It is called the Private Sector for a reason – so that it can use Private Sector funds, not Public Sector subsidy to innovate, grow, create jobs and make a profit.

SUMMARY
1. It is the job of Government to foster an environment which causes this to happen, within the context of a modern Industrial Strategy.
2. If the Government is going to intervene in the market with public funds to stimulate economic activity and boost export-led growth, then provision of this subsidy should be made conditional upon Private Sector players making an equivalent contribution of investment capital to increase the competitiveness of their own products and services, both in the domestic and export markets.
3. As for the Ministry of Defence, there exists no evidence that its long-standing policy of securing input of Private Sector investment capital into defence equipment programmes is being applied, which means that they continue to be funded exclusively by the taxpayer – yet, the Intellectual Property Rights for the resultant fully engineered equipment, which rightly belong to the Exchequer, is simply handed over to the main Contractor for nothing in return!
4. Accordingly, to avoid repeating mistakes of the past, a revamped Defence Industrial Strategy should have at its heart, a built-in mechanism which elicits Private Sector capital into defence equipment acquisition programmes, as its first and foremost priority.
5. This submission shows how to go about doing exactly that.

INTRODUCTION
6. This submission focuses solely on the Government’s policy on defence procurement, how it has failed to deliver value for money and proposes a new, replacement acquisition policy which will deal with the scourge of persistent delays and cost over-runs which have plagued military equipment programmes for the last several decades.
7. Specifically, it shows how the instrument of competition can be used to elicit input of Private Sector capital into each phase of MoD equipment acquisition programmes, thereby relieving pressure on the public purse and going some way towards the Government’s goal of eliminating the budget deficit over the course of this Parliament.
8. The ultimate aim is to progressively cut HM Treasury’s contribution of public funds down to zero commensurate with achievement of levels of competitiveness in the Defence Industry comparable with that exhibited by world-beating, export-orientated, advanced technology non-defence companies in the UK – which happen to pose a nil cost burden on the taxpayer.
9. Defence Contractors have long claimed that they are investing their own funds in military equipment programmes but no one has been able to provide any evidence to prove this assertion, not least, the Secretary of State for Defence.

BACKGROUND
10. This author has previously submitted written evidence to parliamentary select committees on the issue of shortcomings in the existing defence procurement process, and has gone on to propose innovative policy initiatives that form the basis of a new, replacement acquisition policy which will make a significant contribution towards the objective of procuring equipment for the Armed Forces which is fit for purpose, adequately sustained in-service and constitutes value for money through-life.
11. Many of these policy initiatives were placed in the public domain by way of written evidence to the House of Commons Public Accounts Committee’s inquiry into Defence Acquisition. This
evidence was published by the Committee on its website in March 2015, and can be accessed via the link:


12. However, policy initiatives as they relate to eliciting Private Sector investment capital into defence equipment programmes are new to this submission. They are detailed below.

ELICITING INPUT OF PRIVATE SECTOR CAPITAL

13. At a time when this Government is making repeated and permanent cuts in public spending to eliminate the budget deficit and pay down the national debt, it cannot afford to subsidise failure in the Defence Industry any longer. Whereas the foremost priority is to keep the rolling 10-year Equipment & Support Plan in balance within HM Treasury specified affordability limits, there remains an alternative to delaying projects or cancelling them altogether – eliciting Private Sector investment capital into each equipment acquisition programme. Not only will this new source of funding relieve the burden on MoD’s equipment budget, but it will also preserve the integrity of the Equipment & Support Plan.

14. Accordingly, each Bidder should be invited to declare that part of the bottom-line Selling Price for the overall programme which is to be paid for, from his own (or third party) funds to advance the developmental status of his starting-point for the Technical Solution – as a separate line item on DEFFORM 47 to enable Abbey Wood Team Leader to make a like-for-like comparison. Figure 1 depicts a composite view which only ABW Team Leader has visibility of.

15. The more money Bidders put in, the less DE&S (MoD’s procurement organisation at Abbey Wood, Bristol) will have to contribute and the lower the risk that ABW Team Leader will be censured for exceeding the sanctioned budget.

16. Whereas DE&S’s focus on upskilling its existing workforce to a level comparable with counterparts in the Defence Industry will yield results only in the long term, the policy of eliciting
Private Sector funds into defence equipment acquisition programmes will have an immediate impact upon HM Treasury’s objective of securing underspend in MoD’s budget this fiscal year, and for the rest of the Parliament.

17. Only Bidders who put forward off-the-shelf equipment will be exempt from having to make a contribution from their own funds – specifically because an off-the-shelf equipment is a fully engineered and supported technical solution which satisfies the technical specification requirement at no additional cost or risk to the Exchequer, that is to say, it does not require any development work laden with risk, to be performed upon it.

Harnessing Commercial Pressures and Market Forces

18. Normal commercial pressures and market forces prevalent within the context of a multiple-phase winner-takes-all competition will, in themselves, persuade Bidders to take a business decision to voluntarily make a contribution from their own funds, towards the cost of advancing the developmental status of their starting-points for the Technical Solution, to meet the Requirement. It will not even require dedication of acquisition officials’ time, in trying to persuade Bidders to put their own money into the programme – saving DE&S an enormous amount in overhead costs.

19. Such a feat has not been achieved on any previous equipment acquisition programme for the UK’s Armed Forces, not least, because no one has provided convincing proof of any Private Sector capital invested – instead, this issue has been dominated by lies, disinformation and spin.

20. In staking their own funds, Bidders implicitly acknowledge and accept a proportionate share of programme risks, so relieving the strain on DE&S and with it, ensuring that MoD gets more for its money than it would otherwise do. Additionally, the long-standing practice of concealing technical risks from MoD will cease instantly.

21. A further benefit to be derived from compelling Bidders to borrow funds from third parties such as Finance Houses or Private Equity partners to pay for the cost of developing their Technical Solutions is that, the monitoring and scrutinising function will be automatically transferred from DE&S, to the lending institutions, who are likely to be much more rigorous and demanding regarding day-to-day performance than disengaged, here-today-gone-tomorrow acquisition officials – yet another good reason why the headcount at MoD Abbey Wood should be reduced even further.

Getting Ahead of the Schedule

22. What’s more, there is absolutely no reason whatsoever why a Bidder who has pledged his own money to a programme (and has subsequently been down-selected for the next phase) should not begin to spend that money immediately, by commencing work on producing the Contract phase deliverables, prior to the contractual documents being signed – awaiting DE&S funding for the project to be authorised and processed.

23. In making such a head-start, both the Contractor and DE&S will gain by getting ahead of the schedule, which can then be offset against any unforeseen delays that might occur later. The Contractor’s response to such a suggestion made by ABW Team Leader will give a clear indication of his true commitment to partner with the MoD. It will also flush-out those Contractors who have bluffed their way into the next phase by making false promises, instead of genuinely committing their own money.

24. Additionally, in requiring Contractors to spend their own money first, DE&S will succeed in putting an end to the incessant and intolerable pressure that is put on its procurement officials, immediately after the main investment decision has been taken, to release Exchequer funding for the final Manufacture, In-Service Support & Disposal phase – an unedifying sight seen on the Trident replacement submarine programme today.

25. The ultimate aim is to gradually cut DE&S’s contribution of funds down to zero, commensurate with achievement of levels of competitiveness in the Defence Industry comparable with that exhibited by world-beating, export-orientated, advanced technology non-defence companies in the UK – which happen to pose a nil cost burden upon the taxpayer.
Indeed, they are net contributors to the Exchequer because they pay their full share of corporation tax dues!

26. Wanting to cut this contribution down to zero is entirely in keeping with MoD’s related policy objective of looking at the off-the-shelf solution, as its first option, when deciding to buy new equipment – precisely because it is a fully engineered and supported technical solution which satisfies the totality of the technical specification requirement, enabling MoD to avoid having to pay for any development work laden with risk, to be performed on it.

**HOW TO DECIDE ON THE SIZE OF MoD’S CONTRIBUTION TO COSTS**

27. In the interests of maintaining a level playing field and treating all Bidders equitably (to counter the accusation that ABW Team Leader is favouring a particular Bidder over others), DE&S is obliged to fund each Bidder by the *same* amount, to produce the Contract phase deliverables for the upcoming phase. However, the magnitude of this funding should be arrived at *not* by negotiating with Bidders (a bad idea), but by choosing the most competitively priced bid and deducting that element, which is to be paid for by that Bidder. Refer to Figure 2.

Figure 2

![Graph](Image)

28. It follows that the *difference* between bottom-line Selling Prices quoted on DEFFORM 47s and DE&S’s equitable contribution, should be paid for by Bidders from their own funds. Because the overall cost of completing the Programmes of Work will be different for each Bidder, the magnitude of Private Sector capital will *also* be different – some having to pay-in more than others, corresponding directly to the developmental status of their starting-points for the Technical Solution. Bidders could potentially claim tax relief against this expenditure.

29. The consequence of enforcing this policy is that ABW Team Leader will need to be extremely vigilant because there is a tendency on the part of Contractors to take ‘short cuts’ with the work to be done – to *avoid* spending their own money!

30. In the long run, it is only proper that the Intellectual Property Rights for the resultant fully engineered equipment is vested with the single, main Contractor, consistent with a substantial percentage of input funds coming from his own resources, compared with that contributed by the Exchequer. Consequently, the extent to which Intellectual Property Rights are handed over
to third parties under any technology transfer or off-set obligations, is a business decision for the main Contractor and his Supply Chain partners to make, as owners of individual Maintenance Significant Items, based upon the level of profit likely to be earned from export contracts. This is not a matter for people in the pay of the State to get involved in.

**Keeping a Record of the Magnitude of Private Sector Capital invested for Public Disclosure**

31. Such a prudent approach to acquisition will enable DE&S to keep a record of the totality of Private Sector capital invested by ITT recipients (including that of their Supply Chain partners) in each phase of MoD equipment programmes – long claimed by Contractors, but not verifiable until now.

32. The magnitude of this Private Sector investment capital can then be released into the public domain by the Secretary of State for Defence via answers to Parliamentary Questions and/or Freedom of Information requests – for the benefit of Members of Parliament and other interested observers, such as HM Treasury officials who can decide for themselves, what progress Contractors are making towards becoming self-sufficient in developing their products whilst weaning MoD off Exchequer funds.

33. Keeping a record of the amount of Private Sector capital invested in this way is a much more reliable indicator of the impact on the local economy than is, the usual mantra touted by MoD every time a contract is signed for a new equipment programme – namely, the number of jobs that will be retained and new ones created, both by the Contractor and his Supply Chain partners – none of which can be verified independently.

**Singling out Bidders who make a Contribution for Favourable Treatment**

34. If a Bidder decides to invest his own (or third party) funds into a programme, then it indicates two things:

   a. One that he is sufficiently assured about the quality of his proposed Technical Solution and his team of people (as well as that of his Supply Chain partners) to risk his stake up-front.

   b. And second, that he is confident of containing all undeclared programme risks to the extent that they are unlikely to jeopardise his commercial interests.

35. The more money he puts in, the greater his confidence. Conversely, Bidders who offer no input of Private Sector capital betray their intent of bidding on the basis that, risking the Exchequer’s money is the only risk they are willing to take (not to mention a lack of confidence in their own capability) – which amounts to business-as-usual.

36. Another beneficial side-effect of getting Contractors to put in their own money is that they will be inclined to take greater responsibility for the way they go about designing, developing, integrating, prototyping, manufacturing and supporting their equipment instead of constantly plotting to contrive situations which will entice acquisition officials into partaking in detailed design decisions relating to the evolving Technical Solution – as has been the case hitherto, on equipment acquisition programmes wholly funded by MoD. Additionally, Contractors will also be more willing to speak-up if they feel they are being misdirected by procurement officials down a path, which is divergent from the key issues and deliverables that will be examined at Main Gate.

37. Given a straight choice, DE&S should favour Bidders who commit their own money. Why? Because they will be inclined to spend this money wisely and cost-effectively, coming as it does, off their own ‘bottom line’. If none of the Bidders offer any input of funds (which is highly likely given their past record) then, either improper collusion is taking place in the marketplace (first started at the Industry Day) or there is a serious lack of competitiveness in the Defence Industry. In any case, the magnitude of funding contributed by DE&S still remains the same, as shown in Figure 3.
Paying for the Cost of Bidding

38. The indisputable fact of the matter is that Bidders choose to enter DE&S-run competitions voluntarily – entirely of their own free will. Consequently, the cost of producing the Bid phase deliverables for inclusion in the response to the ITT should be paid for, wholly from their own resources.

39. However, in years past, a commonly established practice was for Bidders to surreptitiously slip this cost of bidding into the bottom-line Selling Price quoted on DEFFORM 47 – instead of identifying it as a separate line item, to declare the level of their seriousness. ABW Team Leader should therefore be alert to the continuance of this underhand practice which has had the effect of eating into his budget set aside to fund follow-on Contract performance phases – monies which could otherwise be usefully spent on assembling and retaining multi-skilled, highly experienced, well-paid professionals on his own team or hiring top quality expertise from the Private Sector.

Duplicitous Behaviour – Saying One Thing and Doing the Exact Opposite

40. For some years now, Defence Contractors have repeatedly expressed their eagerness to invest Private Sector capital in MoD equipment acquisition programmes provided it reveals more information about its spending plans.

41. Yet, Defence Contractors’ behaviour is contrary to declarations of intent made in public because they have been found to be hoarding mountains of cash clandestinely and then sitting on it, instead of using it to fund in-house research & development to gain a competitive advantage and boost productivity – by advancing the developmental status of their starting-point for the Technical Solution from its existing condition, to a point where it will satisfy the qualitative and quantitative requirements expressed in the ITT, which will also serve to ease the burden on MoD’s equipment budget.

42. This amounts to duplicitous behaviour – saying one thing and doing the exact opposite!

43. The nub of the problem is that Contractors’ Business Model is founded on lies and deception; perpetrated by the few upon the unsuspecting many – Governments, Members of Parliament, shareholders, employees, academics, the military, Supply Chain partners and the wider community – over several decades. Not a shred of honest intent is to be detected anywhere.
RESISTING THE PRESSURE TO FUND LOW QUANTITY PRODUCTION

44. A significant benefit from applying the multiple-phase, winner-takes-all competition is that it will serve to ensure that the hardware configuration of the Technical Solution is developed first, followed by the building and testing of pre-production prototypes to a point where, none of them require any more engineering changes to be incorporated before the decision to commence serial production against this frozen design standard is taken.

45. Achieving such a milestone will avoid the hugely complex and disastrously expensive situation whereby, ABW Team Leader is tricked into releasing initial funds for long-lead items, as a pretext to start low quantity production, which is then allowed to proceed concurrently with the development process, entailing corrective fixes to be incorporated in both, pre-production prototypes as well as production copies, because they have yet to satisfy the quantitative and qualitative requirements expressed in the technical specification requirement.

46. If Contractors are that keen on starting low quantity production before the hardware configuration of the Technical Solution has been fully developed and tested, then they should use their own pile of unspent cash to procure long-lead items, not ask for taxpayers’ money – just like other advanced technology, export-orientated companies in the UK have been doing for years.

USER FORCED INTO TAKING DRASTIC ACTION

47. The sustained spinning campaign mounted by the communications people at MoD HQ over the last 20 years or so has succeeded in making everyone believe that, it is acquiring Support Assets for its military equipment upfront, on a whole-life sustainment basis when in fact, it has been quietly buying them separately from the prime equipment, on a piece-meal basis via a steady stream of Post Design Services Contracts, let during the in-service phase – thereby, fooling not only its own people at Abbey Wood and the wider MoD, but also the whole of industry and in so doing, diverting attention away from HM Treasury’s exposure to whole-life sustainment costs, which remain unquantified for lack of a firm Selling Price from the main Contractor.

48. What’s more, it is increasingly becoming clear that the unrelenting austerity measures are putting such a strain on MoD’s equipment budget that, for some newly commissioned equipment into service, the User can only afford to buy Support Assets for a very short period of the in-service phase, like one or two years at a time and on others, the User has no choice but to take drastic action like, de-activating equipment for those periods when there is no available funding for the acquisition of Support Assets – periods which are only likely to get longer and longer, thereby inadvertently creating capability gaps. There have also been instances where the User has refused flatly, to accept new equipment into service because he is unwilling to pay for the prohibitively high cost of sustainment, foisted on him by DE&S.

RECOMMENDATIONS

49. On the basis of evidence put forward in this submission, it is recommended that the Business, Innovation and Skills Committee asks the Government to replace the existing, flawed defence procurement process with a new, replacement acquisition policy which uses competition as an instrument to elicit input of Private Sector capital into each phase of MoD equipment acquisition programmes.

50. However, before this objective can be achieved, it is necessary to implement the following prior actions:

a. Discontinue the tried-and-failed practice of disclosing the total budgeted expenditure figure or associated year-on-year financial funding profile in the ITT.

b. Make sure that Support Assets are acquired at the same time as the prime equipment – not later on, during the in-service phase. This way, the Exchequer will know exactly what his long-term exposure to sustainment costs are, as will potential export Customers.
c. Replace the presently applied ‘sudden death’ competition with the multiple phase, winner-takes-all competition. Additionally, get Contractors to apply open competition in the selection of their Subcontractors.

d. Update the mission statement for DE&S from the uninspiring “equipping and supporting the Armed Forces” to the much more ambitious “acquire and deliver equipment to the Armed Forces which is fit for purpose, adequately sustained in-service and constitutes value for money through-life, as tested in fair and open competition”.

e. Set-up a single fixed, all-in Through Life Budget for each new equipment acquisition programme to encompass costs for the prime equipment and its associated Support Assets required for through-life sustainment.

f. Discontinue the practice of asking for a plethora of Management Plans as a response to the ITT – instead, require Contractors to submit a fully costed Programme of Work scoped in Microsoft Project.

g. Re-establish civilian control over defence procurement policy – especially the setting, disbursement and spending of the equipment budget.

CONCLUSION

51. At a time when senior members of this Government are firmly behind the view that this country should put economic security first and balance its books at the earliest, there exists an excellent opportunity to introduce a Defence Industrial Strategy which gradually replaces the public subsidy given to Defence Contractors with Private Sector funds.

52. It will restore much needed confidence by bringing certainty in the post-Brexit era to this business sector on the issue of funding.

53. Ask not what Government can do for Business, but what Business can do for Government.

1 September 2016