

## Written evidence submitted by Jag Patel

*The appallingly poor performance of indigenous defence contractors over the last several decades has forced some people to conclude that they pose the single biggest threat to the financial security of this country, aided and abated by people who were previously in the pay of the State.*

### INTRODUCTION

1. It is very well setting the noble objective of improving performance on defence procurement programmes but surely, the starting-point for any government intent on solving the puzzle is to *correctly* identify the problems that are getting in the way of officials and contractors delivering equipment to the Armed Forces that is fit for purpose, adequately sustained in-service and constitutes value for money through-life.
2. The experience of the last several decades has shown that government has failed to perform this most basic of functions, which means that the delivery of equipment will continue to be plagued by persistent delays and cost overruns for the foreseeable future.
3. There can only be one explanation for this sad state of affairs; that government is not serious about solving the problem and that it is beyond the capability of its people – or could it be that people responsible for identifying the problem are *themselves* part of the problem?
4. Elsewhere on defence contractors' premises, there isn't even the slightest indication that people are even willing to acknowledge the existence of the problem, never mind progressing onto the next stage of looking for solutions on how to tackle it.
5. This submission looks at the part played by people in the defence procurement process, the consequences of their inability to identify the problem correctly and why they are failing to learn from past mistakes. But first, it examines the curious case of foreign-owned defence contractors operating the UK who have levelled down.

### FOREIGN-OWNED DEFENCE CONTRACTORS HAVE LEVELLED DOWN

6. One of the main reasons why the Blair government opened up the way for foreign-owned defence contractors to claim a stake in the domestic equipment market is because it was absolutely convinced that the introduction of challenger firms will help improve the performance of domestic contractors through increased competition.
7. How horribly wrong this assessment turned out to be. The reality is that the arrival of foreign-owned entities over the last 25 years or so, has failed to enhance the competitiveness of domestic players. Instead, it has only resulted in the performance of market entrants to be *lowered* to the same level as that exhibited by indigenous contractors!

### APPALLINGLY POOR PERFORMANCE

8. Examples of appallingly poor performance on recent MoD contracts include the *Watchkeeper* reconnaissance drones which have been falling out of the sky and have

become a byword for failure, the disastrous *Warrior* IFV capability upgrade which has now been cancelled and the much delayed, grossly over-budget *Ajax* armoured fighting vehicles which have been harming its occupants – all equipment programmes for the Army awarded to defence contractors incorporated abroad.

9. Not surprisingly, there is only one issue at the heart of this record of underwhelming performance, people.

10. Apart from a handful of foreign nationals seconded from the parent company and installed at board level, the most striking feature of these procurement programmes is that the workforce of the three prime contractors is made-up *entirely* of UK nationals who were previously in the pay of the State.

### TOTAL DOMINANCE OF THE PAYROLL

11. This total dominance of the payroll of *foreign-owned* defence contractors 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.

12. 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 from its existing condition, to a point where it will satisfy the qualitative and quantitative requirements expressed in the technical specification requirement – not least, because they were *never* required to do so during the first half of their career. And yet, they have been inducted into the engineering problem-solving function of defence contractors’ businesses!

13. 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.<sup>1</sup>

### THEY HAVEN’T GOT A CLUE

14. But what is especially worrying about these people is that 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. 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.

15. It would explain why the performance of foreign-owned defence contractors is no different from that of domestic contractors.

16. However, it is a mystery why the performance of overseas subsidiaries of a parent company varies so markedly from those located in the home country, given that the original decision to set up operations abroad was taken on the basis that its people and home-grown products could easily compete with foreign companies trading in identical government-controlled markets.

17. This deficiency in performance rests on one hypothesis – that the skills and capabilities of people on the payroll of overseas entities are inferior to those back home which, in the case of subsidiaries located in the UK, happen to comprise largely of UK nationals who were previously in the pay of the State.

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<sup>1</sup> Written submission to the Public Administration and Constitutional Affairs Committee, Inquiry into *Propriety of governance in light of Greensill*, written evidence from Jag Patel, published 8 June 2021, p.2, PDF file (145 kB). <https://committees.parliament.uk/writtenevidence/35317/pdf/>

18. On this basis, it can be said with confidence that domestic players will continue to perform abysmally in the absence of any real challenge from foreign defence contractors.

## **REDUCING THE PROCUREMENT ORGANISATION'S OPERATING COSTS**

19. The previous chief executive of MoD's arms-length procurement organisation at Abbey Wood, Tony Douglas, who was specifically chosen for his private sector experience is the first member of the top leadership team in Bristol to resign from his post since it was established as a unified, stand-alone organisation in 2007.

20. When his appointment was announced by the Defence Secretary in 2015, he was quoted as saying:

*"I am absolutely delighted to have the privilege of serving my country and supporting Her Majesty's Armed Forces."*

21. Yet, just two years later, he became so disillusioned with the culture of failure at MoD that he didn't even bother to see out his contract. To add insult to injury, he has gone to work for a government-owned, foreign company – which he saw as the best way to advance his career.

22. It is fair to say that he was not only frustrated by resistance to change, but also failed to deliver year-on-year reductions in MoD Abbey Wood's operating costs of £1bn per year demanded by the Treasury. What's more, there is no evidence that he made any progress towards MoD's commitment made in the 2015 Spending Review, to deliver a 30% cut in its civilian workforce by 2020.

## **BEARING DOWN ON OVERHEAD COSTS**

23. One way to achieve this reduction in headcount is by aggressively bearing down on *overhead* costs – by searching out and replacing people at every level of the hierarchy at MoD Abbey Wood, that is to say, those on the payroll who are not adding any value to business operations, only costs – with a new type of post-holder, the Task Performer/Manager. This replacement should be done on a five for one basis.

24. The Task Performer/Manager is similar to a Player/Manager in sport, in that he combines the role of a person who gets hands-on with the all-important task of doing the work, as well as, performing the essential but intermittent management tasks of assembling the team, showing leadership by example, providing direction, mentoring and coordinating with other adjacent Task Performer/Managers. The most important elements of the Task Performer/Manager's responsibilities which directly relate to the functions of MoD Abbey Wood include:

- a. Setting (and revising) the Requirement in consultation with the User and providing direction to bidders.
- b. Designing and utilising a Marking Scheme that has previously been revealed to ITT recipients.<sup>2</sup>
- c. Running the winner-takes-all competition and removing bidders progressively, one-by-one – at the start, and at the end of each contract performance phase.
- d. Carrying out the policing function of monitoring and scrutinising the performance of contractors during each contract performance phase.
- e. Selecting the winning contractor and ultimately overseeing his performance during the full term of the main contract to make sure he delivers against his promise.

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<sup>2</sup> Written submission to the Public Accounts Committee, Inquiry into *Defence Capability and the Equipment Plan 2019-29*, written evidence from Jag Patel, published 29 May 2020, p.8, PDF file (849 kB)  
<https://committees.parliament.uk/writtenevidence/5413/pdf/>

## SHOULD BE TALENTED ENOUGH

25. Accordingly, Task Performer/Managers should be talented enough to be able to express the whole of the Requirement in plain English (without inconsistency or duplication) in such a way that, it cannot be interpreted any other way than intended. Any post holder whose job function does not fall into any of the aforementioned roles is, by definition, surplus to requirement.

26. Incidentally, it is *not* the job of the Task Performer/Manager to partake in detailed design decisions relating to the evolving technical solutions, do “analysis” work, make trade-off choices or tutor contractors’ people on how to satisfy the Requirement.

27. A substantial amount of time spent doing this work (recorded on timesheets) is chargeable as Direct labour to the entity paying for the work to be done, i.e., the military customer or Front-Line Commands, whilst the remainder is Indirect Labour.

28. This utility function is best suited for professionally qualified, multi-disciplined, performance-orientated people imported from the private sector whose first and foremost instinct is to solve the problem and get the job done, notwithstanding the constraints. Additionally, this approach provides certainty that continuity of direction will be provided to contractors during the full period of the acquisition programme, a huge improvement on the presently applied practice of simply rotating here-today-gone-tomorrow procurement officials.

29. A further benefit to be derived from appointing Task Performer/Managers is that the risk that the *wrong* person, who does not possess the appropriate subject matter expertise in the relevant discipline will be selected, is eliminated, at a stroke – an all too frequent occurrence right now, which would explain why MoD Abbey Wood is institutionally inept and inefficient.

## BUYING OFF-THE-SHELF EQUIPMENT

30. The government is increasingly moving away its longstanding policy of procuring equipment designed to a bespoke technical specification requirement because it is no longer confident in the ability of its *own* people at MoD Abbey Wood 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 – which has been the cause of persistent delays and cost overruns on equipment procurement programmes for as long as anyone can remember.

31. Whereas the government has not come out and said so publicly, it 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 UK-specific modifications or related development work laden with risk to be performed upon it.<sup>3</sup>

## TRANSFER OF RISKS ALLOWS HEADCOUNT TO BE REDUCED DRAMATICALLY

32. To its credit, the government has realised that the most important benefit to be derived from buying off-the-shelf equipment via a government-to-government deal is that it allows any hidden technical, financial and schedule risks – which have dogged the so-called, minimal development solutions proposed by domestic equipment manufacturers – to be transferred to the *other* government. This is especially pertinent given that domestic contractors are unable to tackle such risks because they no longer possess an in-house design & development capability, and haven’t done so for many years.<sup>4</sup>

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<sup>3</sup> Written submission to the Public Accounts Committee, Inquiry into *Defence Equipment Plan 2020-2030*, written evidence from Jag Patel, published 4 February 2021, pp.3-5, PDF file (267 kB)  
<https://committees.parliament.uk/writtenevidence/21612/pdf/>

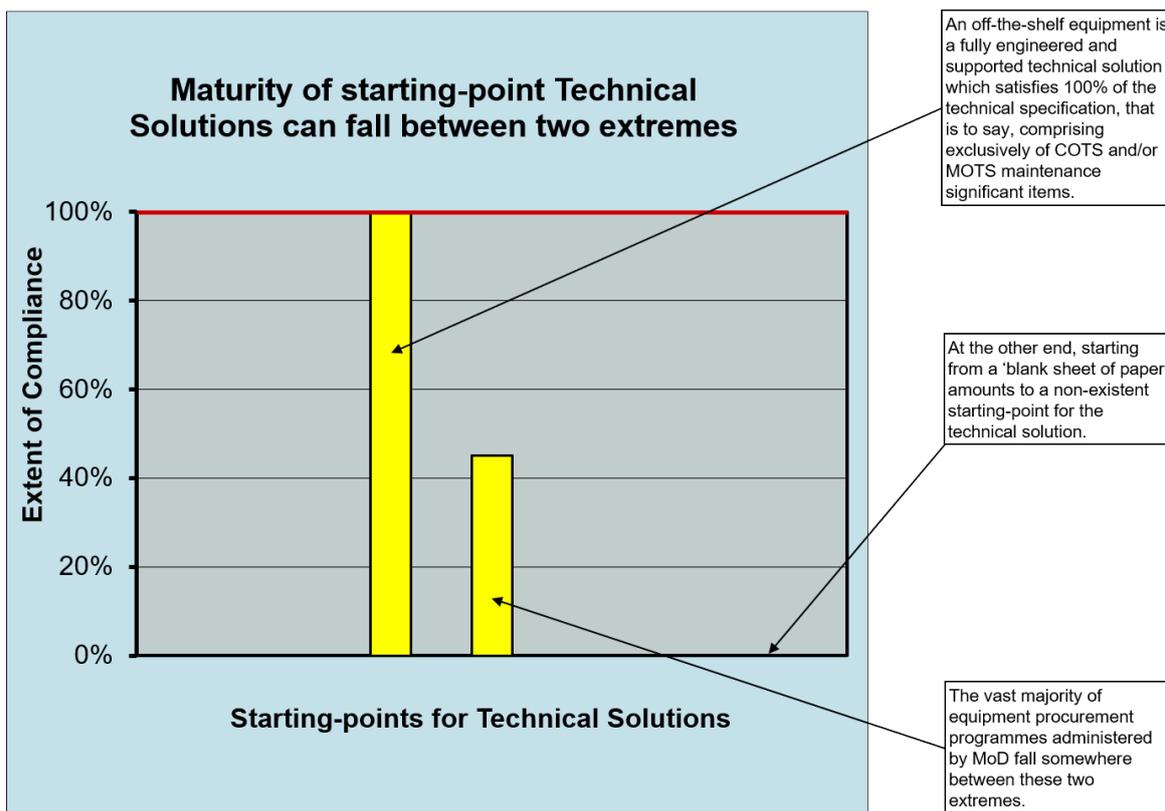
<sup>4</sup> Written submission to the Defence Committee, Inquiry into *Defence industrial policy – Procurement and prosperity*,

33. Additionally, it will not be necessary to maintain the usual (overmanned) procurement team, when a *skeletal* procurement team can easily see each acquisition through – which paves the way for the government to reduce the headcount at MoD Abbey Wood even further, in numbers not possible before.
34. It is believed that a quarter of the UK's equipment procurement budget is currently being spent on buying off-the-shelf equipment. This slice is only set to increase during the remainder of this Parliament, as more and more projects which involve significant development work are side-lined in favour of off-the-shelf purchases.

## CONSPIRACY OF OPTIMISM

35. The reason why MoD was coerced into finding efficiency savings in the 2015 Spending Review 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.
36. When it comes to procuring new equipment for the Armed Forces, the first and foremost question politicians always ask is, how much is it going to cost?
37. Any meaningful attempt at answering this question is hampered by the fact that very few people in Whitehall understand and appreciate that the single most important factor that determines the ultimate whole life cost of any defence equipment programme is the *maturity* of the existing starting-point for the technical solution in the possession of defence contractors – the *closer* the developmental status of the starting-point to the Requirement, as described in the technical specification, the *lower* the cost the Exchequer will have to bear associated with completing the remaining work to bridge the shortfall.
38. Even more worryingly, those who *do* know are not in decision-making or leadership positions.
39. The maturity of a starting-point for the technical solution can fall anywhere between two extremes, as shown in Figure 1. At one end, starting from a “blank sheet of paper” amounts to a non-existent solution whereas at the other end, an off-the-shelf equipment corresponds to a readily available, fully engineered and supported technical solution which satisfies the totality of the Requirement at no additional cost or risk to MoD, that is to say, it does not require any development work laden with risk to be performed upon it.

Figure 1

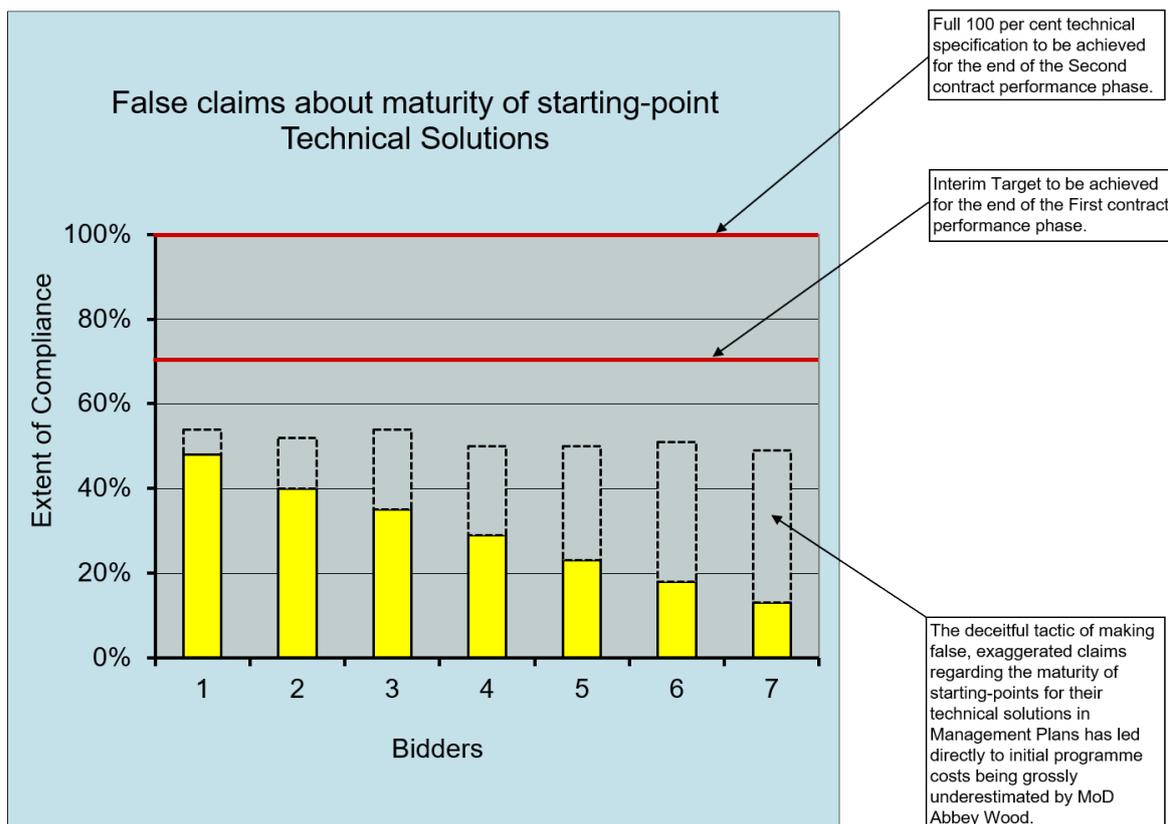


#### SUSCEPTIBLE TO EXPLOITATION AND MANIPULATION

40. Additionally, MoD does not possess the capability in the form of intelligent and experienced procurement officials who have an adequate understanding of what it takes (in terms of skill types, funding, tools, processes, materials, scheduled work plan, inter-business contractual agreements etc.) to advance an immature technical solution from its existing condition, to a point where it will satisfy the technical specification requirement within a private sector setting driven by the profit motive and people who instinctively employ sharp business practices – leaving them susceptible to exploitation and manipulation by defence contractors. Consequently, they are not able to establish what the true status of the evolving technical solution is, based upon claims made by contractors. The harsh truth is that, these people have no business acumen at all – on account of not having spent a single day of their lives in the private sector and yet, they have been put in charge of spending taxpayers' money to the tune of £17bn per year to buy defence equipment, outsourced services and labour from the private sector.

41. So instead of simply telling the truth, defence contractors are consciously engaged in an exercise in subterfuge to take advantage of the ignorance of procurement officials, by making exaggerated claims (see Figure 2) 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 – a condition referred to as the *conspiracy of optimism*.

Figure 2



42. To add to this wanton act of deception, defence contractors have also been deploying the old favourite of touting the so-called, *minimal* development solution – 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”!

43. This deceitful behaviour is a common trait in the defence manufacturing industry, beginning with the Select Few at the top and extending right down the *entire* supply chain.

## GOVERNMENT IS IN A POWERFUL POSITION TO DICTATE THE TERMS OF TRADE

44. Defence is all about deterring those who would wish to do harm to this country. It entails the government maintaining the full spectrum of *hard* and soft power capabilities to deter such people. This stance requires the procurement of military equipment and its sustainment in-service to be outsourced to players in the private sector, because it *alone* possesses the means of defence production, distribution and exchange.

45. But the problem with the private sector is that it is more interested in extracting the maximum amount of money out of HM Treasury than supplying equipment to the Armed Forces that is fit-for-purpose, adequately sustained in-service and constitutes value for money through-life. The appallingly poor performance of indigenous defence contractors over the last several decades has forced some people to conclude that they pose the single biggest threat to the *financial* security of this country, aided and abated by people who were previously in the pay of the State.

46. As the only customer of defence equipment, the government is in a powerful position to dictate the *terms of trade*. But it has failed to leverage this enormous purchasing power to its advantage.

## REVOLVING DOOR

47. The main reason for this failure is that people in Whitehall have little or no understanding of the forces at work and commercial pressures that exist within for-profit

organisations, which are there to be harnessed for the benefit of taxpayers – not least, because they have not spent a single day of their lives in the private sector.

48. What's more, the judgements made by these people, as it relates to the expenditure of public funds are *distorted* by the fact that they will end up in the private sector via the "revolving door" to pursue a second career, later on. So, it will come as no surprise that MoD employees are likely to look upon defence contractors favourably and treat them leniently because they are completely dependent on them for their subsequent career choices, when their time in public service comes to an end, or their employment contract is terminated abruptly by political edict because they have been found wanting. Indeed, it is hard to find anyone at MoD who will aggressively defend taxpayers' interests after they have enjoyed a cosy relationship with defence contractors. It is fair to say that, they know which side their "bread is buttered"!

49. This mass migration would explain why staff on defence contractors' payroll is made-up *entirely* of people who were previously in the pay of the State.

### **TOTAL LACK OF DIVERSITY**

50. So, how did this total lack of diversity in the workforce of *publicly-quoted* companies, right across the full spectrum of defence engineering businesses, government outsourcing contractors and foreign-owned entities, large and small, come about? The answer is clear, through the interfering hand of the State – in the shape of the Defence Secretary who has been actively encouraging defence contractors to hire people who were most recently in the pay of the State – thereby discriminating against other, equally deserving groups.

51. 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.

### **EXPLOITING THE IGNORANCE OF FORMER COLLEAGUES**

52. What's more, instead doing the right thing and educating people in the pay of the State about the ways of the private sector, these new arrivals (in association with those who have gone before) then set about exploiting the ignorance of their former colleagues at MoD, for one purpose only – *relieving* them of taxpayers' money – which has, in itself, left the public finances in pretty bad shape.

53. 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.

54. Remember the Seven Principles of 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!

### **IMPLEMENTING SIMPLE CHANGES**

55. Recent years has seen the reputation of government being battered, again and again, in the main because of MoD's extremely poor performance on defence procurement programmes. Matters are not helped by contractors' behaviour during the contract performance phase, which can be likened to water flowing down the side of a hill – the latter automatically runs *around* any obstacles in its path, like a rock or tree trunk, in the same way as contractors instinctively manoeuvre themselves around contractual

obligations they willingly entered into, at the time of preparing their ITT responses, but now have no intention whatsoever of fulfilling because they are in a hurry to collect that all-important milestone payment, irrespective of any damage that might be done to their reputation.

56. Regarding MoD, one way the Defence Secretary can improve the performance of the defence procurement organisation is by diligently tackling some of the deep-seated problems that have defeated previous incumbents.

57. He can start by implementing the following *simple*, but highly effective changes in the way MoD goes about procuring new equipment for the Armed Forces:

- a. Discontinue the practice of disclosing the total budgeted expenditure figure or associated year-on-year financial funding profile in the invitation to tender, because defence contractors are using this information to quote *identical* bottom-line Selling Prices – which has denied Abbey Wood Team Leader the opportunity to choose the single, preferred contractor on the basis of price competitiveness and therefore value for money.
- b. Replace the presently applied “sudden death” competition (which abruptly reduces the field of bidders from six to one following a one-off release of the ITT) with the multiple phase, winner-takes-all competition which removes bidders progressively, one-by-one – at the start, and at the end of each contract performance phase – so exposing them to the full rigours of the free market, not shield them from “feeling the heat” of competitive market forces.
- c. Discontinue the practice of simply asking for a plethora of Management Plans (in the form of Microsoft Word documents) as a response to the ITT – instead, require contractors to submit a comprehensive, fully costed and priced Programme of Work scoped within a single planning, resourcing, scheduling and costing tool, preferably *Microsoft Project*.
- d. Set-up a single fixed, all-in Through Life Budget for each new equipment procurement programme to encompass costs for the prime equipment *and* its associated Support Assets required for through-life sustainment.
- e. Instruct procurement officials to direct contractors (in the ITT) to initiate and conclude work with attendant *higher* risks as early in the procurement programme, as is practicable – leaving *only* unfinished, low risk work for completion by the single main contractor until after Main Gate, to increase the likelihood of the project being brought-in within strict performance, schedule and Through Life Budget constraints set at the time of taking the main investment decision.
- f. Make sure that Support Assets for military equipment are acquired at the *same* time as the prime equipment – not 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), as is currently the case.
- g. Stop the “revolving door” which continues to allow procurement team members to take up appointments with bidders whilst the competition is *still* under way – which has the effect of destroying the level playing field.
- h. Shut down the paperwork procedure of Contract Amendments which has been skilfully appropriated by defence contractors to “grow” the contract – to fulfil their business objective of extracting *additional* revenue out of MoD, over and above the Contract Value which has been a contributory factor in the incidence of cost overruns reported by the National Audit Office over the last several decades.
- i. Abandon the practice of holding Industry Engagement Days which have been hijacked by the great-and-the-good from competing firms where talk, in huddled groups, always turns to how to carve-up the product market, snuff-out new market entrants, subvert the competition process, contrive to nullify its use altogether or *fix prices!* Instead, use the vehicle of the ITT to convey details of MoD’s requirements for each individual defence equipment programme to bidders.

- j. Ditch the tried-and-failed policy of restricting the choice of appointees for procurement roles to a select group of people only – instead, widen the field to include people who have prior experience of working in the private sector.
- k. Ensure that the decision to down-select a particular bidder for the *next* contract performance phase is based upon the *assessed* ability of that bidder to deliver an equipment which is fit for purpose, adequately sustained in-service and constitutes value for money through-life, not one who “shouts loudest in the corridors of power”, as has been happening hitherto.

58. With regards to improving performance on defence contractors’ premises, the future looks less bright. It is undermined by their preferred modus operandi of calling for early engagement, collaboration and cosy partnerships with MoD, but decades of such a relationship has yielded only one certain outcome – persistent delays and cost overruns on defence equipment programmes.

## CONCLUSIONS

- 59. The government is unable to correctly identify the problems associated with defence procurement. Could it be that people responsible for identifying the problem are themselves part of the problem?
- 60. The policy of encouraging foreign-owned defence contractors to bring challenge and competition to the UK defence equipment market has not worked at all. Instead, they have ended up lowering their performance to the same level as indigenous players.
- 61. Installing Task Performer/Managers on a five for one basis at MoD Abbey Wood will reduce overhead costs significantly.
- 62. The government’s preference for buying off-the-shelf equipment, which only requires a skeletal procurement team to see it through, allows the headcount at MoD Abbey Wood to be cut dramatically.
- 63. Defence contractors’ business model is founded upon deception, that is to say, misrepresenting the developmental status of their starting-points for the technical solution – which has, in itself, spawned a conspiracy of optimism within MoD.
- 64. The privilege of setting the terms of trade in defence goods and services has been squandered by government.
- 65. It is hard to find anyone at MoD who will aggressively defend taxpayers’ interests after they have enjoyed a cosy relationship with defence contractors.
- 66. Implementing simple but highly effective changes in the way MoD procures equipment can repair its reputation in some small way.

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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.