracts to take-on people who are just about to come off the public payroll.


Figure 1

Question



Luke Pollard >

Labour

Plymouth, Sutton and Devonport  Commons

To ask the Secretary of State for Defence, whether the new Fleet Solid Support Ship tender will be restricted to UK bidders.

Answer



Jeremy Quin >

Conservative

Horsham  Commons

Answered on

13 April 2021

The detailed contract requirements are yet to be published but we would expect substantial UK involvement in any successful bid.

As referenced in the answer given by my right hon. Friend the Secretary of State for Defence in response to question 906278 we would encourage interested international partners to work with UK firms to bid, building on the success of T31.

MASS MIGRATION

20. This mass migration would explain why the workforce, at every level of the hierarchy within defence contractors' organisations (right across the full spectrum of defence engineering businesses, government outsourcing contractors and foreign-owned entities, large and small) is now made-up *entirely* of people who were previously in the pay of the State.

21. To add to this blunder, the government is inviting precisely *these* sorts of people into its policy-making forums in Whitehall to try to get a handle on what has gone wrong with defence procurement, because its own civil servants are not up to the job. So, it will come as no surprise that these unpaid advisers, seconded from the defence industry and treated as "one of us" will *never* bring themselves to prescribe *more* competition as the medicine to the ills suffered by defence equipment manufacturers.

22. And yet, the government's default policy is to procure equipment for the Armed Forces through fair and open competition. It confirms this in its most recent policy statement on defence procurement expressed in the Defence Industrial Policy published in December 2017,² where it says:

"We strive to provide our Armed Forces with the capabilities they need at the best value for money, obtaining this through open competition in the global market, wherever possible. Competitive tension is the greatest driver for innovation, productivity and earning power in any economy."

² Defence Industrial Policy document, *Industry for Defence and a Prosperous Britain: Refreshing Defence Industrial Policy*, p.23, PDF file (1.28 MB).
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/669958/DefenceIndustrialPolicy_Web.pdf

HOSTILE TOWARDS COMPETITIVE MARKETS

23. However, those lower-down the hierarchy underneath the governing elite, including the administrative elite and military top brass who are hostile towards competitive markets, have fought tooth and nail to prevent this policy from being fully implemented, which would explain why only 42% of new MoD contracts by value were placed via open competition in 2016/17, *down* from 64% in 2010/11.³ Reinforced by fierce opposition from vested interests outside Whitehall, there seems little chance of it being applied anytime soon.

24. So long as defence contractors carry on with the practice of recruiting only people who were previously in the pay of the State, they will continue to be allergic to competition.

EVOLVING NATURE OF CONTACTORS' PROJECT PERFORMANCE TEAMS

25. To make matters worse, the lack of an in-house *technical* capability is undermining the ability of equipment manufacturers to design and develop military equipment for the Armed Forces.

26. So, what is it about engineering businesses trading in the consumer goods market that makes them exceptional performers, compared to equivalents in the defence equipment market?

FEATURES OF A HIGH-PERFORMING ENGINEERING COMPANY

27. One of the defining features of a high-performing engineering company is that the composition of its project team changes and *grows*, as it advances a product development programme from one engineering phase to another – that is to say, from the design phase, to the development phase, to the systems integration phase, to the prototyping phase, to the testing phase and finally, to the manufacturing & in-service support phase. This evolving team expands to accommodate people with the diverse range of skills and capabilities that are required to tackle the vast array of challenges posed by a product comprising a complex technological mix of electronic, electrical, mechanical and software components – which typify MoD equipment procurement programmes in the modern age.

28. It begins as an embryonic *management* team on the hunt for business opportunities, which then morphs into a *bid* team that produces the response to the invitation to tender, then into a *project performance* team which advances the starting-point for the technical solution from its existing condition, to a point where it satisfies the qualitative and quantitative requirements expressed in the technical specification requirement and finally, evolves into a *project delivery* team which sees the project through to a finish, by delivering the fully-engineered product to the user and providing on-going technical support thereafter, for the entire in-service period.

MAKE-UP OF DEFENCE PROJECT TEAMS

29. However, the situation within defence engineering companies is very different, in that, the make-up of the project team remains largely the *same*, as it moves from one engineering phase to another – a thin layer of *management* types whose only notable talent is doing the *talking*, not least, because they don't expect to get their hands dirty. The harsh reality is that, in the vast majority of cases, there are virtually no people underneath this management layer possessing the requisite hands-on skills, capabilities and experience to perform the on-the-ground delivery work.

30. So, in an attempt to get around this shortcoming, the winning contractor of a MoD equipment development programme outsources some (or all) of the work to a subcontractor (which has the effect of introducing yet *another* layer of management adding no value, only costs), who in turn ends up doing the same *again* – because, they too, haven't got a fully staffed team on their payroll to perform the necessary work. Eventually, the final management layer hires a handful of agency staff on the cheap, or disparate individuals operating on a freelance basis – right at the bottom of the pile, with no loyalty, no job security or even relevant job experience for the task in hand.

³ *ibid.*, p.23

OFFERING LIMP EXCUSES

31. The results are entirely predictable. The programme quickly falls behind schedule, with the top-level management team reduced to offering limp excuses by outsourcing its obligation to report progress, problems and achievements to MoD to lower level(s), as per the sub-contract – whilst retaining the highly-coveted role of first point-of-contact, chief negotiator and recipient of milestone payments.

32. This is because the management layer, at every level, is almost always made-up of people who were *previously* in the pay of the State where their focus was, at the exclusion of all else, on how to go about commissioning and overseeing contracts with no consideration whatsoever given to how the hardware configuration of the technical solution will be built and delivered.

SHORT-SIGHTED MANAGEMENT STYLE

33. So, it comes as no surprise that this short-sighted management style has been *replicated* and embedded in the private sector, by successive waves of former government officials who migrated via the “revolving door” over the last several decades, after having reached the upper echelons of the civil service & armed forces. In so doing, they have completely overlooked the undeniable fact that it remains the job of the private sector to deliver the required equipment to the user, given that it *alone* possesses the means of production and distribution. It proves one thing – that *nothing* in their prior experience of working in the public sector has prepared these people for the challenges they will face in the private sector.

34. Whereas engineering businesses that manufacture consumer goods routinely build successful project teams made-up of talented engineers, problem-solvers, innovators and doers from a wide variety of backgrounds (as well as pick them on merit), being “one of us” remains an *essential* requirement to become a member of defence engineering teams.

35. It would explain why poorly-performing defence manufacturing businesses have failed so miserably, to deliver equipment to the Armed Forces which is fit for purpose, adequately sustained in-service and constitutes value for money through-life.

NO TALK OF TAKING ON FOREIGN COMPETITION

36. What is notable about public statements made by domestic prime contractors is that there is no bold talk of taking on foreign competition, beating them on their own turf and teaching them a lesson on how to win. Why?

37. Because the inescapable fact of the matter is that dominant players in the UK’s defence industry, the Select Few, haven’t got the guts to go up against all-comers in an international contest which might end up revealing what many informed people know to be an undeniable truth, that they are hopelessly *uncompetitive* – on account of not having had the prior experience of entering open competitions, in the main because, UK governments of all persuasions have pursued a policy of gifting a steady stream of uncontested, single-source defence contracts to these indigenous contractors on a preferential basis, for as long as anyone can remember. This, despite repeatedly claiming that it is government policy to procure military equipment for the Armed Forces through fair and open competition.

SPREADING DEVELOPMENT COSTS

38. And yet one of the reasons put forward by producer interests to justify spending huge amounts of public money on new military equipment programmes is that subsequent foreign sales to international customers will serve to offset the inordinately high outlay on initial design and development work, which is all too common on these type of procurement programmes – as is the recurring problem of delays and cost overruns.

39. But how is the domestic defence industry going to export newly-designed equipment if it doesn’t enter competitions run by foreign governments in the first place?

40. The answer lies in the lack of ambition on the part of these usual suspects. Whereas they publicly let it be known that they want to export their products worldwide, their undeclared intention which is central to their business model, is to focus exclusively on exploiting UK

taxpayers to the fullest extent possible. Repeatedly perpetuating the line that spreading the design and development costs across multiple customers to get better value for money for UK taxpayers is only a ruse to persuade the government to take that all-important, purchasing and investment decision in the first place.

41. Which would explain why products developed in this millennium, such as the 54 Watchkeeper unmanned aerial reconnaissance drones which have cost taxpayers £1.12bn, have failed to attract even a *single* overseas customer.

42. On this basis, it can be said with certainty that the Type 31 frigates will do no better!

CONCLUSIONS

43. It is not for the State, in the shape of the Defence Secretary, to interfere in the internal decision-making process of defence contractors by directing them to select only foreign shipyards – this is a matter entirely for private interests to decide, based on commercial and business considerations. However, it is entirely understandable why he is dead set against domestic shipyards being part of the mix.

44. He has ended up here because of the tried-and-failed policy of handing out uncontested, single-source shipbuilding contracts to defence contractors on a preferential basis, year after year – despite, claiming repeatedly that established policy is to procure military equipment through open competition.

45. On the positive side, HM Treasury will be relieved of the burden of currency fluctuation risks which will now be transferred to the FSS prime contractor, and rightly so. After all, it is just one of the costs of doing business!

46. Testing themselves against competitors in fair and open competitions is the only way for market participants to find out how competitive they are, both in the domestic and global markets.

47. Unlike high-performing engineering companies trading in the consumer goods market, the make-up of defence contractors' project teams comprises a thin layer of management types, invariably people who were previously in the pay of the State.

48. Reluctance on the part of domestic contractors to enter international competitions run by foreign governments has put paid to their chances of exporting newly-designed equipment. What's more, it is highly unlikely that foreign governments will simply hand over defence contracts to UK-based defence prime contractors in the way the UK government has been doing.

49. What government fears most is the twin evils of delays and cost overruns. There is a school of thought in government that, if it doesn't *start* a procurement programme, then the risk of persistent delays and cost overruns is cut down to zero – which would explain why the FSS programme remained stalled for so long.

50. What is the point of limiting the competition for the FSS ships to UK-based contractors only if key players, otherwise trading as independent entities, are allowed to team up under one banner, which has the effect of rendering the competition completely useless and defeating the very purpose of using this tool? This amounts to collusion to neutralise procurement strategy.

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About the Author

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