



Connected. Ambitious. Strong.

Delivering the
prosperity agenda
in defence



“We are working with Government, employers and our members, to ensure UK defence work goes to UK workers”

Bob King, Prospect
Head of the Defence Industry Group

The future path for the defence industry has been set by the government’s Integrated Review.

These priorities will be delivered by the dedicated people working in the industry. To turn these plans into shared objectives across the industry it is vital that a partnership is forged that delivers these aspirations.

The ambition of Prospect members is to maintain and expand our sovereign capability and ensure that it delivers secure work for generations to come. That is why Prospect has formed the Defence Industry Group.

Our aim is to secure well paid, secure employment for professionals in the defence industry. We are working with Government, employers and our members, to ensure UK defence work goes to UK workers and that those jobs attract the best terms and conditions.

The Integrated Review makes a welcome break from the recent past by setting out a Defence Security and Industrial Strategy. We want to constructively engage with all those who seek to make Team UK a reality in all our defence domains.

We will be working in the months ahead to use whatever forums are available to speak to employers and government about their plans and to promote the value of the Defence Industry Group in forging a positive future for all those working in defence.

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Prospect is a trade union representing over 11,000 scientists, engineers and managers across the defence industry in both the private and public sectors.

Delivering the prosperity agenda in defence

The UK is a leading defence power in Europe and a key NATO organisation. To retain this position, the country needs to invest in military capabilities across a full range of defence domains. In recent years, defence budgets have been underfunded and new acquisitions have often been delayed because of budgetary constraints. In the complex world of military procurement, the last decade of fudge and delay has caused an erosion of the defence industrial base. The Integrated Review is an opportunity to press the reset button on defence spending and establish firm foundations for future procurement decisions.

Prospect, as the union for professionals and specialists in the defence sector, will be a key stakeholder in the successful delivery of the Integrated Review. In industry, our members use their expertise to design, manufacture and support the government's equipment plan, and in government civilian personnel, working across the Ministry of Defence, use their specialist expertise to deliver the government's defence priorities. As a key partner in delivery of the review, we will engage positively with industry and government to secure UK jobs.

Embedding the defence and security industrial strategy

Building a stable industrial base in defence requires a consistent programme of work which is guided by an industrial strategy to meet the requirements of modern warfare. The government's Integrated Review is a welcome break from the past.

The long-term funding settlement ensures that there will be investment in new defence capabilities; procurement policy will no longer be driven by 'competition by default' and future equipment plans have been signalled in the Defence and Security Industrial Strategy (DSIS), which was published along with the Defence Command paper.

Defence reviews in the last decade have been under-funded and left significant questions about which projects will progress. This Integrated Review has made some tough choices on capabilities which have been retired or projects that will no longer be progressed. But unlike previous reviews there is less uncertainty about the future of the defence industry. The DSIS will communicate those areas of particular strategic and operational importance, where the government needs to sustain industrial capability onshore in the UK. The importance of maritime, combat air, and general munitions is underlined along with the signalling that a land industrial strategy will be published.

**“Positive steps forward.
We need a stronger
‘built in the UK’ policy.
We need more funding
into basic science to
support long term
innovative designs.”**

*Anon – Prospect Defence
member survey, May 2020*

Prosperity agenda

The defence industry makes a valuable contribution to the UK economy. The Rt Hon Philip Dunne MP's report, *Growing the contribution of defence to economic prosperity*, argued that procurement decisions should not rely on cost alone, consideration should also be given to the prosperity impact on local economies when making procurement decisions. The DSIS has given some support to the prosperity agenda by introducing social value as a new measure to judge procurement decisions. The issues that that can be considered, include:

- helping local communities to manage and recover from the impact of COVID-19
- tackling economic inequality through creating new businesses, new jobs, new skills
- increasing supply chain resilience and capacity
- fighting climate change
- equal opportunity through reducing the disability employment gap and tackling workforce inequality
- improving health and wellbeing including the physical and mental health in the contract workforce
- improving community integration, such as influencing staff, suppliers and communities through the delivery of a contract to support strong, integrated communities.

The adoption of social value judgements as part of the procurement process is a

partial adoption of a measure for the prosperity impact of procurement decisions as recommended by the Dunne report. While the DSIS does acknowledge the need to preserve UK independence in some strategic industrial domains, the social value tests will not deliver 100% design and build in all cases and is not based on the methodology used by Oxford Economics which measures the direct, indirect and induced impact of procurement decisions on the economy. If this had been adopted it would have provided a more tangible measure of job creation from defence contracts. Instead, the social value of a tender bid can be balanced between several different objectives with a minimum 10% weighting applied in competitions.

The procurement decision for the Fleet Solid Support contract will be an early test of the government's social value weighting. The competition for the contract will require a significant proportion of the build and assembly work to be carried out in the UK. The way the social value tests are designed, both consortiums likely to bid for the FSS contract will be able to meet several of the social value outcomes, but crucially, only one bid will ensure that the ships will be designed in the UK. Maintaining sovereign capabilities in the maritime industrial base requires industry to have access to high value intellectual property design rights. Reviving a sustainable shipbuilding industry will need more than episodic contracts



awarded by the MOD. Industry also needs to be able to generate designs which are aimed at the export market. A problem with the previous policy of 'global competition by default' was that industry was unable to develop new designs in its home market. In the Land domain, BAE Systems were forced out of design and manufacture because the company was unable to secure contracts to sustain a UK-based manufacturing business.

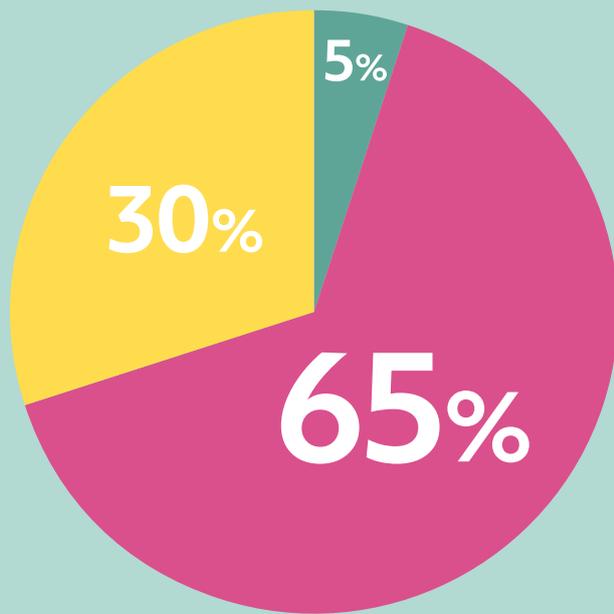
The DSIS does not set targets for the share of work built in the UK. The creation of the Joint Economic Data Hub (JEDHub), which will track the government's progress on the prosperity agenda, will provide the evidence of contract bid claims against delivery. To ensure that there is a driver for improvements in operational independence it will be important that there is an audit of the data to ensure that government claims are subject to scrutiny. The terms of the National Audit Office review of the equipment plan could be extended to ensure that the focus on the progress of the equipment plan is not simply a narrow measure of value for money but also includes the impact of contract awards on the industrial base. A test for the success of DSIS will be the growth of jobs in both design and manufacture work year-on-year.

Prospect recommends

To ensure that defence continues to make a valuable contribution to the UK economy, a steady drumbeat of work should be delivered which sustains UK operational independence across the defence domains.

Where collaboration is in the best interests of the country the government should adopt a UK by default approach, which embraces collaboration with UK suppliers to create UK jobs in design, manufacture, maintenance and support.

To measure progress against the prosperity agenda there should be an annual audit of defence contracts that reports on the delivery of UK jobs in the defence sector.



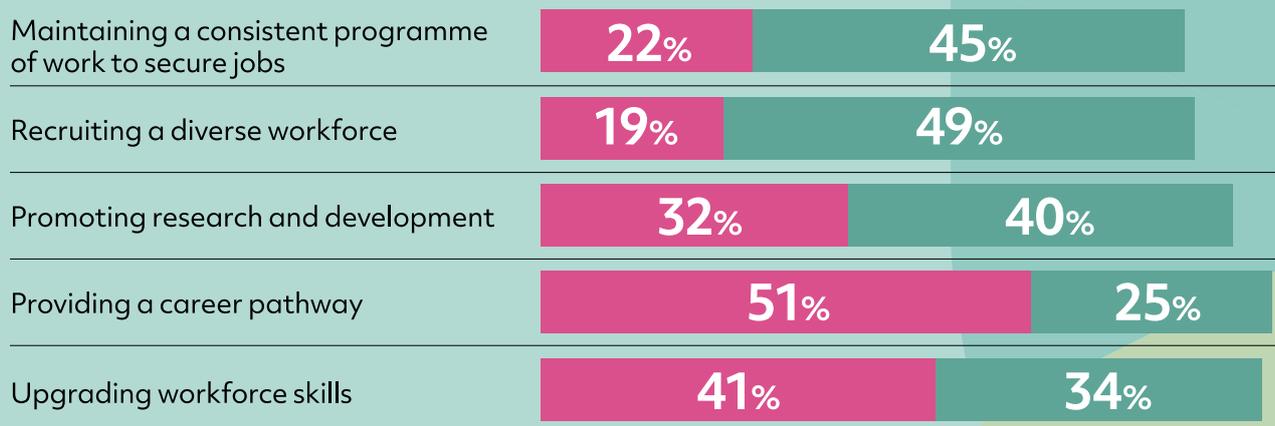
Do you think the government is doing enough to engage defence workers in the shaping of defence industry policy?

■ Yes ■ No ■ Don't know

Source: Prospect Defence Workers survey, May 2020

How effective do you think your organisation is at promoting the following policies?

■ Not effective ■ Effective Source: Prospect Defence Workers survey, May 2020



How important do you think it is that defence procurement is used to support local economies?

■ Very ■ Somewhat ■ Not

Source: Prospect Defence Workers survey, May 2020

Levelling up workers' voice

Defence is a key industry for the delivery of the government's levelling up agenda. The DSIS highlights the spread of work across the country delivering prosperity to local economies. This makes workers a partner in the successful delivery of defence priorities. Engineers and scientists use their skills to create the capabilities the country needs. Partnership is well established within the industry with positive engagement between employers and their workers' trade union representatives. This engagement was shown positively during the Covid pandemic where unions and employers were able to maintain safe working during the periods of lockdown by agreeing robust risk assessments. For many, dealing with Covid was familiar, hazardous working conditions are routinely managed on a daily basis. The confidence and trust between employers and unions is a good example of partnership that works well; these values of partnership working between employers and workers should be at the centre of the government's Integrated Review but there is no mention of workers' voice in any of the papers published.

The DSIS highlights two areas where partnerships exist between government and industry, the Defence Suppliers Forum and the Defence Growth Partnership. At present neither of these bodies have seats for union representatives and there are no other avenues for engagement between workers, employers and government.

Unions have a history of positive engagement with employers at a corporate level, either through collective bargaining arrangements, as Pension trustees and through safety representative committees. This experience demonstrates the vital role that unions can play in providing responsible worker voice within corporate structures. While the management of companies may change trade unions often represent the collective memory of an organisation and help to ground decision making in the experience of those with least power in an organisation. Levelling up can only be meaningful if it provides a forum for dialogue between the shop-floor, industry and government.

In defence there are many examples of how unions and employers have worked together to deliver industry objectives.

- The Terms of Business Agreement (ToBA) to deliver naval shipbuilding efficiency improvements created a framework to deliver multi-employer projects.
- BAE Systems has regular meetings between the Chief Exec and union representatives to outline the company's corporate strategy.
- In Devonport a far-sighted agreement was reached between Babcock International and the workplace unions has helped to reduce carbon emissions and identify other measures to protect the environment.

- At the Atomic Weapons Establishment Prospect has worked with the employer to introduce a disability passport scheme and ensures that personnel policies take account of all staff.

These examples show the practical ways that unions engage with employers. As Sumner and Blond observe in their prescient report, *A new bargain: People, Productivity and Prosperity*, “To realise the ambitions of a stronger, inclusive and more resilient economy, the UK needs a new approach that recognises the contribution of employees to the work of business and the prosperity of the country.”

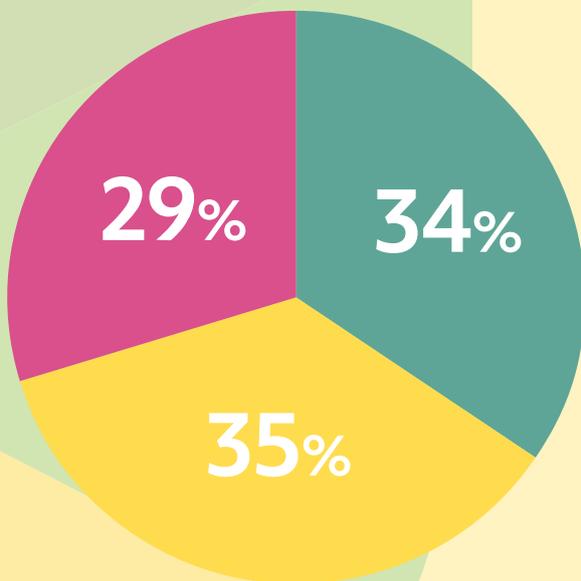
“By keeping these industries strong in the UK we are boosting our own wider economy – i.e. the money spent stays in the UK, keeps our people gainfully employed and not needing government help- it’s a ‘win, win, win’ situation.”

Anon – Prospect Defence member survey, May 2020

“I do not believe the strategy effectively addresses the ‘succession planning for skilled resource in the modern future’ whether through upskilling, attracting young talent or placements in industry. There appears an enduring reliance on hugely expensive consultant & outsourced resources, costing the taxpayer vast sums.”

Anon – Prospect Defence member survey, May 2020

Source: Prospect Defence Workers survey, May 2020

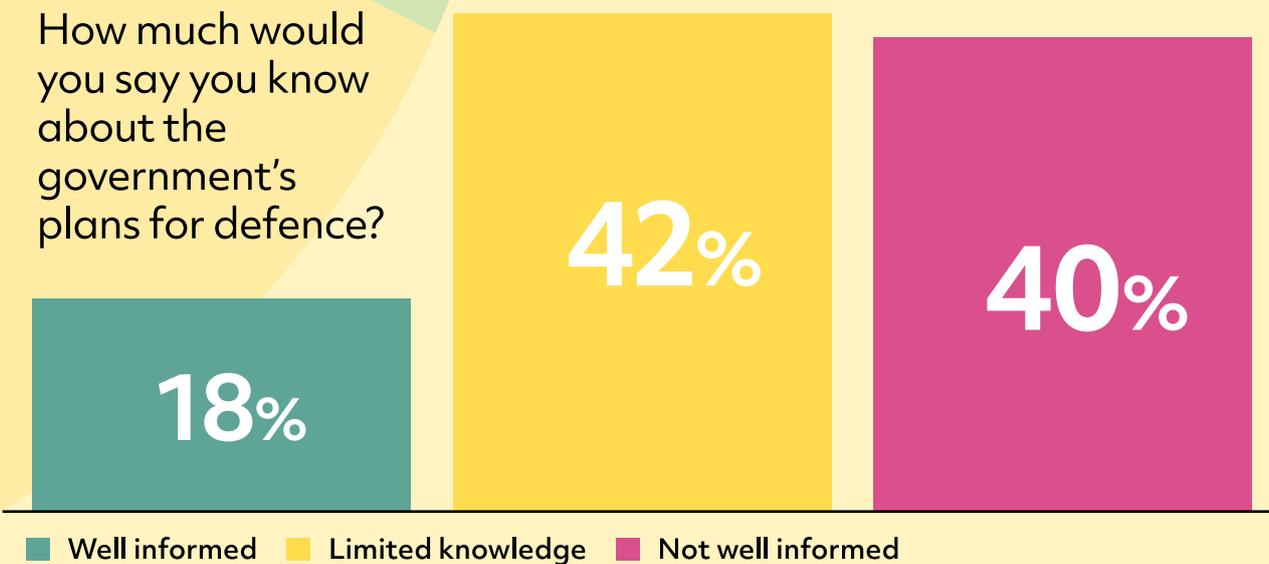


How confident do you feel about the future of the UK defence industry?

Very Somewhat Not

Source: Prospect Defence Workers survey, May 2020

How much would you say you know about the government's plans for defence?



Source: Prospect Defence Workers survey, May 2020

Retooling the intelligent customer

The civil service has been on the sharp end of government austerity cuts in the last decade. The civilian personnel headcount has declined by nearly 30%. The cumulative effect of pay restraint has had a severe impact on recruitment and retention, particularly in skilled and specialist areas where pay rates are 15% or more below the market rate. This has had a material impact on the ability of the Ministry of Defence and its executive agencies to act as an intelligent customer for government in defence procurement.

In 2019 the NAO revealed that the MoD had identified 57 roles in 12 trades where the department did not have the number of skilled staff needed with the largest shortfalls in science and engineering, project management and information. In a majority of these “pinch points” the NAO said that there is a ‘high impact’ on the business. It is therefore disappointing that the Integrated Review does not make any mention of the reforms that will be needed to enable MoD personnel to deliver the government’s policy aims. To deliver on the ambition to create a stable workforce across the whole defence enterprise government will need a workforce plan that includes those working in the civil service.

Only a third of MOD civil servants are satisfied with their pay and benefits and a quarter of the staff working for DE&S and SDA are considering leaving for a jobs

elsewhere. The divergence of pay and reward across the MOD and its Executive Agencies has created an internal market, leading to loss of experience and skills. The government’s pay pause will make it more difficult to retain skilled staff. The Integrated Review acknowledges the need to address the armed forces pay by agreeing to establish a pay and reward review. A similar review of civilian personnel pay is needed to modernise the pay offer for civil servants.

Prospect recommends

The government should launch an independent review of pay and conditions of civil servants in the Ministry of Defence and its executive agencies and arms length bodies.

Talent management

Skilled talented people are found across the defence industry. There is a global competition for skilled personnel, not just in defence, but across all industries. The delivery of complex defence equipment relies on these skilled workers. Defence, like other sectors that rely on scientists and engineers, is facing a twin squeeze. Industry needs to attract professionals to replace those reaching retirement, this squeeze on personnel is compounded by the emergence of new skills which will require both the upskilling of the existing workforce and a need to recruit new people to inject fresh ideas.

This presents both a risk and an opportunity. The risk is that gaps will become persistent and harm the productivity of the sector, but there are also opportunities to create a career structure that embraces and develops workers across the defence sector. The DSIS recognises this challenge by signposting the Pan-Defence Skills Framework which is intended to make it easier for people to move around the industry. The creation of the framework could also help to address the diversity of the sector by creating pathways for women and ethnic minority workers into defence jobs.

There are many barriers which prevent movement. Valuable terms and conditions may be difficult to transfer between public and private sector organisations. Public sector organisations may wish to retain key personnel to deliver complex projects. Any transfers also need to guard against any perception that commercially sensitive information is compromised.

There should be engagement between government, public and private sector unions and industry to build confidence in the framework and agree a timetable for future discussions and consideration of the issues that will be captured by the framework.

Prospect recommends

Government should convene a discussion with industry, civil service and industry unions to agree how to improve the movement of people in the defence industry.

Science and technology innovation

Retaining the UK's position as a leading military power will depend on active investment in science and technology. The government's commitment to increase economy-wide spending on research and development to 2.4% of GDP by 2027 is a much-needed boost of investment. In defence R&D spending has fallen in real terms by over 30% since 2008. As a result the UK has lost ground in important new areas of research.

The 2020 spending review committed the government to £6.6 billion of investment in defence R&D over the next four years, spread over several projects. In addition ARIA is being launched to fund projects which might not usually access research funding. This signals a new ambition in science and technology, which has been lacking for some time.

There will be a significant challenge to keep pace with other nations and to respond to the threats from hostile technology. Threats from cyber attacks are not just targeted at the defence infrastructure, key strategic industries are vulnerable, which could leave economies paralysed. New technologies applied in the defence domain are already transforming battlefield considerations making some legacy platforms obsolete. Rapid adaptation of existing capabilities will require agile and responsive upgrades to keep pace with emerging threats. The dividing line between defence and civil applications

is already blurred. Advances in science and technology has wider implications for the economy with the possibility of positive spin-offs or spin-ins between defence and industry. This will lead to greater collaboration between civil industry and defence.

To realise the gains from new research the DSIS outlines a set of principles for international collaboration. The advances in the Tempest programme have been realised in part through international collaboration. This is an example of a strategic partnership where the UK has driven innovation forward and has been able to assert a leadership position.

However, given the historic catch-up of UK research and technology there is a risk that early innovation could be choked off by partnering with other nations on projects too soon. The partnering arrangements allow for no specific workshare targets, so in future collaborations there will be a trade-off between accessing new technological advances sooner but relinquishing any prospect of technology leadership. Experience in other defence platforms has shown that the UK's more open approach is not matched by other NATO nations, which are more likely to operate a protectionist approach.

The Defence Suppliers Forum is the body that will consider future technology needs.

To ensure that the engagement process for future technology collaborations has a broader buy-in, the Defence Suppliers Forum should include representation from science and engineering unions, in addition to those from companies and academia.

Prospect recommends

Investment in research and technology needs to deliver the government's ambition of 2.4% of spending on R&D. This should include targets to ensure that there is a catch-up in defence science and technology.

“I am a civil servant in DSTL; a large part of my role is to provide independent technical expertise to MOD so that equipment is procured and used effectively and also to guide defence contractors. Increasingly, my organisation is failing to ensure that expertise is maintained by allowing staff to be practitioners.”

Anon – Prospect Defence member survey, May 2020

Delivering on the prosperity agenda

The Integrated Review has drawn a line under ‘competition by default’, provided a funding settlement that secures funding in new capabilities, launches a defence and security industrial strategy that will guide procurement decisions and introduces a measure for prosperity considerations which is not purely driven by lowest cost.

Prospect is committed to the promotion and protection of sovereign capability in UK defence and is dedicated to UK design, build, maintenance and repair for defence equipment. Prospect recognises that there can be benefits to international collaboration on certain projects, but only where the collaboration is in the best interests of the UK and does not come at the expense of UK sovereign capability or the UK defence workforce. We believe this UK by default approach, embracing collaboration between UK suppliers, best serves the national interest.

To fully realise the ambitions of the review the government:

Prospect recommends

- **To ensure that defence continues to make a valuable contribution to the UK economy, a steady drumbeat of work should be delivered which sustains UK operational independence across the defence domains.**
- **Where it is in the best interests of the country, the Government should adopt a UK by default approach which embraces collaboration amongst UK suppliers to create UK jobs in design, manufacture, maintenance and support.**
- **To measure progress against the prosperity agenda there should be an annual audit of defence contracts that reports the delivery of UK jobs**
- **To improve engagement between government, industry and unions, representatives from the unions should be included on the Defence Growth Partnership and the Defence Suppliers Forum.**
- **The government should launch an independent review of pay and conditions of civil servants in the Ministry of Defence and its executive agencies and arms length bodies.**
- **Government should convene a discussion with industry, civil service and industry unions to agree how to improve the movement of people in the defence industry.**
- **Investment in research and technology needs to deliver the government’s ambition of 2.4% of spending on R&D should include targets to ensure that there is a catch-up in defence science and technology.**

“Where it is in the best interests of the country, the Government should adopt a UK by default approach which embraces collaboration amongst UK suppliers to create UK jobs in design, manufacture, maintenance and support.”



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