

# 'The Navy: purpose and procurement'

Submission to Consultation, May 2021

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## Introduction

As a British company, Serco is proud to have supported the UK's Armed Forces for over 50 years. We have deep expertise, providing a wide variety of military support services in the maritime and naval, space, land and air domains. Our commitment to defence is shown through our high level of support for the Armed Forces Covenant, including being a 'Gold' award holder under the MOD's Employer Recognition Scheme.

In 2020, 31% of the Serco's £3.9bn global turnover was generated through work with Five Eyes military customers. Of that, approaching three quarters was accrued from naval and maritime support services. The US Navy is our largest single customer, and Serco is proud to have been supporting the Royal Navy (RN) across the UK since 1996, from Portsmouth to the Kyle of Lochalsh, and with operational deployments worldwide.

Serco's maritime design, support and operational teams have a comprehensive understanding of naval design, build, procurement and operations with a particular focus on auxiliary ships. We hope, therefore, that this experience will be of value to the Commons Defence Select Committee in their review of the RN's future role and whether the naval procurement and support plans deliver the capabilities required for the Government's ambition.

## The challenges faced by the Royal Navy

Based on our maritime expertise, Serco believes that the recent 'Integrated Review' (IR) indicates that the RN faces three core issues. These result from the increasing maritime threats, as well as the 'Indo-Pacific Tilt' and wider requirements to increase agility, flexibility and cost effectiveness.

- Firstly, the RN is - and will continue to be - constrained by the number and availability of its warships, combined with the cap on the number of people to fight and maintain them. These high cost, high value assets haven't been used for tasks that could be performed by less costly and better suited auxiliary vessels. As a result, the quantity and duration of operational deployments that the Navy fulfils has – for much of this century – challenged both ships and people, so much so that they have been required to run 'hot'. This has had a direct impact on the availability of both, and significantly increased support costs.
- Secondly, a combination of increased operating costs, procurement delays and price rises have impacted the capability of the UK's shipbuilding industry. The three remaining warship yards (all in Scotland) have been sustained by the MOD with orders for Type 26 and Type 31 frigates, but the outlook for yards capable of building Fleet Solid Support (FSS) ships is mixed. Despite a large potential market in the UK, the remainder of the shipbuilding industry has echoes of the UK's car building industry in the 1980s, which faced a competitive challenge from firms abroad.
- Thirdly, the result of the above factors means that the MOD and the RN should consider revising the current commercial approach to both the shipbuilding market and industry. The MOD and Cabinet Office have both recognised that competition is not always the best way to achieve their objective of delivering value for money and prosperity, but this approach has yet to be seen in the shipbuilding industry for auxiliary vessels. Such an approach would help ensure that the industry can generate innovation, in order to give the RN the flexibility and agility that it requires, at a time when technological change is accelerating, and the defence environment continues to transform.

## Questions

### Part 1 – What is the UK's ambition for the Navy's role over the next 20 years?

The UK's ambition for the RN, as identified in the IR, is for the service to generate increased resilience, agility, flexibility, mass and lethality in its operations, while expanding its focus to a more global role. Restrictions on personnel numbers and ships will require the RN to make more extensive use of the human, technological and

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platform resources available from the UK's maritime enterprise. Areas that are likely to be of relevance include the use of the Whole Force (people), combined with autonomous systems (technology), and auxiliary vessels (platforms), in order to cost-effectively bolster naval capabilities. Based on Serco's experience of maritime operations, support and design services across Five Eyes markets, we suggest the following to support the RN to achieve its stated aims:

1. By integrating Whole Force into its operational structure, the RN can achieve its objective of a more resilient, scalable and adaptable operating model. This will require a large bank of security cleared, civilian mariners who have the necessary expertise to be able to adapt, at pace, to changing situations. Numbers in this regard are crucial, but only present one part of the solution. For these crews to be mobilised at scale and in a time efficient manner, they will need to be directed coherently, ideally by a limited number of strategic partners who can provide assured scale, flexibility and security.
2. Currently, high-end warships are used for a wide variety of non-warfighting roles which increases the likelihood of overstretch on both the ships and their crews. Some of these tasks require specialist capabilities for which warships are not necessarily suited, such as development trials, persistent surveillance tasks in the North Atlantic, support to Critical National Infrastructure, and supporting autonomous systems. There is potential to increase the use of UK crewed and flagged auxiliary vessels to quickly and cost-effectively add capacity to fulfil these tasks. Using auxiliaries in this way would free up time for warships and their crews to focus on higher threat or priority operations. This low-cost solution would provide greater flexibility due to auxiliary vessels' availability, ample deck and cargo space, specialist equipment such as dynamic positioning, heavy lift cranes, and ability to support remotely operated and autonomous vessels. These vessels can also be repurposed and upgraded quickly and cheaply to integrate technological developments, providing a low cost and low risk solution to keep the RN up to date.

## **Part 2 – Are naval procurement and support plans delivering the capabilities required for this role?**

The last two decades of naval procurement have seen constantly evolving requirements and programme changes. In turn, these have affected the capacity, capabilities, and skills of the UK's maritime supply chain. A recent example was the extended Type 26 programme concept phase, which led to an interim buy of the Batch 2 River Class Offshore Patrol Vessels. The gap in build between Type 45 and Batch 2 River Class created more delivery and quality risks for the latter programme. There have been comparable gaps in UK shipbuilding demand outside the RN, an issue which is now being addressed through the wider scope of the forthcoming National Shipbuilding Strategy refresh.

The 2017 National Shipbuilding Strategy, and its subsequent refresh due out this summer, acknowledge these potential challenges. The government's positive aim to use shipbuilding as a vehicle to both increase the UK's maritime industry's resilience and prosperity should also take into account the supply chain, the development of which has been constrained by limited investment and a thin pipeline of orders. With few orders available until 2024, these supply side restrictions will add risk to the rising demand for auxiliary vessels from 2024 with new programmes including: Fleet Solid Support ships, the Multi-Role Ocean Surveillance Ship, in-port auxiliary vessels for RN dockyards, Scottish ferries, and orders from other Governmental departments.

To help offset these risks, we suggest three practical solutions that could support the Royal Navy in delivering for the future:

1. The Government has emphasised the importance of skills, especially in the context of its 'Levelling-Up' agenda and COVID-19 recovery. To help rectify the current skills shortage, particularly in the domestic ship-building industry, the Government should consider working closely with private sector providers with broad experience, not only in defence but also in other areas of public service such as retraining, upskilling, and employment support programmes. In such a scenario, the Government could bring forward lower risk programmes to re-generate high-skilled areas required for shipbuilding. Government should also encourage the private sector to partner more broadly in skills development, particularly with local and regional government to align investment with local economic recovery strategies.
2. Whilst we recognise the need to develop the necessary domestic skills and supply chain capacity to enhance the UK's naval capability, so too do we appreciate the expertise brought to bear by international partners. With the National Shipbuilding Strategy Refresh proposing a renaissance in UK shipbuilding, the car industry in the 1990s can provide a template for the shipbuilding industry of the 2020s: the importing of international best practice, skills and expertise to improve productivity and quality to the level where the UK can build FSS

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and other ships to compete internationally. Serco's longstanding partnership with Damen could facilitate this ambition. Damen is one of very few non-state subsidised, globally competitive shipbuilding and repair groups. Serco has worked closely with Damen to introduce 45 new vessels into service over the last 14 years in the UK and Australia; extending this relationship could de-risk key elements of the UK's short to medium-term shipbuilding programme. Damen's industry leading engineering technology, skills and processes also provide the opportunity for UK yards to share best-practice to the benefit of our domestic ship-building industry. This could include a generational opportunity to move beyond current shipbuilding designs by incorporating autonomous and green technologies at the beginning of the design process, rather than simply retrofitting existing designs.

3. To inject – in quick time – the skills, capacity and resilience into the UK's shipbuilding industry and supply chain, the Government should identify opportunities to bring forward parts of its shipbuilding demand, particularly for smaller or simpler auxiliary vessels based on proven commercial designs. Accelerating these programmes could allow UK shipbuilders to both sustain industrial capacity and generate skills for the larger build programme, beginning with Fleet Solid Support in 2024. This would also align with government's broader strategy to accelerate the UK's post-COVID economic recovery.

## End Note

Our response is designed to be concise, focussing on some key points that align with the Committee's priority areas. We have not exhaustively detailed every aspect of our experience with regard to each theme in the response. However, we would strongly encourage and welcome the Committee to approach us for additional detail on *any* aspect of the response if it so wishes.

## About Serco

*Serco is a leading provider of public services. Our customers are governments or other organizations operating in the public sector. We gain scale, expertise and diversification by operating internationally across five sectors and four geographies: Defence, Justice & Immigration, Transport, Health and Citizen Services, delivered in UK & Europe, North America, Asia Pacific and the Middle East. More information can be found at [www.serco.com](http://www.serco.com)*