

## Written evidence submitted by Jag Patel

*The market in defence equipment, funded exclusively by taxpayers, is there for all private sector players to partake in. Instead of resorting to heavy-handed interventions, the government should deploy the market-based instrument of competition to select the winning contractor on the basis of price competitiveness and value for money. To this end, the defence equipment market should be shaped not by the interfering hand of people in the pay of the State who always get it wrong, but by competitive market forces driven by the profit motive and winning mindset.*

### INTRODUCTION

1. The first submission to this revived inquiry looked at the side-effects of the government's move towards buying equipment off-the-shelf, whilst handing-out contracts to UK-based defence contractors on a preferential basis. It concluded that the procurement and prosperity agenda was far from being realised because agile and innovative engineering businesses, which have not previously engaged with MoD, have been excluded from acting as subcontractors to defence prime contractors.<sup>1</sup>
2. There is no doubt that this coronavirus pandemic and the government's measured response to the enforced curtailment of normal economic activity has taken up all its energy. Notwithstanding the diversion, this government spearheaded by the Prime Minister's chief political adviser, Dominic Cummings, is intent on repurposing the machinery of government to make it more responsive to the wants, needs and expectations of ordinary citizens and the left-behind – as opposed to serving the interests of big business, financiers and those who shout loudest in the corridors of power. The so-called 'levelling up' agenda.
3. In particular, he has set his sights on bringing new thinking to the farcical defence procurement process which, he says, has squandered billions of pounds, enriched some of the worst corporate looters and corrupted public life via the revolving door of officials/lobbyists.<sup>2</sup>
4. So, it is only right that the integrated Security, Defence, Development and Diplomacy Review should include a workstream to examine the functioning of MoD's defence procurement process, where it has gone wrong and the role played by procurement officials in the squandering of taxpayer funds over the last several decades.
5. This submission goes some way in doing exactly that. Specifically, it argues that the divided loyalties of people in the pay of the State and their ignorance of how the private sector works are just two reasons why they are besieged by failure.

### MARKET FAILURE IN DEFENCE PROCUREMENT

6. Senior members of this government, including the Prime Minister, are self-confessed free marketeers and are willing to go out of their way to praise the virtues of the market over the State at every opportunity – even well before the coronavirus disease came along.
7. But the proof of the pudding is in the eating.
8. Competition is the essence of enterprise and free market capitalism. For an economic model that relies on casual interactions between buyers and sellers and seeks to deliver goods

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<sup>1</sup> First submission to Defence Committee, *Inquiry into Defence Industrial Policy: Procurement and Prosperity*, Written evidence from Jag Patel (DIP0002), published 10 September 2019, PDF file (101 kB) <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/defence-committee/defence-industrial-policy-procurement-and-prosperity/written/104907.pdf>

<sup>2</sup> Dominic Cummings's blog, *On the referendum #31: Project Maven, procurement, lolapalooza results & nuclear/AGI safety*, 1 March 2019. <https://dominiccummings.com/2019/03/01/on-the-referendum-31-project-maven-procurement-lolapalooza-results-nuclear-agi-safety/>

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.

9. In markets in which the government is the main or *only* customer, it is the responsible duty of government to apply the instrument of fair and open competition to select the private sector player who will be awarded the contract to supply goods and services for public use. *How* it goes about applying the competition process to achieve its policy objectives is a matter entirely for government – it *cannot* be outsourced to outsiders.
10. The most effective way of getting best value for public money is through the application of the market-based instrument of fair and open competition – by running a multiple-phase, winner-takes-all competition on the basis of a level playing field genuinely open to all-comers, *including* non-domiciled suppliers, with the rules of the contest declared at the outset – that is to say, exposing bidders to the full rigours of the free market, not shielding them from ‘feeling the heat’ of competitive market forces.

### **PRESIDING OVER MARKET FAILURE**

11. However, instead of facilitating a competitive market in defence goods and services, governments of all persuasions over the last several decades have only succeeded in presiding over *market failure* in defence procurement.

12. This government has admitted as much. Indeed, the government is very frank in its Defence Industrial Policy,<sup>3</sup> where it says:

*“Competitive tension is the greatest driver for innovation, productivity and earning power in any economy. It is our policy to develop and foster competition, and to preserve strategic choice in the market, including over the longer term. There are, nevertheless, particular challenges and constraints in doing this, causing various levels of market failure in defence procurement.”*

13. What’s more, in the very next sentence, the government comes clean and acknowledges that 42% of new MoD contracts by value were placed via open competition in 2016/17, *down* from 64% in 2010/11 – which leads one to conclude that the trend is towards more of the same.

### **DEEP-SEATED SOCIALIST TENDENCIES**

14. So, it seems that less and less use is being made of the market-based instrument of fair and open competition – notwithstanding its role at the very heart of the government’s policy on defence procurement. There is a suspicion that senior executives seconded from the defence industry and embedded within MoD, who remain in the pay of their employers, may have exercised their maligned influence to interfere with implementation of policy to serve their narrow commercial interests. Or is this a clear-cut case of the senior civil servants subverting the will of the party of government, and policy set by Ministers? What Trump calls the ‘deep state’ which is out to frustrate his administration. One thing is for certain – there is reluctance on the part of some people in the pay of the State in leadership roles to use the instrument of competition as a tool, because it creates winners and losers – reflecting their deep-seated socialist tendencies.

15. It would explain why the defence industry has 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.

16. One of the ‘challenges and constraints’ cited by government is that it 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

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<sup>3</sup> Defence Industrial Policy document, *Industry for Defence and a Prosperous Britain: Refreshing Defence Industrial Policy*, published December 2017, p23, PDF file (1.28 MB)  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/669958/DefenceIndustrialPolicy\\_Web.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/669958/DefenceIndustrialPolicy_Web.pdf)

specification requirement within a private sector setting driven by the profit motive and people who instinctively employ sharp business practices.

17. Consequently, they are not able to establish what the true status of the evolving technical solution is, based upon claims made by Contractors. They have been taught the importance of having situational awareness but not *market awareness*. The harsh truth is that, these people have *no* business sense 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 £15bn per year to buy defence equipment, outsourced services and labour from the private sector.

### **STATE FAILURE PRECIPITATED MARKET FAILURE**

18. It is *this* inadequacy in people underneath the governing elite that led to, what can only be described as *state failure*, which then precipitated market failure in defence procurement. State failure has come about because these people allowed the existing defence procurement process to be interfered with by defence contractors who have skewed it decisively in their favour, at every turn. Most notably, outsiders who have no care or concern for the public interest have been brought into the fold to shape policy, which they have happily done to serve their own commercial interests.

19. It is hard not to conclude that state failure and market failure will continue to persist as long as people in the pay of the State are unable to step-up to the plate.

### **INTERVENTIONS BY PEOPLE IN THE PAY OF THE STATE ARE RIDDLED WITH CONFLICTS OF INTEREST**

20. The clear message behind the government's defence procurement policy is that military equipment for the Armed Forces is to be purchased through fair and open competition – the only exceptions being off-the-shelf purchases and single-source development contracts, the latter to be handed out on a preferential basis (to the Select Few).

21. But, the problem with letting uncontested, single-source contracts in this way is that the decision on which contractors to pick, and which to leave out, is in the hands of a small number of people in Whitehall – leaving them exposed to the charge of favouring the privileged few (usually those who shout loudest in the corridors of power) at the expense of the many, thereby skewing the market in favour of the same selected few, possibly for decades to come.

22. The market in defence equipment, funded exclusively by taxpayers, is there for all private sector players to partake in. Instead of resorting to heavy-handed interventions, the government should deploy the market-based instrument of competition to select the winning contractor on the basis of price competitiveness and value for money. To this end, the defence equipment market should be shaped not by the interfering hand of people in the pay of the State who *always* get it wrong, but by competitive market forces driven by the profit motive and winning mindset.

### **EXTREMELY HIGH RISK THAT PUBLIC FUNDS WILL BE SQUANDERED**

23. Additionally, there exists an extremely high risk that committing public funds in this way will *not* deliver the return on investment as advertised, or worse still, squandered altogether because:

- a. Procurement officials at MoD's defence procurement organisation in Bristol, who are charged with negotiating the finer details of the contract are ill-equipped to deal with the private sector, which means that they will be duped into spending taxpayers' money on poorly conceived projects – only for this to come to light many years later, when some Select Committee of the House of Commons produces a report on its findings.
- b. The internal business process used to select the recipient for the contract is susceptible to manipulation and distortion by parliamentary lobbyists in the pay of those who can afford to spend the most.

c. It is certain that the final decision on the choice of the single, preferred contractor which is in the hands of the governing elite will be made, not in the *national* interest but to serve the interests of career politicians or their financial backers.

24. But what is worrying about this top-down approach to organising the defence equipment market by diktat is that it is riddled with *conflicts of interest* because 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, sometime later on. More specifically, there is every chance that they will favour one bidder over others (in response to clear signals) and treat this bidder leniently, when it comes to marking ITT responses because they are completely dependent upon it 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.

### **DESTROYING THE LEVEL PLAYING FIELD**

25. To add to this wanton act of recklessness, the moment they arrive on the contractor's premises these people, especially those who had reached the upper echelons of the Civil Service & Armed Forces and who are intent on proving their worth, immediately begin the task of lobbying their former colleagues to swing the decision on down-selection in favour of their new employers – in so doing, destroying the level playing field which is at the heart of the competition process. It is for this reason, and this reason *alone*, that contractors' decision on whom to recruit is heavily biased in favour of people who are about to leave the bosom of the State. It would also explain why staff on defence contractors' payroll today is made-up *entirely* of people who were previously in the pay of the State.

### **PUTTING SELF-INTEREST FIRST**

26. So, we have a situation where the *very* people who are supposed to ensure fair play are actively engaged in undermining it, for the sole purpose of advancing their careers – aided and abated by defence contractors.

27. What makes it particularly easy for contractors to exploit these people is the receptiveness of public servants borne of their desperate desire to leave the public sector, as well as, the common traits of their sense of entitlement, self-importance and inflated egos.

28. Far from facilitating the delivery of equipment for the Armed Forces that is fit for purpose, adequately sustained in-service and constitutes value for money through-life, defence procurement and the attendant defence manufacturing industry that relies on it for its survival is nothing but a protection racket – created to serve the career interests of people who are *currently* in the pay of the State, and people who were *previously* in the pay of the State.

29. Operating together, these two groups should be seen as an insidious fraternity hell-bent on taking full advantage of their origins deep in the establishment to get the better of the State.

30. It stands to reason that people in the pay of the State aren't the solution – they *are* the problem!

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

31. Defence is all about deterring those who would wish 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 provisioning 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.

32. 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.

33. 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.

34. 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 – and yet, they have been put in charge of spending taxpayers' money to the tune of £15bn per year to buy defence equipment, outsourced services and labour from the private sector.

35. 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, once they have enjoyed a cosy relationship with defence contractors. It is fair to say that, they know which side their 'bread is buttered'!

## **MASS MIGRATION**

36. 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.

37. 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.

38. 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 and groupthink that disallows external challenge.

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

39. 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.

40. 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.

41. Remember the much-vaunted principles of selflessness, integrity, objectivity, accountability, openness, honesty and leadership in 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!

## CONCLUSIONS

42. Market failure in defence procurement was preceded by state failure. It is safe to say that the State does not have the means to provide the Armed Forces with what it needs.
43. Instead of ensuring fair play during the competition, people in the pay of the State are actively engaged in undermining it, for the sole purpose of advancing their careers.
44. The privilege of setting the terms of trade in defence goods and services has been squandered.
45. In no other field of human endeavour are such ill-equipped people allowed to ply their trade as in defence procurement – which would explain why government has been getting appallingly poor value for money these last several decades.

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