



# Design, build and maintain: Effective defence procurement





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‘Prospect always wants to lead progressive, informed and evidence-based discussion. This report is within that proud tradition. We believe that there is political will from all parties to deliver the UK prosperity agenda.’

**Sue Ferns, Prospect Senior  
Deputy General Secretary**

National security is one of the primary roles of the government. An ability to defend a country’s borders and strategic national interests requires a capability that can deter even the most determined aggressor. The war in Ukraine and continued instability in many parts of the world has reaffirmed the importance of our armed forces.

It is for this reason that defence procurement has always been viewed differently. Procurement rules allow countries to buy defence equipment that takes account of national security. However, amongst leading nations the UK has had the most open defence market in the world. Under current UK procurement rules competition is both allowed and encouraged by successive governments.

The decision to leave the European Union created an opportunity to review current practice. The UK government could have chosen to amend the procurement rules so that greater consideration is given to the UK’s prosperity agenda. The landmark report by Philip Dunne, *Growing the Contribution of*

Defence to UK Prosperity<sup>1</sup>, encouraged the government to amend procurement selection criteria so that UK defence contractors could play their role by investing in local communities and creating skilled jobs. Instead, the regulations have barely changed. The government has introduced a Social Value test, which Prospect has welcomed, however the criteria for selecting defence equipment is still driven by cost rather than other considerations. Prospect feels that a more fundamental review of procurement regulations is required. Government should still strive to achieve value for money, but this needs to be balanced by a stronger commitment to a wider industrial strategic goal of developing UK industry. That is the purpose of this report.

There is an opportunity to reframe the procurement rules in a way that makes a real difference to outcomes while retaining a rigorous process of independent auditing of major projects. Currently the playing field is not level. The UK government does not provide the same support for UK companies that other countries provide for their defence industries. The value of this report is that it

provides a clear and insightful assessment of the approach to procurement in a number of other countries, how they have framed their procurement regulations and from those conclusions develops a practical set of proposals that will shift the balance towards greater investment in skills and jobs in the UK.

Prospect always wants to lead progressive, informed and evidence-based discussion. This report is within that proud tradition. We believe that there is political will from all parties to deliver the UK prosperity agenda. The government will resolutely defend their current approach as delivering the outcomes we seek while safeguarding taxpayers money. But we believe there is an equally strong view on the other side of this debate that more could be done. This report addresses that critical voice providing a practical way forward.

We look forward to engaging with the defence community on this issue and testing the government's claims to be the champions of UK prosperity.

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<sup>1</sup> <https://www.gov.uk/government/publications/growing-the-contribution-of-defence-to-uk-prosperity-a-report-for-the-secretary-of-state-for-defence-by-philip-dunne-mp>

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# Overview



This paper sets out a new approach to procurement with a defence and industrial strategy based on the UK by default. It proposes mechanisms that fully capture the social value of defence procurement and the financial returns to the Treasury. This should be accompanied by revised guidance, which places appropriate weighting on these factors coupled with greater transparency. As a reform package, they should improve value for money and strengthen national defence design, manufacturing and support capabilities in a partnership between the MoD and industry.



The armed forces play a vital role in protecting and safeguarding the UK. To achieve this, they need the right equipment and a secure UK-based supply chain with the strategic capability to meet the needs of our armed forces without relying unduly on uncertain global procurement networks. An industry that also contributes significantly

to the economy through research, innovation and the provision of high-quality employment.



Countries worldwide are revising their defence strategies, recognising the need to strengthen their industrial base in the face of unprecedented military challenges. Almost all restrict who can supply their defence equipment, often favouring national producers, while the UK remains one of the most open markets. By value, only ten per cent of contracts in the EU are awarded to foreign suppliers. Canada, India, Australia, Türkiye and the USA have policies that explicitly promote self-reliance in defence manufacturing. They also benefit from procurement strategies and subsidies unavailable to British bidders.



Procurement regulations in the UK are being reformed. However, they still place too much emphasis on competition, despite the UK Government claiming

to have 'replaced the policy of competition by default with a more flexible and nuanced approach.' Social value, which measures the direct, indirect and induced impact of procurement, is recognised, but there is little evidence of it being applied in practice. Bid evaluation should also factor in the revenue returned to the Treasury through taxation and lower welfare payments.

 Our new approach to procurement regulations, summarised overleaf, and associated guidance focuses on promoting and protecting sovereign capability in UK defence. We describe the full range of factors that should be included in every bid evaluation, including how the bid can improve the area's social, environmental and economic wellbeing, strengthen research and development, improve employment standards, and end artificial tax avoidance arrangements. These factors should be included in a transparent annual

reporting regime to demonstrate how they are applied in practice.

 The proposed regulations and guidance set out the aims of a new approach to defence procurement based on 'the promotion and protection of sovereign capability in UK defence and dedicated to UK design, build, maintenance and repair for defence equipment.' An aim that reflects best practices worldwide and the need to safeguard national security through a UK defence industry without debarring international partnerships where appropriate.

 Defence procurement has unique challenges related to complexity, financial and time constraints and a changing threat environment. There have been 13 formal reviews of defence procurement policy over the last 35 years, and the MoD has come under sustained criticism. International collaboration has been used to share costs, R&D and increase interoperability. However, it can also

slow decision-making through the political structures of several different countries and complex management structures. Awarding warship design and construction to overseas yards, as with the Fleet Support Ships, is not collaboration; it is a huge missed opportunity.



Amending the regulations and guidance, on its own, will not deliver the change we need in defence procurement. However, it can send an important signal that culture change is necessary in a way that the current vague guidance has failed to do. It requires a commitment to see it through by changing the legislation and guidance to achieve the UK by default approach.

## Recommendations

The regulations and guidance should, at the outset, set out the aims of a new approach to defence procurement based on ‘the promotion and protection of sovereign capability in UK defence and dedicated to UK design, build, maintenance and repair for defence equipment.’ This reflects best practice worldwide and the need to safeguard national security through a UK defence industry without debarring international partnerships where appropriate.

## Amendments to the defence and security public contracts regulations

The regulations should allow the contracting authority to exclude economic operators (bidders) on a wider range of grounds than set out in Part 4 of the Defence and Security Public Contracts Regulations (DSPCR). There is a strong case for

widening these grounds to include social and industrial policy objectives.

Other social and industrial policy objectives are best included in the contract award criteria (DSPCR s31), outlining these provisions in the regulations places a stronger duty on the contracting authority to use them.

Further factors could be added as a new subsection incorporating a broad social value test which could include the direct, indirect and induced impact on the GDP; life cycle costs; promoting the growth of UK-based design innovation and investment in research and development; workforce factors; community benefits; and environmental factors.

## **Criteria for assessing bids**

Guidance should give examples of appropriate social value weighting. For instance, labour-intensive contracts should place a higher weighting on workforce factors.

In contrast, capital intensive contracts might place a higher weighting on R&D and UK-based design and innovation.

Published social value KPIs should give an indication of how defence procurement is measured. A new procurement regime requires transparent systems for contract monitoring to check that the claimed benefits on which the contract was awarded are being achieved.

Amending the regulations and guidance sends an important signal that culture change is necessary by changing the legislation and guidance to achieve a UK by default approach.

# Introduction

*'It is the first responsibility of government in a democratic society to protect and safeguard the lives of its citizens.'*<sup>2</sup>

The armed forces play a vital role in protecting and safeguarding the UK. At a time when full-scale war has returned to Europe and external threats are continually changing, that role has never been more critical. The armed forces need the right equipment and a secure UK-based supply chain to meet that duty. That requires a defence industry with the strategic capability to meet the needs of our armed forces without relying unduly on uncertain global procurement networks. An industry that also contributes significantly to the economy through research, innovation and the provision of high-quality employment.

Our defence needs are paid for by the taxpayer and delivered by the UK Government through defence procurement. This process has often been controversial and

subjected to frequent reviews. Successive governments have struggled to get this right.

This paper is a report for the trade union Prospect on the defence procurement regulations. In particular, the limited exemptions to competitive procurement. The aim is to articulate amendments to the regulations that more clearly support a sustainable UK defence industrial base, including supporting UK contractors and their workforce.

We will begin with some context, looking at the UK defence strategy and how the UK defence industry supports that strategy. The paper will then outline the current defence procurement regulations and guidance and analyse the outcomes of that approach in recent years. We will also look at procurement best practices in the UK and globally.

Finally, we will suggest a new approach to defence procurement and the necessary legislative amendments and guidance to achieve that.

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<sup>2</sup> Lord Hope in *A (FC) and others (FC) (Appellants) v. Secretary of State for the Home Department (Respondent)*, [2004] UKHL 56. The concept has been used and occasionally abused by philosophers and politicians over the centuries.

# 1. UK defence strategy

Every government regularly produces defence and related strategies. These typically outline the threats to the UK and how the government proposes to respond to those threats. The current overall strategy claims to be an integrated review of defence, development and foreign policy. It explains,

*'At the heart of the Integrated Review is an increased commitment to security and resilience, so that the British people are protected against threats. This starts at home, by defending our people, territory, critical national infrastructure (CNI), democratic institutions and way of life – and by reducing our vulnerability to the threat from states, terrorism and serious and organised crime (SOC).'<sup>3</sup>*

The UK actually has a proliferation of strategies, including the Defence Command Paper<sup>4</sup>, the Defence and Security Industrial Strategy<sup>5</sup> and the National Space Strategy<sup>6</sup>. You could add to that the National Strategy for Maritime Security<sup>7</sup>, published by the Department for Transport, and the National Shipbuilding Strategy<sup>8</sup>, and strategies for each of the future armed forces. As RUSI's Paul O'Neil argues,

*'The problem, however, is that the Review depends on too many other 'strategies' that have not had the same guiding mind, fall short of the lofty ambition in the capping document and do not connect the Integrated Review's ends with the requisite ways and means. The suite of strategies is weakened as a result.'<sup>9</sup>*

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3 Global Britain in a competitive age: The Integrated Review of Security, Defence, Development and Foreign Policy, (March 2021), P.11. <https://www.gov.uk/government/publications/global-britain-in-a-competitive-age-the-integrated-review-of-security-defence-development-and-foreign-policy>

4 Defence Command Paper: <https://www.gov.uk/government/news/the-defence-command-paper-sets-out-the-future-for-our-armed-forces>

5 Defence and Security Industrial Strategy: <https://www.gov.uk/government/publications/defence-and-security-industrial-strategy>

6 National Space Strategy: <https://www.gov.uk/government/publications/national-space-strategy/national-space-strategy>

7 National Strategy for Maritime Security: <https://www.gov.uk/government/publications/national-maritime-security-strategy>

8 National Shipbuilding Strategy: <https://www.gov.uk/government/publications/refresh-to-the-national-shipbuilding-strategy>

9 The UK's Integrated Review at One Year – Fit for Purpose?, (RUSI, 31 March 2022), <https://rusi.org/explore-our-research/publications/commentary/uks-integrated-review-one-year-fit-purpose>

In fairness, defence reviews can often rapidly become outdated. While the Integrated Review recognises the threat of Russia, it probably couldn't have anticipated the invasion of Ukraine. Post-Brexit wishful thinking permeates the review with its 'Indo-Pacific tilt', and as Paul Cornish highlights, the war in Ukraine shows us that Europe is not as stable as the review thought.<sup>10</sup> An example closer to home are Royal Navy deployments to protect gas pipelines and internet cables.<sup>11</sup>

He argues that the review should be scrapped, and a new, more realistic strategy should be prepared. Francis Tusa says that some in the army are worried that it will be unable to deliver a high-readiness brigade (roughly 5,000 troops) to NATO by 2024, as promised, because of equipment shortage.<sup>12</sup> Others argue that, despite the challenges, 'a significant British presence in the Indo-Pacific are here to stay.'<sup>13</sup> MPs on the House of Commons Defence Committee have also urged the government to reconsider its integrated defence review.<sup>14</sup>

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'The problem... is that the [Integrated] Review depends on too many other 'strategies' that have not had the same guiding mind, fall short of the lofty ambition in the capping document and do not connect the Integrated Review's ends with the requisite ways and means. The suite of strategies is weakened as a result.'

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10 Paul Cornish, *The Russo-Ukrainian War and the UK Integrated Review*, (City Forum, March 2022)

11 D.Fraser, *Navy steps up North Sea energy patrols*, (BBC, 5 October 2022), <https://www.bbc.co.uk/news/uk-scotland-63152268>

12 *British defence strategy is undergoing a naval tilt*, (The Economist, October, 2021), <https://www.economist.com/britain/2021/10/14/british-defence-strategy-is-undergoing-a-naval-tilt>

13 G.Till, *Britain, Its Navy, AUKUS and the Indo-Pacific*, (Australian Naval Review, Issue 1, 2022), pp. 23-35

14 House of Commons Defence Committee: *The Integrated Review, Defence in a Competitive Age and the Defence and Security Industrial Strategy*, <https://committees.parliament.uk/publications/23279/documents/169785/default>

While these are legitimate criticisms of the Integrated Review, simply scrapping it and starting again would result in a further lengthy delay. Defence suppliers at least have a roadmap, and the gains made in focusing on UK procurement might be lost. A better approach would be to update the strategy to recognise the new threat environment. The UK Government appears to be moving in this direction. The Autumn Statement said, 'The government recognises the need to increase defence spending to meet the threats we face, and will consider this as part of an update to the Integrated Review.'<sup>15</sup>

The Integrated Review boasts about the size of Britain's defence budget (2% GDP per year, 2.3% if Ukraine support is included). In 2020-21, defence spending amounted to £42.4bn in cash terms. In 2020, the then Prime Minister (Boris Johnson) announced the budget would increase by £16.5bn over four years. That would leave the defence budget £6.2bn higher in cash terms in 2025 compared with 2021, but that was before the current record inflation levels. Defence inflation is often higher than inflation in the general economy, reducing defence spending power.

With our European allies increasing their spending, many, including the Defence Select Committee, are calling for an increase in the UK defence budget. The Autumn Statement has dampened talk about an increase to 3% of GDP. The newly re-appointed Defence Secretary said that pledge 'amounted to an annual defence budget of about £100 billion by 2030 - an increase of £52 billion on the current sum.'<sup>16</sup> RUSI estimates that 3% would cost an extra £157bn by 2030, the equivalent of increasing income tax by 5p. Instead, the Autumn Statement said that defence spending will not fall below 2% of GDP. This means defence revenue spending will remain at broadly current levels until 2024-25, with capital spending plans falling from £19.5bn in 2022-23 to £16.6bn in 2024-25.<sup>17</sup>

There is cross-party support for additional defence spending. The Shadow Defence Secretary, John Healey, has welcomed additional spending on defence. However, he has argued that too much of that extra money is simply needed to plug a £17 billion black hole in the MoD's budget.<sup>18</sup>

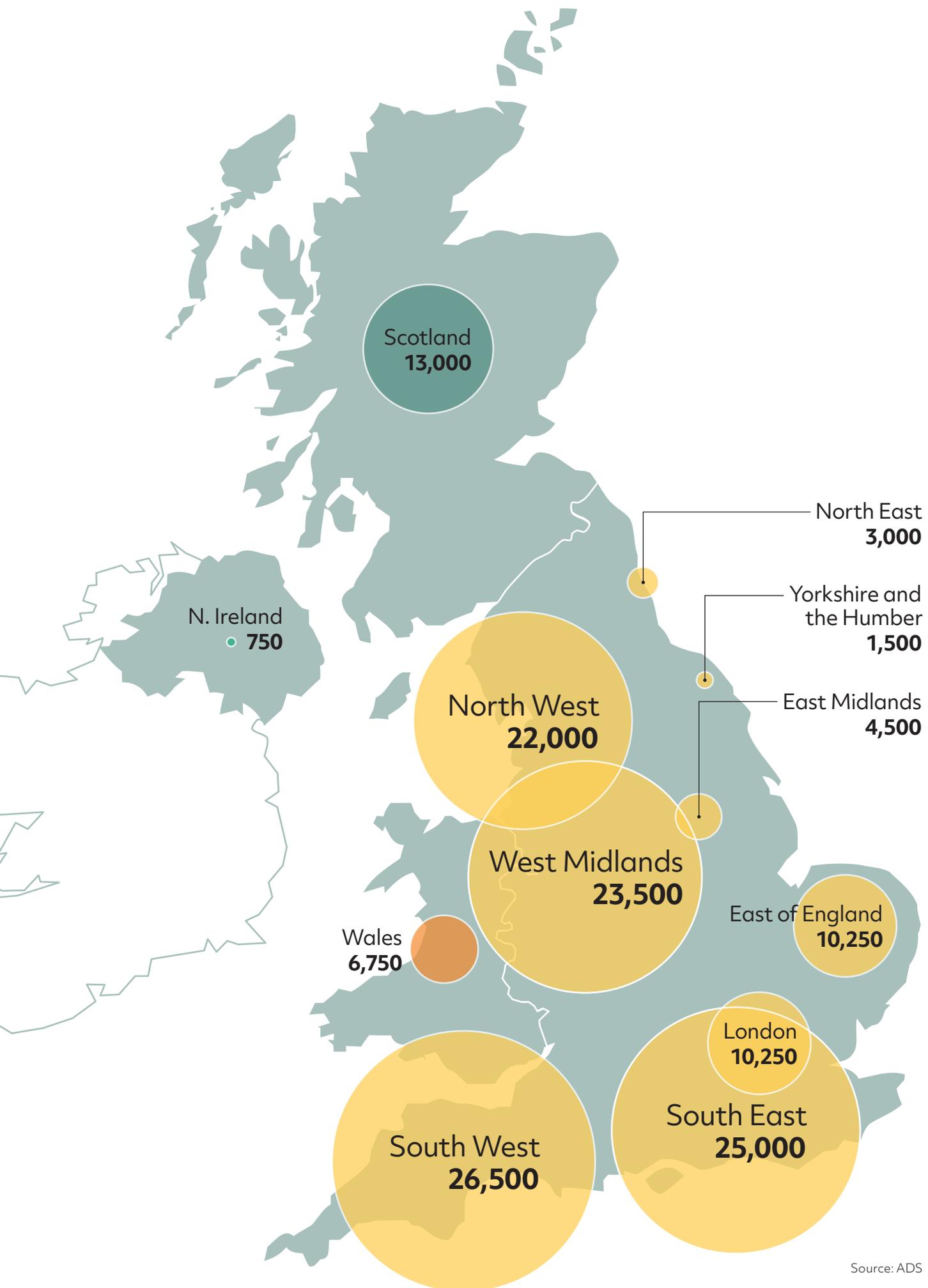
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15 Autumn Statement 2022, p.29, <https://www.gov.uk/government/publications/autumn-statement-2022-documents>

16 E.Malnick, Armed Forces to grow thanks to £52bn spending boost, (The Telegraph, 25 September 2022), <https://www.telegraph.co.uk/politics/2022/09/24/armed-forces-grow-thanks-52bn-spending-boost>

17 Autumn Statement 2022, p.20, <https://www.gov.uk/government/publications/autumn-statement-2022-documents>

18 John Healey MP, What's Next for Britain's Defence Strategy, (Chatham House, May 2022), p.6.



Source: ADS

## 2. UK defence industry

The Defence and Security Industrial Strategy (DSIS) is a welcome start towards what the government sees as an opportunity to ‘reset our relationship with industry, treating the defence and security industrial sectors as strategic capabilities in their own right.’

The government estimates that defence spending supports 260,000 jobs directly and indirectly in the industry.

It operates in most of the nations and regions of the UK. Frigates are manufactured in Scotland,<sup>19</sup> state-of-the-art satellites in Northern Ireland, next-generation armoured vehicles in Wales and Typhoon aircraft in England. This can include cutting-edge technology, such as the European hub for high-energy laser weaponry (HEL) based in Livingston, Scotland.<sup>20</sup>

The UK is also the second largest defence exporter in the world, after the USA, with £8.8bn in exports and £23.7bn turnover in 2021. This is not limited to manufacturing. British design technology, developed for UK defence needs, is also in demand. For example, Babcock International in Rosyth

is linking with shipyards in Poland to produce new frigates under the Polish government’s MIECZNIK programme. The firm was also chosen as the platform design provider and technology partner for the country’s frigate programme.<sup>21</sup>

Regional defence procurement has a political edge, supporting UK Government policy on the Union and ‘levelling up’. As the defence minister puts it, ‘Through targeted investments we can deliver not only the right equipment but can bolster the Union, deliver on levelling up and enhance the skills and prosperity of the United Kingdom.’

The regional breakdown of defence jobs on page 14 shows that many areas of the UK depend economically on the defence industry. This means defence policy must align with an industrial strategy that supports jobs and skills in the regions and nations of the UK. This should also be a key plank in the UK Government’s levelling-up agenda.

As the Dunne Report highlighted, ‘Defence’s direct contribution to GDP includes over £7bn of exports generated on average each year

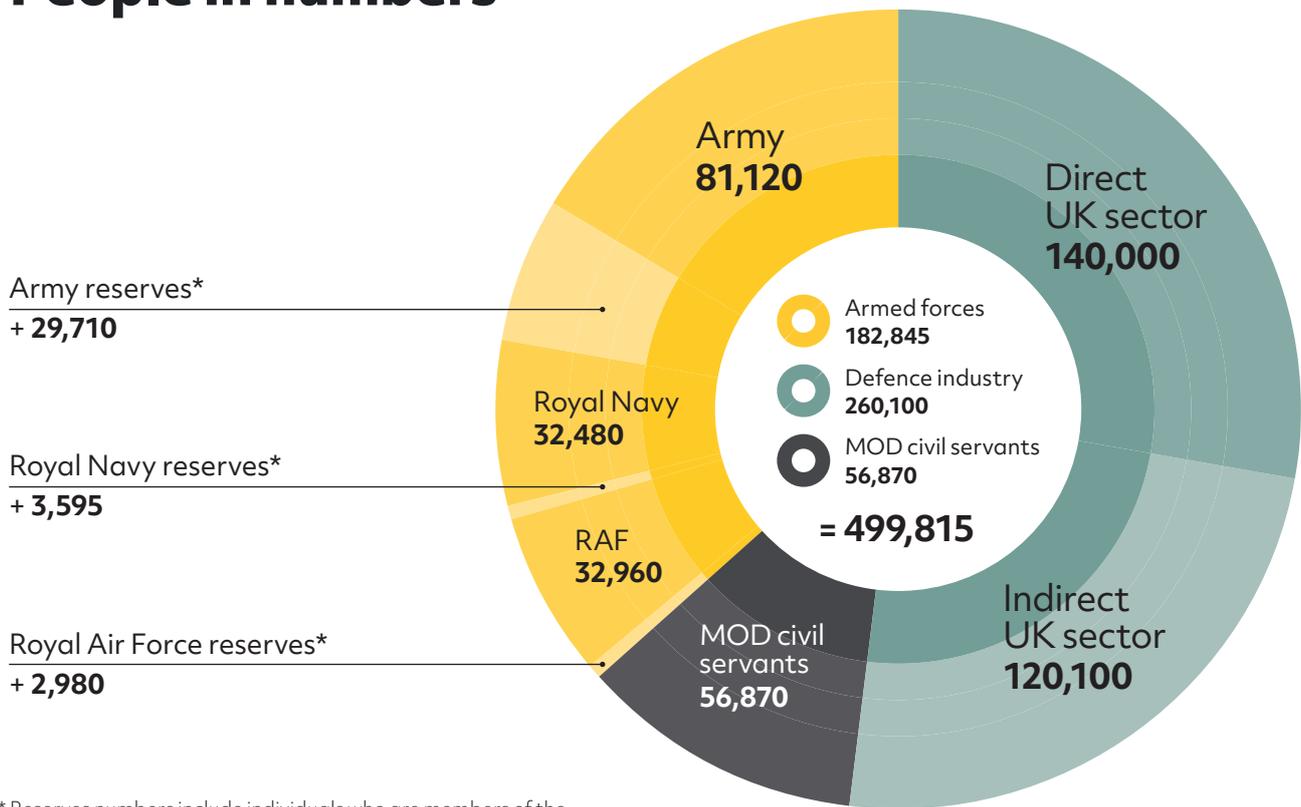
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19 B.Donnely, BAE Systems’ Glasgow ships deal ‘secures critical industry’, (Herald, 16 Nov. 2022), [https://www.heraldscotland.com/business\\_hq/23127733.bae-systems-glasgow-ships-deal-secures-critical-industry](https://www.heraldscotland.com/business_hq/23127733.bae-systems-glasgow-ships-deal-secures-critical-industry)

20 C.Vallance, Anti-drone laser weapon hub to be created in Scotland, (BBC, 19 July 2022), <https://www.bbc.co.uk/news/technology-62202119>

21 B.Donnely, Babcock Rosyth, Fife wins Polish warship contracts, (Herald, 16 September 2022), [https://www.heraldscotland.com/business\\_hq/21669430.babcock-rosyth-fife-wins-polish-warship-contracts](https://www.heraldscotland.com/business_hq/21669430.babcock-rosyth-fife-wins-polish-warship-contracts)

# UK defence employment: People in numbers



\* Reserves numbers include individuals who are members of the university training units: The Army's University Officers Training Corps (UOTC), The University Royal Naval Unit (URNU) and the University Air Squadron (UAS)

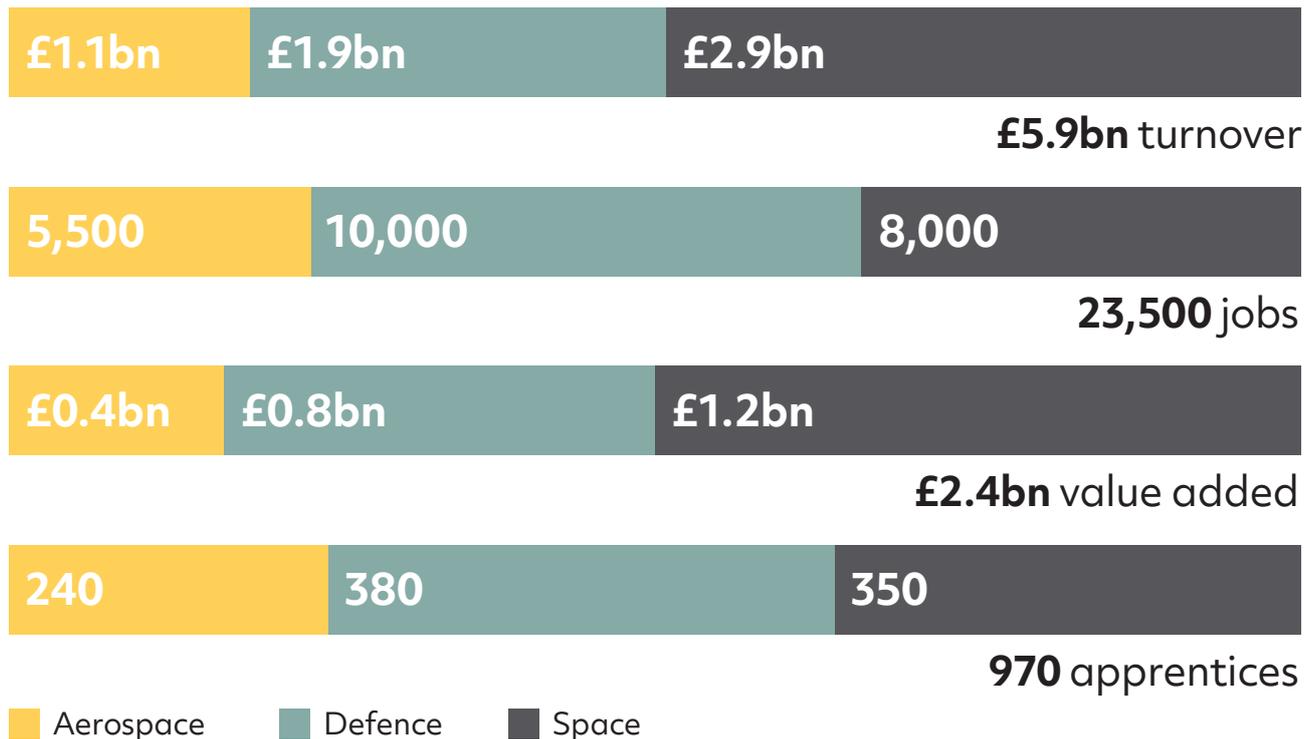
in addition to the MOD budget of £37bn. Defence's role as a customer and industrial partner with high growth sectors in the economy generates more growth, notably in the aerospace, engineering, space, cyber, and now the knowledge and creative sectors.<sup>22</sup>

Defence spending also has wider economic benefits. As a trading nation, 95% of our goods travel by sea, and underwater cables

are vital to our communications and financial transactions. These have to be defended, a traditional role for the Royal Navy. Even tourism depends on Britain being viewed as a safe destination, and historic military sites and events attract thousands of visitors yearly. Military technology often brings civilian spin-offs such as thermal imaging and touch screen phones. The value of these wider benefits has not always been captured

<sup>22</sup> Dunne, P, Growing the Contribution of Defence to UK Prosperity, (MoD, July 2018), p.5. <https://www.gov.uk/government/publications/growing-the-contribution-of-defence-to-uk-prosperity-a-report-for-the-secretary-of-state-for-defence-by-philip-dunne-mp>

# The aerospace, defence and space sector's contribution to Scotland in 2020



Source: ADS Scotland

in government statistics. The Dunne Report recommended that the 'prosperity premium to the wider economy' should be captured.<sup>23</sup>

Under current plans, the MOD will invest over £85bn in equipment and support in the next four years. The government's vision is to 'Foster an innovative, thriving and globally competitive UK defence and security industrial base that can provide value for money in the goods and services government buys.'<sup>24</sup>

The strategy also claims to take a more strategic approach to industrial capability critical to our strategic and operational needs. This includes replacing the former policy of 'global competition by default' with a more flexible approach. It is claimed, 'This approach allows defence and security departments to use competition where appropriate, but also to establish where global competition at the prime level may

<sup>23</sup> Dunne report, p.19.

<sup>24</sup> Defence and Security Industrial Strategy, p.17.

be ineffective or incompatible with our national security requirements.<sup>25</sup>

The DSIS seeks to grow onshore industrial capability and skills for the future. The MOD has thousands of suppliers, with many outside the defence sector. However, the MOD typically procures defence equipment from a few prime contractors capable of managing the delivery of highly complex systems, with SMEs typically engaged in their supply chains. The top 15 suppliers account for half of the total procurement expenditure. There are challenges in achieving the government's aspiration that 25% of defence spending with industry should be with SMEs. As we will highlight later, the data does not capture the full social value of spending in the supply chain. There are also risks to the financial stability of some SMEs and a growing concern about the security risks of new overseas owners and cyber targeting. The collapse of a small supplier can result in significant delays in bigger projects like

warships because a critical component can halt production.

The government's vision also seeks to 'Grow and improve the diversity of the people and skillsets within government and industry.' It recognises skills gaps in the defence and security sectors, although there are only a limited range of proposals for the government to contribute to tackling them.<sup>26</sup> These include skills surveys, sharing skills between government and industry, engagement with universities and the possibility of a Defence Skills Passport. This is not unique to the UK, and the EU began a programme to address this in 2013.<sup>27</sup> Defence contractors in the USA have similar concerns.<sup>28</sup> In addition, short-term demand worldwide resulting from Ukraine conflict is proving difficult to meet due to these same challenges.<sup>29</sup>

The UK Commission for Employment and Skills revealed earlier this year that 43 per cent of STEM vacancies were hard to fill due to a shortage of applicants. A report published by

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25 Defence and Security Industrial Strategy, p.6.

26 Defence and Security Industrial Strategy, p.50.

27 European Commission, Skills in the defence sector, [https://defence-industry-space.ec.europa.eu/eu-defence-industry/skills-defence-sector\\_en](https://defence-industry-space.ec.europa.eu/eu-defence-industry/skills-defence-sector_en)

28 M.Weisberger, Lack of Workers Is Hurting Supply Chains More than COVID, Defense Execs Say, (Defense One, 26 July 2022), <https://www.defenseone.com/business/2022/07/lack-workers-hurting-supply-chains-more-covid-defense-execs-say/374985/>

29 J.Gould, Amid hiring boom, defense firms say labor shortage is dragging them down (Defense News, 5 August 2022) <https://www.defensenews.com/industry/2022/08/05/amid-hiring-boom-defense-firms-say-labor-shortage-is-dragging-them-down/>

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We need investment in our defence infrastructure and capability to recognise its importance not only in keeping us safe but the valuable contribution it makes to the UK economy.

BAE Systems Digital Intelligence said the lack of STEM talent in the UK had seen 97 per cent of decision-makers from across aerospace, defence and government admit they are struggling to gain a digital advantage.<sup>30</sup> In the defence sector, 48 per cent of respondents said the combination of attracting and retaining STEM talent was a critical people challenge. The report sets out a range of measures to attract and retain talent.

In the Defence Suppliers Forum People & Skills Group Engineering Skills Survey, 62 per cent of respondents agreed that there is no apparent workforce plan and holistic demand signal for the Defence engineering enterprise. Eighty-eight per cent of respondents said it would be useful to have a coherent strategic workforce plan and holistic demand signal for talent.<sup>31</sup> Trade unions have highlighted that the technical staff working on defence projects represent knowledge pools that take years to collect and cannot be easily or quickly replicated or replaced.<sup>32</sup> They also highlight the need for workforce planning that properly engages the trade unions. This has to be linked to a longer-term strategy for the sector, which needs a long-term order book. A RUSI report based on BAE Systems suggested that

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30 BAE Systems, Unlocking digital advantage in high trust sectors, (August 2022), <https://www.baesystems.com/en/cybersecurity/feature/unlocking-digital-advantage-in-high-trust-sectors>

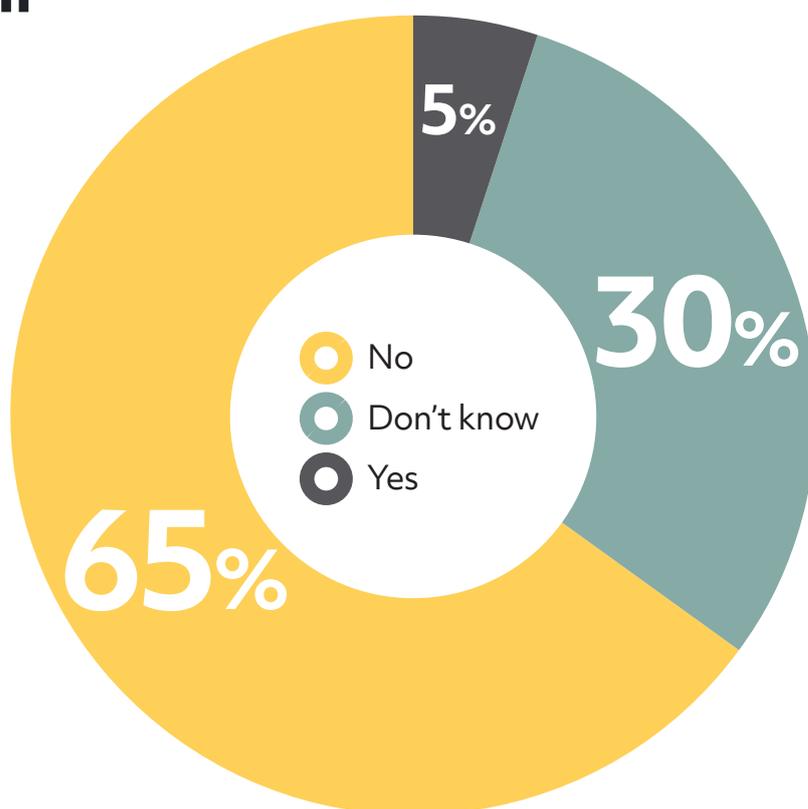
31 ADS, Defence Engineering: Tackling the Skills Shortage, <https://www.adsgroup.org.uk/blog/defence/defence-engineering-tackling-the-skills-shortage>

32 GMB, Turning the Tide, <https://www.gmb.org.uk/sites/default/files/turning-the-tide.pdf>

## Government engagement: Worker perception



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



Source: Prospect Defence Workers Survey, May 2020

80% of people leaving a defence business are lost to the defence sector as a whole, rather than moving into another defence business. Many skills are transferable.

The DSIS has nothing to say about engaging defence workers and their trade unions in shaping defence industry policy. As a Prospect survey shows, workers in the industry don't think the government is doing enough to engage with them. While there is a history of positive engagement between unions and employers in the sector, there are no seats

for trade unions on the partnership groups highlighted in the DSIS.

Jobs in the defence industry tend to be better paid with a wage premium of 5-12% when it is calculated in relation to jobs requiring comparable skills and experience. Defence jobs tend to be filled by men and are more capital-intensive. There is some evidence that this reflects higher productivity in the defence industry. The same cannot be said for civilian defence personnel in the civil service. In skilled

and specialist areas, pay rates are below the market rate, leading to skills shortages.

Another critical industry issue is research and development (R&D) spending, with the industry currently being outspent. The PwC Global Innovation 1000 study found that aerospace and defence companies typically spend less on R&D as a percentage of revenue than both software and other tech companies.<sup>33</sup> Amazon spends more on R&D than the entire global aerospace and defence industry. This report also highlighted skill shortages to address this. It argued that the sector 'need to change their employee-value proposition to make themselves more attractive to recent engineering and computer-science graduates.' Recognising that these skills are increasingly in demand among virtually all industries. Part of the solution is to diversify their workforce, bring new perspectives and widen the potential talent pool.<sup>34</sup> While the government is currently committed to increasing R&D spending, after years of cuts, it needs to set targets to ensure a catch-up in defence science and technology. This requires a long-term vision,

and investment today may not be realised for thirty years. The Autumn Statement includes £10m for the Advanced Technology Research Centre (ATRC) a defence-focussed Centre of Excellence Site in Wales.<sup>35</sup>

Some argue that the defence industry should diversify into a wider range of civilian products. The problem with this approach is that critics are unclear about how this will be achieved while maintaining the significant numbers of skilled, unionised jobs in the industry.

In summary, we have multiple government strategies that are not necessarily coherently linked and look outdated in the current environment. We have a substantial defence industry that provides quality jobs across the UK and is a major exporter. An industry with its challenges concerning R&D, skills and capacity. We need investment in our defence infrastructure and capability to recognise its importance not only in keeping us safe but the valuable contribution it makes to the UK economy.

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33 PwC, Defence trends 2020: Investing in a digital future, <https://www.pwc.com/gx/en/ceo-agenda/ceosurvey/2020/trends/defence.html>

34 An example of this is Leonardo in Edinburgh, recruiting from a more diverse population. S.Wilkie, Five years after arriving in Edinburgh with no English, engineering apprentice Pawel is working on major aerospace projects, (Scotsman, 18 September 2022), <https://www.scotsman.com/news/defence/five-years-after-arriving-in-edinburgh-with-no-english-engineering-apprentice-pawel-is-working-on-major-aerospace-projects-3844512>

35 Autumn Statement 2022, p.56, <https://www.gov.uk/government/publications/autumn-statement-2022-documents>

# 3. Defence procurement regulations and guidance

The current provisions for defence procurement are set out in the Defence and Security Public Contracts Regulations 2011 (DSPCR)<sup>36</sup> and associated guidance<sup>37</sup> and the Single Source Contract Regulations 2014 (SSCR).<sup>38</sup> However, the UK Government is proposing changes to the Single Source Contract Regulations in line with the new Defence and Security Industrial Strategy and the European Union (Withdrawal) Act 2018. In addition, while defence is a reserved matter to the UK Government, non-sensitive procurement is undertaken in Scotland that comes under separate Scottish legislation.

Defence procurement regulations adopt a similar approach to other government procurement rules. For example, these provisions have de-minimis levels, which means they only apply to significant expenditures. They can adopt one of several procedures known as the restricted, negotiated or competitive dialogue, which are explained in the guidance. The regulations have already been amended to reflect Brexit. For example, the definition of 'economic operator', a collective term for 'contractor', 'supplier' and 'services providers', has been amended so that it refers only to economic

operators from the UK and Gibraltar. However, this change does not mean that competition will only be limited to the UK industry. Similarly, procurement opportunities are no longer published in the Official Journal of the European Union (OJEU).

These regulations were introduced when the EU was concerned that defence and security exemptions under EU procurement rules were being circumvented for economic reasons rather than to protect national security interests. How the UK might recast its approach to public procurement after Brexit has attracted significant debate. However, military shipbuilding and broader defence manufacturing procurement have not been subject to the same EU competitive tendering requirements as other public spending. Under Article 346 of the Lisbon Treaty, Member states had considerable freedom of action over defence procurement. EU nations used this freedom to safeguard their defence industries much more than the UK. In practice, the UK only applied these protections to the production of vessels defined as 'warships,' which are safeguarded for construction in the UK. A UK review of exemptions found their use declined from 49% of contracts in

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36 Defence and Security Public Contracts Regulations 2011, <https://www.legislation.gov.uk/uksi/2011/1848/contents>

37 DSPCR Guidance, <https://www.gov.uk/government/publications/the-european-union-defence-and-security-public-contracts-regulations-dsPCR-2011/dsPCR-chapter-1-overview>

38 Single Source Contract regulations 2014, <https://www.legislation.gov.uk/ukdsi/2014/9780111122440>

2011 to only 25% in 2015. The UK approach was particularly controversial when the MoD initially indicated that they intended to procure Fleet Solid Support (FSS) ships internationally, following the procurement of tankers from South Korea. The FSS ships have now been classified as warships, not least because they are an integral part of the supply to carrier task forces. Jeremy Quin, Minister for Defence Procurement, said:

*'For the purposes of procurement the Fleet Solid Support ships are considered to be warships. This has significance in the procurement route we choose to adopt, and we are not pursuing an international competition. This does not preclude international bidders from participating if they can meet the UK's national security requirements, for example through a close partnership with UK companies.'*<sup>39</sup>

The last sentence indicated an escape clause for further overseas outsourcing. The Government has since rejected the Team UK bid and awarded the contract to Team Resolute, which will put as much as 40% of the contract value of the work overseas. A decision criticised by Mike Clancy, General Secretary of Prospect as, 'a terrible, short-sighted decision. By not giving this contract

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Under Article 346 of the Lisbon Treaty, Member states had considerable freedom of action over defence procurement. EU nations used this freedom to safeguard their defence industries much more than the UK.

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<sup>39</sup> UK Defence Journal (22 July 2022), <https://ukdefencejournal.org.uk/uk-rules-out-international-competition-for-support-ships>

to Team UK it is huge missed opportunity to support the whole of UK shipbuilding and build domestic defence capability for the future. At a time when the economy is struggling it is short-sighted in the extreme to go with a bid that takes most of the high value work and intellectual property overseas. Spain will be delighted with the government's approach to levelling up.<sup>40</sup>

International bidders can benefit from procurement strategies and subsidies in their own countries that are not available to British bidders. If the UK is serious about retaining sovereign capacity in its defence sector, it needs to understand that bolting together other countries' warship designs will not deliver it.

The default position under the guidance is that procurement will be a free choice of running a competition under the restricted procedure or using the negotiated procedure. Non-competitive procurement (or, in certain instances, limited competition) can only be adopted for limited reasons. These include no applications in a call for competition, technical reasons, extreme urgency, R&D,

or particularly advantageous terms. The selection criteria can consist of additional objective, and non-discriminatory criteria but must not go beyond what is relevant and proportionate to the subject matter of the contract. This is drawn more tightly compared to the equivalent Scottish legislation, which actively encourages fair work practices and other factors.<sup>41</sup> The guidance also highlights specific defence aspects of the regulations concerning restricted information and warlike stores. It also has some general exclusions covering procurement that is part of a treaty or other international agreement and contracts for intelligence activities. As with other procurement rules, they do not apply to in-house procurement, although even this is subject to the ECJ Teckal decision,<sup>42</sup> which the UK is still applying post-Brexit.

Paragraph 49 of the guidance states, 'You must award the contract based on either the "lowest price" or the "most economically advantageous tender"' known as MEAT. The latter provides some flexibility to award contracts on grounds other than price. However, if the award criterion chosen is "most economically advantageous tender", they

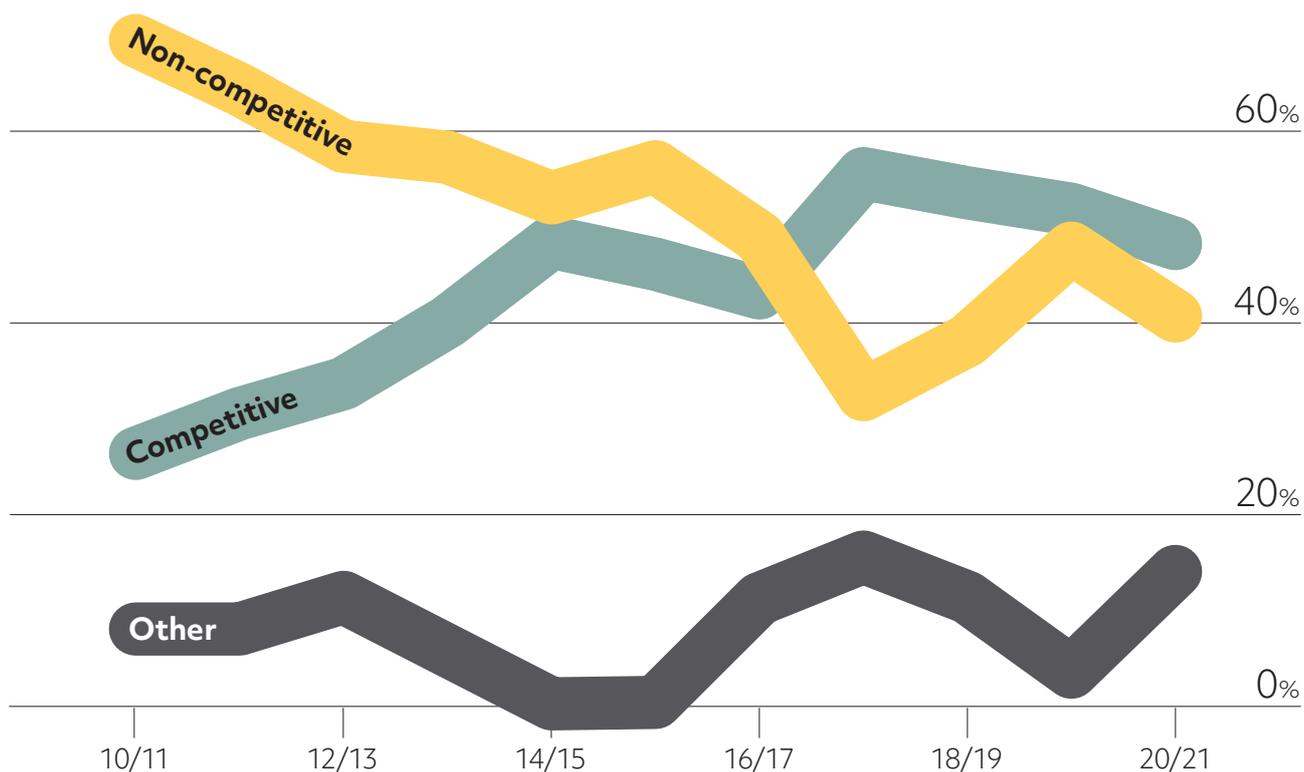
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40 Prospect, Fleet Solid Support decision is short-sighted in the extreme, (16 Nov. 2022) <https://prospect.org.uk/news/fleet-solid-support-decision-is-short-sighted-in-the-extreme>

41 UNISON Scotland, Procurement: new statutory guidance, [https://unison-scotland.org/wp-content/uploads/b075\\_PolicyBrief\\_ProcStatGuidance.pdf](https://unison-scotland.org/wp-content/uploads/b075_PolicyBrief_ProcStatGuidance.pdf)

42 Case C-107/98, Teckal explained (CIPFA, 2016), <https://www.cipfa.org/policy-and-guidance/articles/teckal-the-basics-explained>

## Proportion of total number of contracts by contract type



Source: MOD trade, industry and contracts: 2021, Table 6b

must use award criteria that are objective and linked to the subject matter of the contract. This includes publishing the weightings or rankings applied to the award criteria in the contract documents. The examples set out in Chapter 16<sup>43</sup> of the guidance are very limited compared to other procurement legislation, with mainly technical provisions such as life cycle costs and security of supply.

Around 50% of the MOD's annual spend on equipment and services is on non-competitive procurement, known as single-source procurement. Between 1968 and 2014, the MOD and industry employed a non-statutory single-source pricing framework known as the 'Yellow Book'. This was reformed in 2014, introducing statutory controls on single source contracts, including greater transparency and a regulator.

43 DSPCR Guidance, Chapter 16, <https://www.gov.uk/government/publications/the-european-union-defence-and-security-public-contracts-regulations-dspsr-2011/dspsr-chapter-16-conducting-the-tendering-exercise>

The UK Government set out a new approach in April 2022 with the Command Paper 'Defence and Security Industrial Strategy: reform of the Single Source Contract Regulations.'<sup>44</sup> This paper claims to 'have replaced the policy of competition by default with a more flexible and nuanced approach, where on a case-by-case basis we will consciously assess the best approach to through life acquisition.' This allows for long-term strategic partnerships where government procures in the absence of competition. Most of the provisions relate to the procurement process, and it is unlikely that these will address industry and trade union concerns over defence procurement. Much will depend on how these provisions are implemented. In particular, there is a need for a transparent process, and the FSS procurement decision illustrates the problems.

The paper (Para. 70) does recognise the problem that expenditure by suppliers on initiatives which support wider Government objectives cannot be attributed to an individual contract, for example, social value. They propose changing the statutory guidance on allowable costs to ensure that appropriate costs can be allowable and

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44 DSIS: Reform of the Single Source Contract regulations, <https://www.gov.uk/government/publications/defence-and-security-industrial-strategy-reform-of-the-single-source-contract-regulations>

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In a post-Brexit context, it is surprising that a UK government so committed to 'Brexit opportunities' is maintaining procurement rules that go further than simply maintaining export standards.

that contractors are not disincentivised from investing their own money in research or prosperity initiatives. Other changes to allowable costs include joint funding and new ways of funding innovation.

The MoD also plans to pilot a revised industrial participation policy to 'consider carefully what can be sourced from within the UK.' This could include defence offset, in effect, reciprocal investment. This is when a procuring country demands that overseas arms suppliers provide additional offsetting benefits to 'compensate' for extremely high procurement costs. It can include local production or be in non-defence projects. It is argued this policy has delivered long-term mutually beneficial defence industrial partnerships with powerful US defence companies, culminating in substantial contributions to UK prosperity.<sup>45</sup>

The legislation to make these changes are included in the Procurement Bill started in the House of Lords and is currently at Committee Stage.<sup>46</sup> It is not expected to come into force

until March 2023. This is primary legislation, with the detail to follow in regulations. Scotland will retain its own legislation.

The aim of the new legislation is to make procurement simpler and more flexible. The Cabinet Office highlights the potential for reforms to help deliver the "levelling up" agenda through requiring public sector buyers to 'take account of national strategic proprieties such as job creation potential, improving supplier resilience and tackling climate change', although value for money will still be the highest priority. What this all means in practice remains to be seen. The user-friendly language will be welcomed and could make public procurement more accessible. However, it might just lead to more disputes over what the words mean!

In a post-Brexit context, it is surprising that a UK government so committed to 'Brexit opportunities' is maintaining procurement rules that go further than simply maintaining export standards.

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45 Matthews and Anicetti, *Offset in a Post-Brexit World*, (RUSI Journal, 2021, Issue 5), <https://www.tandfonline.com/doi/full/10.1080/03071847.2021.2017592>

46 Procurement Bill, <https://bills.parliament.uk/bills/3159>

If there is one current project that epitomises procurement failure, it is the Ajax programme.

The MoD expected to bring Ajax into service in 2017 and missed a revised target of June 2021.

By December 2021, the MoD had paid General Dynamics £3.2 billion but received only 26 Ajax vehicles, none of which it could use.

# 4. Defence procurement outcomes

The defence outcomes of the Integrated Review and the Defence Review 'Defence in a Competitive age' are summarised in Appendix 1, although many of these commitments are somewhat vague. They include new armoured vehicles for the Army, the previously announced Type 26, 31 and 32 Frigates for the Royal Navy, and Typhoon upgrades and increasing the F-35 fleet for the RAF. Older equipment will be withdrawn from service.

A clear strategy, like the albeit much-delayed National Shipbuilding Strategy, is an important first step to better procurement outcomes. Most experts believe it is a coherent attempt to plan and coordinate workloads while regenerating UK shipbuilding and marine industries.<sup>47</sup> It will result in a lot of work in the late 2020s and early 2030s, securing capacity and jobs in shipyards, assuming that the work remains in the UK and the programme is actually funded. At present, the commitments are little more than placeholders to show the industry what they can expect. There will also be a need to rapidly build up naval architecture, marine engineering and shipbuilding expertise. More broadly, in the defence equipment plans,

the NAO has expressed concern that there remain risks of over-optimistic assumptions about future budgets, costs and the likely achievement of savings targets.<sup>48</sup>

It has to be recognised that defence procurement has unique challenges. As a House of Commons research briefing said, *'Equipment acquisition is a complex process beset by financial and time constraints, the political impact of legacy programmes and is influenced by strategic perceptions and domestic industrial priorities.'*<sup>49</sup>

Some of these challenges are arguably unique to the sector. For instance, some projects have national security consequences that demand they are undertaken within the UK, such as nuclear-powered submarines. For projects like this, the UK's industrial capacity is such that there will only be one supplier. Consolidation within the defence sector means that this is increasingly the case for a wider range of defence projects. Defence projects can take many years, spanning different governments with changing financial and policy priorities. Over these timescales, threat assessments can also change. Industrial capacity also

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47 Navy Lookout, National Shipbuilding Strategy and the future of the Royal Navy, (March 2022), <https://www.navylookout.com/the-national-shipbuilding-strategy-and-the-future-of-the-royal-navy>

48 NAO, The Equipment Plan 2021 to 2031, (Feb. 2022), <https://www.nao.org.uk/wp-content/uploads/2022/02/The-Equipment-Plan-2021-2031.pdf>

49 House of Commons Library, Defence Procurement Reform (10 June 2022), <https://commonslibrary.parliament.uk/research-briefings/cbp-9566>

requires long-term planning. You cannot build the capacity and skills needed overnight.

These challenges have resulted in many examples of escalating costs and late delivery. For example, in 13 of the 20 programmes examined by the National Audit Office (NAO), the cumulative forecast net delays totalled 21 years for equipment entering service against initial expectations. In 2021, the Public Accounts Committee concluded that 'The MoD's broken system for acquiring military equipment needs an urgent rethink.'<sup>50</sup> This type of analysis is not new, as there have been at least 13 formal reviews of defence procurement policy over the last 35 years. MPs recognised the issues highlighted by trade unions, including the need to recruit and retain skilled staff in the MoD, who often leave for the private sector. They also noted that the cost of staff is small compared to the cost of the programmes and the reliance on expensive temporary contractors to deliver many of its programmes.

If there is one current project that epitomises procurement failure, it is the Ajax programme. The Ajax tracked and Boxer wheeled

armoured vehicles are at the heart of the Army's Future Soldier Guide, the delivery of a modernised warfighting division by 2030.<sup>51</sup> The MoD signed a contract with US defence contractor General Dynamics in 2014 for 589 Ajax vehicles, effectively ending UK industrial capacity in this sector. The MoD expected to bring Ajax into service in 2017 and missed a revised target of June 2021. By December 2021, the MoD had paid General Dynamics £3.2 billion but received only 26 Ajax vehicles, none of which it could use.

The consequences of delay are not only financial. Delays mean the armed forces have to operate equipment that may be long past its effective life span. Tobias Ellwood, Conservative chair of the defence select committee, branded the Ajax project a 'complete mess.' The former army officer and ex-defence minister added: "Our whole land warfare programme is now operationally suboptimal."<sup>52</sup> In the Ajax vehicle trials, soldiers suffered hearing damage due to noise and vibration problems. The defence procurement minister admitted he was 'horrified' by the findings of the government-commissioned health and safety study, which

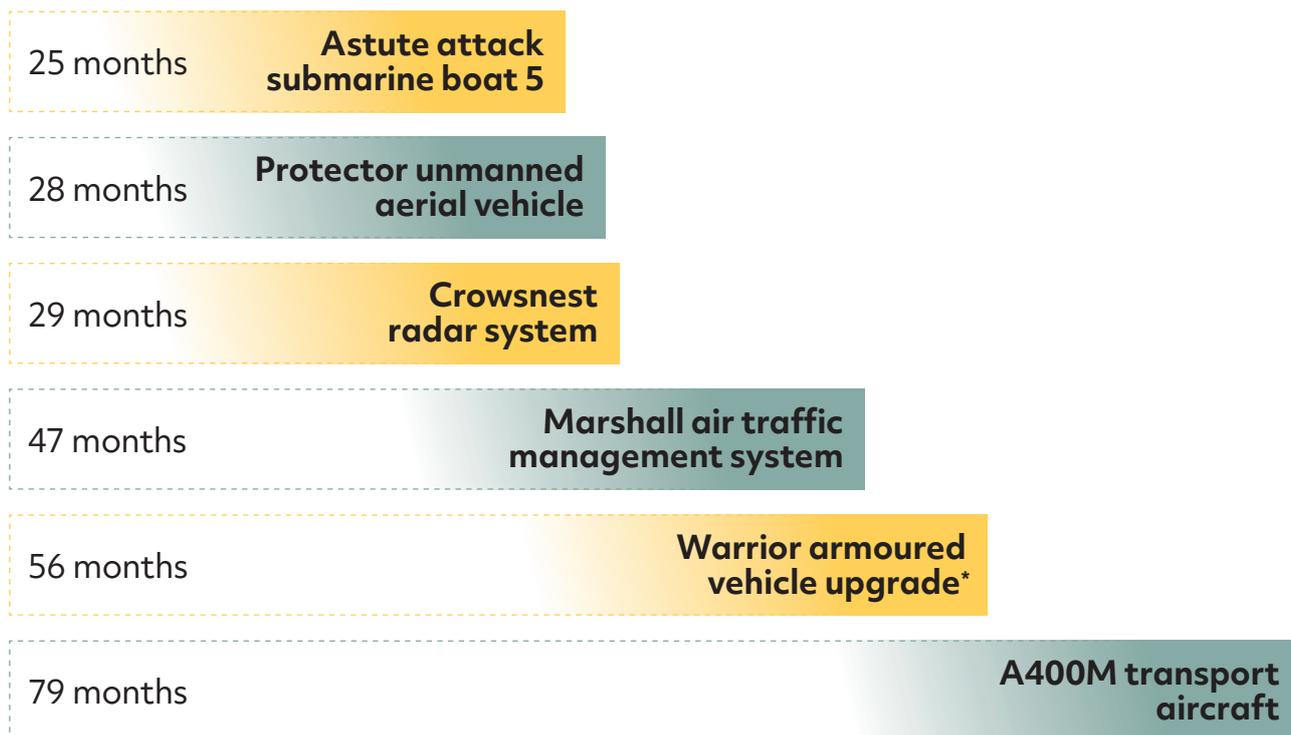
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50 Public Accounts Committee, (3 November 2021), <https://publications.parliament.uk/pa/cm5802/cmselect/cmpubacc/185/summary.html>

51 Future Soldier: Transforming the British Army, (Nov. 2021), <https://www.gov.uk/government/publications/future-soldier-transforming-the-british-army>

52 Financial Times, 'Serious failings' in British army's Ajax tank programme, review finds, (15 Dec. 2021), <https://www.ft.com/content/8471f7eb-f77e-4cb6-9536-d7873e237af8>

## Forecast delays for selected major defence projects



\* Cancelled by 2021 Integrated Review • Source: National Audit Office, Improving the performance of major equipment contracts, figure 5

he said exposed ‘serious failings’ in the process of buying weapons systems.

The Dunne Report also highlighted concerns about procurement outcomes, which he described as ‘Agility in defence procurement’.<sup>53</sup> His report revealed continuing frustration that the MoD’s approach to acquisition lacks sufficient pace and simplicity in some areas, notably for the procurement of fast-moving technology. There was widespread support for more ‘off-the-shelf’

acquisitions where there are few realistic alternative capabilities. This would dispense with time-consuming market-scoping activities, which can become process driven ‘box-ticking’ exercises. This requires the MoD to develop its skill base as a client and better understand how defence requirements and the market interact and shape each other. Such an approach would significantly reduce the costs of procurement. For example, there is no real competition for many types of ammunition, so why is the UK Government

<sup>53</sup> Dunne report, p.24.

putting added costs onto suppliers through lengthy procurement processes?

Shadow defence secretary, John Healey MP, summed up the criticisms by saying, 'Ministers are failing British forces, they're failing British taxpayers, and with the threats now acute, and the imperative for modernisation urgent, this is not good enough. So, we will work now to amend the government's new procurement bill, to reduce MoD waste and secure a building Britain approach to defence in procurement.'<sup>54</sup>

International collaboration has been used to share costs, support cooperation in R&D and increase interoperability amongst NATO allies. However, it can also slow

decision-making through the political structures of several different countries and result in complex management structures.<sup>55</sup> The RAF's Typhoon multirole fighter aircraft was one such collaboration supporting 20,000 jobs throughout the UK. Tempest, the sixth-generation future combat aircraft, which may gradually replace the Typhoon in the air defence role by the mid-2030s, is being developed as part of a smaller international consortium. BAE runs Tempest jointly with Italy's Leonardo and Sweden's Saab after France and Germany snubbed the UK.<sup>56</sup> This is part of the Combat Air Strategy,<sup>57</sup> which includes a 'National Value Framework' which claims to help determine value for money.

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54 John Healey MP, What's Next for Britain's Defence Strategy, (Chatham House, May 2022), p.6.

55 See B. Heuninckx, Collaborative Defence Procurement: How to Make It Work (IGI Global, 2017).

56 J. Jolly, Farnborough airshow to focus on cleaner flying and potential fighter jet deal, (Guardian, 18 July 2022), <https://www.theguardian.com/business/2022/jul/18/farnborough-airshow-cleaner-fly-planes>

57 Ministry of Defence, Combat Air Strategy, (2018), <https://www.gov.uk/government/publications/combatair-strategy-an-ambitious-vision-for-the-future>

# 5. Procurement practice

The UK is not alone in deviating from free-market trade policies. Most countries claim national security exemptions to restrict who can supply their defence equipment, often favouring national producers. However, historically, the UK has operated one of the most open major defence markets with a higher proportion of open contracts. The House of Commons Committee on Exiting the European Union report on the EU Defence and Security Directive (DSD) noted:

*'The UK accounted for 57 per cent of all contract awards, by value, under the DSD from 2011 to 2015. Of the other Member States, the next greatest contributors to the EDEM by value were France (16 per cent), Poland (6.5 per cent), Germany (5.5 per cent), and Italy (3.5 per cent). Cyprus, Greece, Ireland, Malta, Luxembourg and Spain have not published any contract award notices under the DSD.'*<sup>58</sup>

By value, only ten per cent of contracts in the EU are awarded to foreign suppliers.

Many countries worldwide adopt national preference rules that favour local production that provides certainty over future orders. The World Trade Organisation (WTO) General Agreement on Tariffs and Trade permits national rules for defence exports to be applied on security grounds. The United States' Jones Acts requires domestic cargo routes to be operated by American built ships, while Brazilian, Nigerian and Indonesian shipyards benefit from similar local content requirements that retain at least some of the value from domestic orders within the home shipbuilding market.

France has maintained strong state control over the domestic defence industry and is bringing a new Military Programming Law into effect in 2022, two years ahead of schedule.<sup>59</sup> France has also announced a new defence strategy, which includes ensuring that French industry can support a war effort over the long term by constituting strategic stocks, relocating the most sensitive production lines and diversifying suppliers. Developing what President Macron calls a 'war-time economy'.<sup>60</sup>

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58 Defence Sector report: <https://www.parliament.uk/globalassets/documents/commons-committees/Exiting-the-European-Union/17-19/Sectoral-Analyses/11-Defence-Report.pdf>

59 J.Tanguy, Accelerated introduction of new military procurement law reflects changed priorities in France, (Shephard, 15 August 2022), <https://www.shephardmedia.com/news/defence-notes/accelerated-introduction-of-new-military-procurement-law-reflects-changed-priorities-in-france>

60 C.Mackenzie, Macron: France's new strategic review to meet 'dangerous moment' in the world (Breaking Defense, 10 Nov. 2022), <https://breakingdefense.com/2022/11/macron-frances-new-strategic-review-to-meet-dangerous-moment-in-the-world>

Sweden liberalised its state-controlled defence industry in 1999, although it partly reversed this policy in 2013. Comparative data is difficult to obtain because defence contracting lacks transparency. In a survey undertaken by Transparency International on single-source contracting, 38 out of 48 countries don't have or don't reveal their data. Only three countries had the data publicly available.<sup>61</sup>

Canadian military shipbuilding orders have been brought 'in-house' under a National Shipbuilding Strategy. The strategy's primary objectives are to equip the Royal Canadian Navy and the Canadian Coast Guard, create jobs and generate economic benefits by rebuilding of Canada's shipbuilding industry. The plan was 'estimated to create or maintain close to 7,350 jobs on an annual average from 2012 to 2022.' Although the COVID-19 pandemic has, as elsewhere, created some challenges, including staff shortages. The latest update reports, 'This increased employment in the sector has created high-quality manufacturing jobs, with the average salary in Canadian shipyards being 30% higher than the manufacturing average.'<sup>62</sup> Shipyards are also required to achieve

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'The UK accounted for 57 per cent of all contract awards... By value, only ten per cent of contracts in the EU are awarded to foreign suppliers.'

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61 Transparency International: Single Sourcing, <https://ti-defence.org/wp-content/uploads/2016/03/140910-Single-Sourcing.pdf>

62 Government of Canada, Canada's National Shipbuilding Strategy: 2021 annual report, <https://www.tpsgc-pwgsc.gc.ca/app-acq/amd-dp/mer-sea/sncn-nss/rapport-report-2021-eng.html>

industrial and technological benefits (ITB). The priority areas are:

- work in Canada directly related to the procurement under the strategy
- opportunities for Canadian suppliers
- innovation through research and development activities in Canada
- skills development
- new export opportunities

Like other NATO countries, Spain is planning to increase defence spending to 2% of GDP following the Russian invasion of Ukraine. Spain currently spends 1% of its GDP on defence, with only Luxembourg spending a lower percentage of GDP. While Spain does engage in international partnerships such as Typhoon, it ensures almost all of its remaining defence contracts are awarded to companies in Spain. Furthermore, unlike the UK, their bid evaluation process includes tax receipts, part of “seeking the right mechanisms for safeguarding the Spanish defence industry, its jobs and technology capacities.”<sup>63</sup> This also helps firms like Navantia to make competitive bids for British defence procurement such as FSS.

India has an unambiguous strategy to ‘fight the future wars with indigenous solutions.’ Defence procurement in India happens preferentially under the following categories: Buy (Indian), Buy and Make (Indian), Make (Indian), Buy and Make, and Buy (Global). They only recently invited the Indian defence industry to offer critical defence equipment for emergency procurement. Essentially, an off-the-shelf procurement approach. Their Defence Acquisition Procedure (DAP) 2020 explicitly includes the objective of ‘Promoting self-reliance in defence manufacturing.’ There is a programme to enhance indigenous content, which provides investment for incubation and infrastructure support to startup enterprises in the defence sector. Even when they purchase equipment from abroad, ‘a new feature mandates that the entire or part of the manufacturing procedure for equipment, spare parts, maintenance or repair must be conducted by the Indian subsidiary of foreign investors.’<sup>64</sup> India is significant in this analysis because it has the fifth largest military expenditure in the world. A European original equipment manufacturer (OEM) who has been dealing with the Indian MoD for decades said, ‘There are a few markets for military equipment in the world

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63 Global data: Spain Defense Market Size and Trends, <https://www.globaldata.com/store/report/spain-defense-market-analysis>. UKTI Market Brief: Spain, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/283306/UKTI\\_DSO\\_Market\\_Brief\\_Spain.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/283306/UKTI_DSO_Market_Brief_Spain.pdf)

64 Make in India. <https://www.makeinindia.com/defense-acquisition-procedure>

that are as large or as difficult to operate as India.<sup>65</sup>

Australia has recently announced streamlined defence procurement systems.<sup>66</sup> The aim is 'For a project that would have previously taken four years, or possibly even longer to get the point of a contract signature, these changes will reduce that period by up to 12 months,' They also plan to support the Australian defence sector with 'mandated specific, measurable, and enforceable Australian Industry Capability and Content commitments.' This tightened existing policy, which ensured that even when purchasing overseas defence technology, like frigates and submarines from the UK, part of the deal was that they build locally. As the minister at the time put it, 'We make no apologies for deciding to invest in Australian-built ships, creating Australian jobs and using Australian steel.'<sup>67</sup> They point to research that shows that building ships locally has huge flow-on effects, and can help underpin other advanced manufacturing.

Türkiye is the second largest standing military force in NATO and the thirteenth in the world. It has a long-standing policy of increasing local defence manufacturing after becoming over-reliant on American equipment after the Second World War.<sup>68</sup> As the economy picked up, the Americans insisted on payment, and it suffered from restrictions on the equipment it could purchase before and after the Cyprus conflict of 1974. Türkiye's procurement regulations include provisions providing up to 15% price advantage points in favour of all domestic bidders in the procurements of services and works.<sup>69</sup>

The USA is arguably a special case due to the size of its armed forces and the defence industry sector. The Department of Defence claims its policy goals encourage competition. However, contracts awarded without competition increased by 17 per cent in 2020. Between 2015 and 2020, the share of total defence contracts awarded without competition rose from 44 per cent to just under 50 per cent. As in the UK, the number

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65 The Wire: World May Have Changed But India's Defence Procurement Regime Is Still a Bureaucratic Behemoth, <https://thewire.in/security/little-has-changed-and-indias-defence-procurement-regime-is-still-a-bureaucratic-behemoth>

66 ADM: Government promises Defence procurement overhaul, (Jan. 2022). <https://www.australiandefence.com.au/defence/general/government-promises-defence-procurement-overhaul>

67 The Conversation: Building our own warships is Australia's path to the next industrial revolution, (Nov. 2018) <https://theconversation.com/building-our-own-warships-is-australias-path-to-the-next-industrial-revolution-105984>

68 See A.Özer, The Rise of the Turkish Defense Industry, (SETA, 2019).

69 HG: The Procurement Principles in Turkish Defense Industry, <https://www.hg.org/legal-articles/the-procurement-principles-in-turkish-defense-industry-33424>

# What governments want to attain with a domestic defence industry

## Security aspects

<b>National strength</b>	Traditionally a strong emblem of national power and strength.
<b>Security policy strength</b>	A strong domestic defence industry is claimed to strengthen the nation's security policy posture, help it to defend its national interest, and strengthen military credibility.
<b>Security of supply</b>	To ensure reliable deliveries of defence goods from companies when they are needed (in times of war or unrest).
<b>Autonomy</b>	Ability to supply its own weapons.
<b>Tailor-made defence equipment</b>	The military forces can procure the material they need, suited for their military doctrine, the domestic weather and geography conditions.
<b>Technology advantage</b>	To create defence technology that in defined respects surpasses assumed adversaries' military capabilities; to achieve a technology lead and superiority.
<b>To ascertain military capabilities</b>	To finance a wide spectrum of technologies and defence systems in order to ascertain desired military capabilities.

## Economic aspects

<b>High technology</b>	Defence technology can create spin-off effects and new companies, and to benefit the technological level of the nation.
<b>Employment</b>	Defence production creates many jobs. Either to keep facilities, or to ensure that new facilities can be created. The facilities at risk of being cut down are, in most nations, in regions with high unemployment. Defence industry in many cases stands for much of the employment in small communities, and therefore is politically very important.
<b>Export</b>	Defence export generates export revenues.
<b>International participation</b>	The nation can participate in multilateral cooperation and contribute to common capabilities (UN, NATO, EU or other coalitions).
<b>Leverage</b>	To have a better national procurement competence for judging defence materiel and technology.

Source: Based on Lundmark (2011:45)

of prime vendors is shrinking, despite the increase in spending. In 2020, the 'Big Five' defence contracting firms (Lockheed Martin, Raytheon Technologies, General Dynamics, Boeing, and Northrop Grumman) gained a 21 per cent increase, reaching their highest level in the past 20 years. Even in the USA, there is concern about data transparency. The House Armed Services Committee's 2021 investigation of defence supply chains concluded that 'neither DOD nor the majority of the Defense Industrial Base (DIB) has sufficient visibility on the supply chain to understand its vulnerabilities.'<sup>70</sup> The new US defence strategy highlights the challenges, although critics argue that it ignores America's inadequate industrial base.<sup>71</sup>

The examples on page 37 illustrate how governments worldwide shape domestic procurement conditions through their decisions on preferential procurement, defence R&D allocation and defence-industrial policy.<sup>72</sup>

The UK Government's decision to invest in Sheffield Forgemasters shows that even a government ideologically averse to state intervention recognises that strategic assets have to be protected.<sup>73</sup> They have also blocked the takeover of the UK's largest producer of semiconductors by a Chinese-owned manufacturer, citing "a risk to national security".<sup>74</sup> There are currently similar concerns about the Tata steelworks at Port Talbot. The National Security and Investment Act 2022 gives the government powers to intervene in business transactions, such as takeovers, to protect national security.

Even for countries with no strong defence industry or access to the necessary advanced technologies, there are options to protect and develop local industries. The main route is known as defence offset or reciprocal investment. It occurs when a procuring country demands overseas arms suppliers provide additional offsetting benefits to 'compensate' for extremely high procurement

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70 CSIS: Defense Acquisition Trends 2021, <https://www.csis.org/analysis/defense-acquisition-trends-2021>

71 E.Tegler, The National Defense Strategy Ducks Many Issues — Two Stand Out, (Forbes, 28 Oct. 2022), <https://www.forbes.com/sites/ericteglert/2022/10/28/the-national-defense-strategy-leaves-many-issues-aside-two-stand-out/?sh=7ec925c4556b>

72 M.Lundmark & S.Oxenstierna, Defence Procurement and Economic Efficiency, (Swedish Defence Research Agency (FOI), August 2015).

73 UK Government to acquire Sheffield Forgemasters International Limited. <https://www.gov.uk/government/news/uk-government-to-acquire-sheffield-forgemasters-international-limited>

74 J.Jolly & N.Badshah, British government blocks takeover of Welsh semiconductor producer, (Guardian, 16 Nov. 2022) <https://www.theguardian.com/technology/2022/nov/16/british-government-blocks-takeover-of-welsh-semiconductor-producer>

costs.<sup>75</sup> Arms sales often comprise two parallel transactions: the primary defence contract involving the procurement of military systems based on conventional price-quality considerations and the offset deal, whereby suppliers compete on the worth of their respective investment packages. The offset may be directly linked to the defence industry, as in the Australian example above. Alternatively, it can be in non-defence projects.

This approach has a long history. In the 19th century, Britain sold warships to Japan, and while the first of the series was built in the UK, the rest were constructed under licence in Japanese dockyards. The UK is still doing this today, as the Australian example above

shows. However, it also works the other way, as with the purchase of seven Boeing AWACS aircraft. Over eight years, it came with an 'offsetting' work package amounting to 130% of the primary defence contract value.

Introducing social goals into offset policies is relatively rare. South Africa has Broad-Based Black Economic Empowerment policies as regional secondary benefits linked to the 1998 Strategic Defence Procurement Package. Brazil and New Zealand mention social benefits in their offset policies, while Colombia is reportedly requesting foreign contractors to provide a mix of 60% aerospace projects and 40% social programmes in its offset and G2G programmes.

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75 R. Matthews & J. Anicetti, *Offset in a Post-Brexit World*, (RUSI Journal, Vol.166, 2021). See footnote 45.

# 6. A new approach to procurement

Building a stable industrial base in defence requires a consistent programme of work guided by an industrial strategy to meet the requirements of modern warfare. The process of the Integrated Review should ensure that there is less uncertainty about the future of the defence industry, allowing it to plan for the long-term. In short, like most countries worldwide, our defence and industrial strategy should be based on the UK by default.

The UK Government has been less willing than other EU countries to exercise exemptions from procurement on the grounds of national security, even when these constraints no longer exist post-Brexit. The Dunne report 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 provided some support to the prosperity agenda by introducing social value as a new measure to judge procurement decisions. However, the government's approach to social value 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. An example of this approach is shown in the independent analysis by Oxford Economics of BAE Systems' economic contribution across the UK. For every 100 jobs at BAE Systems, they support 410 jobs across the economy, contributed £10.1bn to the UK's GDP, and made a £2.7bn total tax contribution.<sup>76</sup>

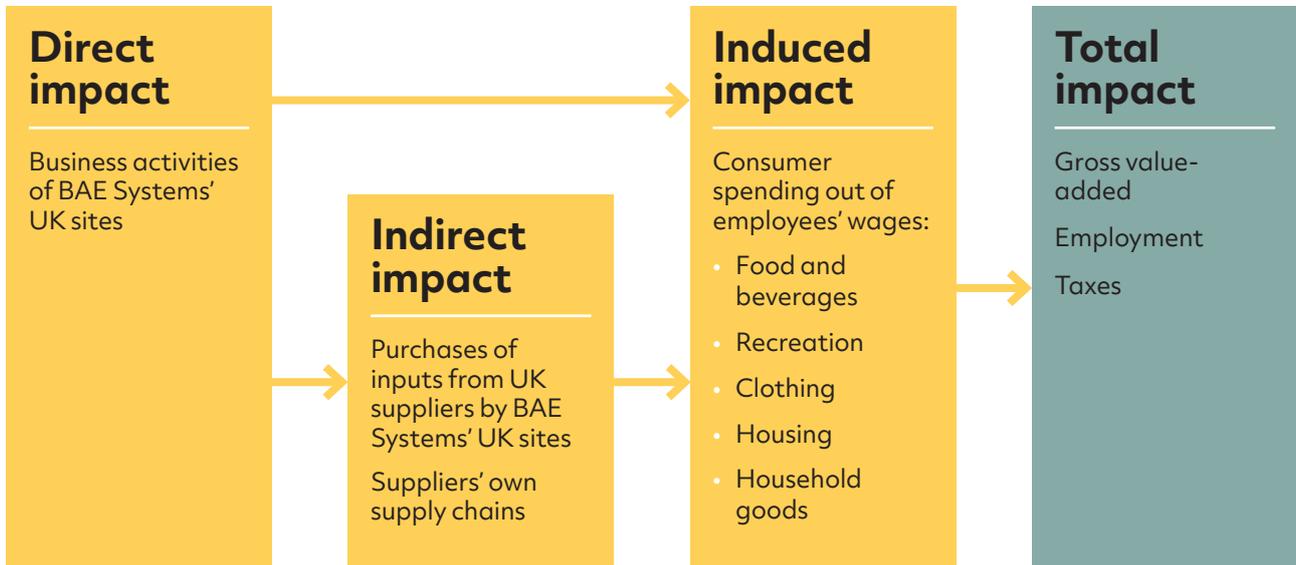
The Dunne Report recommended, *'Consideration needs to be given as to whether and how any differing UK prosperity weighting and criteria should apply to major procurements expected to be placed after the implementation period following Brexit.'*

The Prospect report, **Social value and the prosperity agenda in defence**, analyses the social value test and discuss its limitations.<sup>77</sup> They look at alternative ways of measuring the defence contribution to the UK economy and consider whether a more direct approach might be a better way of delivering prosperity to the communities that rely on defence work. Finally, they suggest that government needs to provide tangible outcomes to measure progress towards its social value goals.

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76 Oxford Economics, BAE Systems' contribution to the UK economy, (January 2022) <https://www.oxfordeconomics.com/resource/bae-systems-contribution-to-the-uk-economy>

77 Prospect: Social value and the prosperity agenda in defence, (Prospect, 2021), <https://library.prospect.org.uk/download/2021/01200>



Source: Oxford Economics

The report explains how the social value test currently works, with a social value weighting in bid evaluation of between 10% and 20% of the overall score. A key issue will be transparency. It is less than clear from the latest UK Government Key Performance Indicators (KPIs) how this is being implemented in practice.<sup>78</sup> This, along with the low weighting, sends a message that price is still the most important criterion. There are examples of a more robust approach to social value in health and care using the principles of social accounting and cost-benefit analysis to calculate the social return on investment (SROI).<sup>79</sup> Social Value UK provides a range of tools that could be used to improve

bid evaluation in the MoD.<sup>80</sup> Prospect has suggested some possible impact indicators in **the table on page 42**.

When scoring bids between domestic suppliers and foreign competitors, public bodies should factor in the revenue that would be returned to the Treasury in the form of taxation and lower welfare payments. Estimates of the impact of this factor indicate that it is substantial. A 2012 RUSI study estimated that between 34 and 36 per cent of spending on defence contracts was returned to the Treasury.<sup>81</sup> A more recent IPPR report on public sector pay calculated the return rate at 40 per cent.<sup>82</sup>

78 Key Performance Indicators (KPIs) for government's most important contracts, <https://www.gov.uk/government/publications/key-performance-indicators-kpis-for-governments-most-important-contracts>

79 A Guide to Social Return on Investment 2012, <https://socialvalueuk.org/resource/a-guide-to-social-return-on-investment-2012>

80 Social Value UK, <https://socialvalueuk.org>

81 Taylor & Louth, The Destinations of the Defence Pound, (RUSI, 2012), <https://www.rusi.org/explore-our-research/publications/briefing-papers/the-destination-of-the-defence-pound>

82 IPPR, Uncapped potential, (November 2017), <https://www.ippr.org/research/publications/uncapped-potential>

# Possible impact indicators

	Policy outcomes	Impact indicators
<b>Theme 1</b> <b>COVID-19 recovery</b>	Help local communities to manage and recover from the impact of COVID-19.	Year-on-year measure for the increase in direct and indirect work in defence.
<b>Theme 2</b> <b>Tackling economic inequality</b>	Create new businesses, new jobs and new skills. Increase supply chain resilience and capacity.	Breakdown of jobs created by occupation. New businesses created, and contracts awarded to the supply chain.
<b>Theme 3</b> <b>Fighting climate change</b>	Effective stewardship of the environment.	Reporting on CO2 emissions in sector. Adoption of green technologies. Waste reduction.
<b>Theme 4</b> <b>Equal opportunity</b>	Reduce the disability employment gap. Tackle workforce inequality.	Monitoring of the defence workforce by gender, ethnicity and disability. Breakdown by occupation/profession. Equality based pay gap reporting. Employment by disability.
<b>Theme 5</b> <b>Wellbeing</b>	Improve health and wellbeing. Improve community cohesion.	Monitoring of stress in the workplace. Reporting of health related illness in the sector.

It appears that even VAT was costed into the decision to reject catapults on new carriers. As Lewis Page in The Telegraph explains, 'Not only would British VAT not cost the Treasury anything, it didn't have to be paid anyway: under the VAT Act, a simple international agreement, one which the US would have gladly signed, would have removed the liability.'<sup>83</sup>

The MoD and the Treasury should consult on and produce a model that provides an agreed methodology for doing so in respect of defence contracts that also accounts for likely corporation tax receipts. In addition, when placing shipbuilding orders, the MoD should proactively publish an estimate of the tax benefits of orders going to domestic suppliers.

Government should also work with trade unions to set contractual targets for high-quality apprenticeship employment for all publicly funded shipbuilding orders and explore options for more proactively supporting the skills development of the existing workforce. This should be part of a broader engagement on workforce planning and skills development in the UK.

Other factors not unique to defence procurement should be included in bid evaluation. Many of these were recognised in the Scottish Government's approach to procurement, although the legislation and guidance were over-cautious regarding the impact of EU legislation. These factors should include:

- Life cycle costs such as research and development, site preparation, transfer of assets or redeployment costs, consumption of energy and other resources and end-of-life disposal costs.
- Payment of the Real Living Wage to all employees and contractors.
- Employment standards, including trade union recognition, the use of zero or limited hours contracts, health and safety practices and levels of training. The TUC has recently made a case for contracting authorities to make employment charter compliance a criterion for accessing funding and involvement in procurement processes.<sup>84</sup>
- How the bid can improve the social, environmental and economic wellbeing of the area, with a particular focus on reducing inequality.

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83 Lewis Page, How 13 Whitehall mandarins crippled Britain's aircraft carriers, (The Telegraph, 17 July 2022), <https://www.telegraph.co.uk/business/2022/07/17/how-13-whitehall-mandarins-crippled-britains-aircraft-carriers>

84 TUC, Linking employment charters to procurement, (20 September 2022), <https://www.tuc.org.uk/research-analysis/reports/linking-employment-charters-procurement>

- Environmental, social and governance standards (ESG). This includes how this has been incorporated into investment strategies and company pension funds.
- Use of artificial tax avoidance arrangements. UK companies are losing out because of tax dodging. Unlike multinational firms, they are less able to use aggressive tax avoidance mechanisms involving overseas subsidiaries. A recent Fair Tax Foundation report showed that one in every six public procurement contracts issued by the government over a five-year period were won by businesses with connections to a tax haven.<sup>85</sup>
- Research and development spending.

These factors should be included in a transparent annual reporting regime to demonstrate how they are being applied in practice.

None of the above approaches rules out international collaboration or offsetting. It is recognised that there can be benefits to collaboration on certain projects, but only where the partnership is in the best interests

of the UK and does not come at the expense of UK sovereign capability or the UK defence workforce. If we do not have a strong UK capability, exports will also suffer. As we have shown, other countries adopt this approach. So should the UK.

A new approach to procurement should focus on the promotion and protection of sovereign capability in UK defence and be dedicated to UK design, build, maintenance and repair for defence equipment. This will not happen without changes to the regulations and guidance, increased transparency, and most of all, cultural change in bid evaluation.

This UK by default approach, embracing collaboration between UK suppliers, best serves the national interest. This also has public support. A Survation poll found that 53 per cent of respondents believe that defence orders should generally be placed in the UK – even if this policy led to higher prices. Just 10 per cent believed that defence orders should generally be put out to international tender.<sup>86</sup>

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85 P.Crerar, One in six UK public procurement contracts had tax haven link, study finds, (Guardian, 24 September 2022), <https://www.theguardian.com/politics/2022/sep/24/one-in-six-uk-public-procurement-contracts-had-tax-haven-link-study-finds>

86 GMB, Turning the Tide, p.8.

When scoring bids between domestic suppliers and foreign competitors, public bodies should factor in the revenue that would be returned to the Treasury in the form of taxation and lower welfare payments.

A 2012 RUSI study estimated that between 34 and 36 per cent of spending on defence contracts was returned to the Treasury.

# 7. Amending the regulations

We outlined the current procurement regulations and guidance in Chapter 3 above. They are set out in the Defence and Security Public Contracts Regulations 2011 (DSPCR), associated guidance and the Single Source Contract Regulations 2014 (SSCR). These have already been amended to reflect some EU exit issues. However, the UK Government is proposing changes to the Single Source Contract Regulations in line with the new Defence and Security Industrial Strategy and the European Union (Withdrawal) Act 2018. There are also changes being proposed to primary legislation through the Procurement Bill.

Modern legislative practice is to allow guidance to do much of the heavy lifting with regard to procurement practice. While this can be controversial, it does limit the need to take formal amendments through what can be a lengthy parliamentary process. The UK Government has also indicated that it will make its own amendments to reflect the Integrated Review, so this is an opportunity to include other new approaches to procurement as set out above.<sup>87</sup>

One approach might be to merge the DSPCR and SSCR to create a single set of regulations based on a default single source system. However, some defence procurements can be the subject of competition without undermining the broad approach set out in this paper. These are likely to involve less sensitive or complex areas of defence procurement or where there is expected to be genuine competition within the UK. However, less sensitive procurement has not always gone well, as the scandalous condition of outsourced army housing maintenance shows.<sup>88</sup>

The regulations and guidance should, at the outset, set out the aims of a new approach to defence procurement based on 'the promotion and protection of sovereign capability in UK defence and dedicated to UK design, build, maintenance and repair for defence equipment.' This may be subtler than the Indian 'fight the future wars with indigenous solutions' approach. However, it reflects best practice worldwide and the need to safeguard national security through a UK defence industry without debarring international partnerships where appropriate.

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87 Defence and Security Industrial Strategy: reform of the Single Source Contract Regulations, (April 2022), <https://www.gov.uk/government/publications/defence-and-security-industrial-strategy-reform-of-the-single-source-contract-regulations>

88 Boffey, D, MoD apologises over 'unacceptable' standard of army homes, (Guardian, 3 October 2022), <https://www.theguardian.com/uk-news/2022/oct/03/mod-apologises-over-unacceptable-standard-of-army-homes>

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The regulations and guidance should, at the outset, set out the aims of a new approach to defence procurement based on ‘the promotion and protection of sovereign capability in UK defence and dedicated to UK design, build, maintenance and repair for defence equipment.’

The regulations should allow the contracting authority to exclude economic operators (bidders) on a wider range of grounds than set out in Part 4 of the DSPCR. At present, these are largely limited to criminal offences or the economic and financial standing of the business. However, there is a strong case for widening these grounds to include social and industrial policy objectives as set out in Chapter 6 above, as follows:

**In S.23 (4) –** ‘A contracting authority may treat an economic operator as ineligible or decide not to select an economic operator in accordance with these Regulations on one or more of the following grounds, namely that the economic operator—’, **add:**

- **Has entered into an artificial tax avoidance arrangement or series of arrangements. The Secretary of State must by regulations make provision specifying, a) the process to be followed, and (b) the evidence that is to be conclusive in determining whether or not an economic operator has at any time entered into an artificial tax avoidance arrangement or series of arrangements.**<sup>89</sup>

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<sup>89</sup> The European Commission has published anti-tax avoidance guidance, Aggressive Tax Planning Indicators, (2017), [https://taxation-customs.ec.europa.eu/system/files/2018-03/taxation\\_papers\\_71\\_atp\\_.pdf](https://taxation-customs.ec.europa.eu/system/files/2018-03/taxation_papers_71_atp_.pdf). The proposed UK regulations could include further provisions on assessing the suitability of companies that use tax havens and pre-qualification disclosure of company taxation policies, penalty clauses for tax evasion and aggressive tax avoidance post contract. Another approach would be to require bidders to be accredited to the Fair Tax Mark.

- Has committed an act prohibited under the Employment Relations Act 1999 (Blacklists) Regulations 2010.<sup>90</sup>
- Has failed to confirm in their tender that they will pay staff involved in delivering the contract (direct and indirect) at least the Real Living Wage.<sup>91</sup>

Other social and industrial policy objectives are best included in the contract award criteria (**DSPCR S.31**). This is because it will impact the bid evaluation rather than excluding an economic operator. These provisions usually require additional statutory guidance. However, outlining these provisions in the regulations places a stronger duty on the contracting authority to use them.

**S.31 (2)** already references ‘most economically advantageous’ criteria covered in Chapter 6 above. However, further factors could be added as a new subsection incorporating a broad social value test. **Add:**

**S.31 (3):** A contracting authority shall use criteria linked to the subject matter of the contract to determine that an offer provides social value, including:

- The direct, indirect and induced impact on the GDP, employment, and

tax revenues supported by its supply chain and by its employees’ consumer spending, nationally and locally.

- Life cycle costs such as research and development, site preparation, transfer of assets or redeployment costs, consumption of energy and other resources and end-of-life disposal costs.
- How the bid will promote the growth of UK-based design innovation and investment in research and development.
- Workforce factors including trade union recognition; investment in workforce development; health and safety practices; use of zero or limited hours contracts; action to tackle the gender pay gap and create a more diverse and inclusive workplace; flexible and family-friendly working practices; and no use of fire and rehire practices.
- Community benefits additional to the main purpose of the contract, such as training and recruitment, the availability of sub-contracting opportunities, equality and diversity initiatives, working with schools and colleges, or otherwise intended to improve the economic, social or environmental wellbeing of the community.

90 Regulations: <https://www.legislation.gov.uk/uksi/2010/493/contents/made>

91 Living Wage Foundation, What is the Real Living Wage, <https://www.livingwage.org.uk/what-real-living-wage>

- **Environmental factors including greenhouse gas emissions reduction, the quality of the built environment, the removal of objects considered hazardous to health, protecting communities against the threat of climate change, improving and promoting biodiversity and accessibility to nature.**

It has been argued that some of the evaluation factors listed above are contrary to the EU procurement rules. However, EU countries have managed to work around these provisions to achieve similar objectives. Even before Brexit, within the UK, mechanisms have been adopted to include these factors. For example, Scottish legislation includes many of these factors, including Fair Work and the payment of Real Living Wage. This was achieved by shifting the requirement from the tender specification to the bid evaluation and then building the tender bid into the contract. These workarounds are no longer required post-Brexit, but they demonstrate that there is a way to achieve broader social and industrial policy objectives when there is political will.

At present, the Treasury Green Book (Para 5.4) does not allow tax revenues to be

considered as part of the evaluation process when comparing different bids.<sup>92</sup> As we show in Chapter 6 above, this is a significant factor as between 34 and 40 per cent of spending is likely to be returned to the Treasury, and other countries take this into account. Aspects of the Green Book have been criticised in the context of the 'levelling up' agenda, and there have been calls for fundamental changes to its methodology.<sup>93</sup> We would argue this is such a change. While the Green Book is technically guidance, the MoD will not propose changes to its procurement regulations that run contrary to the Green Book.

A vital issue in any procurement evaluation criteria is the weighting given to each factor. When assessing different bids, the MoD will score each bid against a set of criteria, with price and quality accounting for the majority of the weighting score. In future, bids will now include a social value weighting of between 10% and 20% of the overall score depending on the defence domain. It isn't possible to specify in the regulations a weighting for each factor as this contract dependent. However, the guidance should give examples of appropriate weighting. For instance, labour-intensive contracts should place a higher weighting on workforce factors. In contrast,

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92 Treasury Green Book, <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government/the-green-book-2020#introduction>

93 Arup, <https://www.arup.com/news-and-events/new-arup-paper-examines-the-hm-treasury-green-book>

capital intensive contracts might place a higher weighting on R&D and UK-based design and innovation.

As highlighted in Chapter 6 above, the published KPIs give a minimal indication of how defence procurement is measured. A new procurement regime requires transparent systems for contract monitoring to check that the claimed benefits on which the contract was awarded are being achieved. It should also check that the contractor has not engaged in activity that would have excluded them from the procurement, such as tax avoidance, blacklisting or failing to pay the Real Living Wage. The table in Chapter 6, proposed by Prospect, outlines the type of impact assessment required with specific impact indicators. This is in addition to the usual contract management procedures set on the

contract. The UK Government is proposing to embed transparency throughout UK public procurement.<sup>94</sup> These reforms appear to be focused on achieving a single picture of procurement. While this is important, it doesn't address the quality and social value issues raised in this paper.

Amending the regulations and guidance, on its own, will not deliver the change we need in defence procurement. However, it can send an important signal that culture change is necessary. The UK Government's policy of ending 'global competition by default' is welcome. However, 'a more flexible and nuanced approach' needs more than vague wording. It requires a commitment to see it through by changing the legislation and guidance to achieve the UK by default approach.

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94 Transforming Public Procurement – our transparency ambition (June 2022), <https://www.gov.uk/government/publications/transforming-public-procurement-our-transparency-ambition>

# 8. Conclusion

As Ron Smith's book sub-titled 'How (not) to buy weapons' concludes, 'Buying major weapons systems is inherently difficult because of uncertainties about the evolution of the threat and of the technology... Given all these difficulties, one might think that the military are lucky to have any working weapons at all.'<sup>95</sup>

We have not ducked the serious failures in defence procurement highlighted in reports and parliamentary inquiries over many years. We have also suggested reforms that could significantly improve procurement practice. However, despite these challenges, the UK defence industry has not only delivered working weapons to the armed forces but has also made a major contribution to the UK economy and its regions and nations.

The switch from 'global competition by default' is essential to these reforms. However, implementing this change requires more than fine words in yet another government plan. It requires amendments to the legislation and guidance that should drive the essential culture change.

Without a thriving defence industry, the UK puts at risk its freedom to act in defence of the country's interests at home and abroad. And the armed forces risk losing their technological advantage over actual and potential enemies. Achieving these aims requires a commitment to sustain and strengthen national defence design, manufacturing and support capabilities in a partnership between the MoD and industry. The UK by default.

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95 R.Smith, *Defence Acquisition and Procurement*, (Cambridge, 2022), p.68.

# Appendix

## Where the money is spent

### England

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**£17.2bn** total spend with industry.

**108,000** direct jobs supported with industry.

**BAE Systems** in the North West plays a central role in delivering combat air and submarine systems.

**Leonardo** produce helicopters in Yeovil and **Rolls-Royce** produce power propulsion systems in Derby.

### Wales

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**£909m** total spend with industry.

**5,700** direct jobs supported with industry.

**DECA** recently awarded a £500m contract to support F-35 global fleet.

**General Dynamics** builds Ajax armoured vehicles in Merthyr Tydfil supporting hundreds of jobs.

### Scotland

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**£2.1bn** total spend with industry.

**12,400** direct jobs supported with industry.

**Babcock Rosyth** will be the principal assembly site for Type 31.

**BAE Systems'** Glasgow yards are building Type 26.

Ongoing investment in **Lossiemouth** to accommodate new aircraft, including P-B.

### Northern Ireland

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**£83m** total spend with industry.

**500** direct jobs supported with industry.

**Spirit AeroSystems** developing prototype for the UK's first fleet of uncrewed fighter aircraft.

**Thales Belfast** maintaining Short-Range Air Defence.



# Defence outcomes of the Integrated Review and 'Defence in a Competitive Age'

## Commitments and announcements

An additional £3bn in new Army equipment in: new vehicles (including Ajax, Boxcer and £1.3bn on Challenger III); modernised long range precision fires (including £250m on a guided multiple launched rocket system, £800m on a Mobile Fires Platform and Apache); new air defences; tactical surveillance drones; and £200m in new electronic warfare and cyberspace capabilities.

Type 26 Frigates (previously announced)

Type 31 Frigates (previously announced)

Type 32 Frigates (previously announced)

3 Fleet Solid Support Ships (previously announced)

£1.5bn investment in creating a 'Digital Backbone'

£40m more developing the Future Commando Force as part of the transformation of UK amphibious forces, as well as more than £50m in converting Bay class support ship to deliver a more agile and lethal littoral strike capability.

An automated Mine Hunting Capability [jointly with France] (previously announced) and investment in new capabilities to protect underwater CNI.

Multi Role Ocean Surveillance Ship

Multi Role Support Ships

Upgrade to the air defence systems on Type 45

Interim surface-to-surface weapon [replacement of Harpoon] (previously announced)

National Cyber Force

£500m in capabilities that will enable a response in the electromagnetic environment

Type 83 Destroyers (Concept and Assessment)

£1.4bn on establishing a new Space Command and enhance the breadth of UK space capabilities (including delivering a UK-built Intelligence, Surveillance and Reconnaissance satellite constellation, the establishment of a Space Academy and the National Space Operations Centre to increase Space Domain Awareness)

£120m on creating the Ranger Regiment which will become part of the new Army Special Operations Brigade

Creation of a Security Force Assistance Brigade

Consolidation of the fleet of medium helicopters (including the AH-64 Apache upgrade and the replacement of the retired Puma helicopters)

Retention and upgrade of Watchkeeper

Typhoon upgrade [radar and SPEAR Cap 3 deep strike capabilities] (previously announced)

Consolidation of the fleet of medium helicopters (including the AH-64 Apache upgrade and the replacement of the retired Puma helicopters)

Retention and upgrade of Watchkeeper

Typhoon upgrade [radar and SPEAR Cap 3 deep strike capabilities] (previously announced)
Increase of the fleet of F-35 beyond the 48 ordered, invest in updating software and capabilities and integrating UK weapons
16 long-range Protector RPAS (previously announced)
£2bn on Future Combat Air Systems
An increase of the nuclear stockpile to being no more than 260 warheads and replacement of the existing nuclear warhead
£1.5bn improving Single Living Accommodation
£1.4bn providing wraparound childcare
£4.3bn on Defence Estate Optimisation
£6.6bn on R&D and investment in the Defence and Security Accelerator to improve the pull through of R&D into equipment
£60m to increase the Defence Attaché network and British Defence Staffs by a third
Investment in facilities, infrastructure and deployments across the UK's global network, including in Cyprus, Gibraltar, Kenya, Oman, BIOT and Germany
A 'tilt' to the Indo-Pacific
Establishment of the Secretary of State's Office for Net Assessment and Challenge (SONAC)

## Withdrawn from service/retired

79 Challenger 2 tanks
767 Warrior infantry fighting vehicles
9,500 Army personnel (a reduction from the 82,000 commitment in SDSR 2015 to 72,500 by 2025)
2 Type 23 Frigates
13 Mine Counter Measure Vehicles
24 Typhoons (Tranche 1)
14 C130J Hercules
76 Hawk (Tranche 1)
4 Bae146 planes
5 E3-D Sentry aircraft and a reduction from 5 to 3 in the (not yet in service) replacement fleet of E-7 Wedgetail
9 Chinook helicopters
24 Puma helicopters

Source: Compiled by Defence Committee staff

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# The author

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He worked on the Procurement Reform (Scotland) Act 2014 and the subsequent regulations, including key sections on the Scottish Living Wage and the implementation of EU Directives. He also worked on a range of SSIs on procurement covering issues such as staff transfers, PPP (s52 provisions), social care, tax avoidance, living wage, fair work and workforce protections. He has been invited to make presentations at procurement conferences and has written bargaining guides on this issue. He previously delivered a research report for Prospect on the procurement of air traffic control in the Highlands and Islands.

A graduate in Scots Law from the University of Strathclyde. He has written many publications and has been a government advisor on public service reform, health and energy policy. He is also a published military historian and a Fellow of the Royal Society of Arts.

Born in Liverpool, he spent his teenage years in London, before working for UNISON in Wales, Dorset and 29 years in Scotland, apart from government secondments. He retired as UNISON Scotland's Head of Policy and Public Affairs in 2018. He lives in Ayrshire.





‘Prospect feels that a more fundamental review of procurement regulations is required. Government should still strive to achieve value for money, but this needs to be balanced by a stronger commitment to a wider industrial strategic goal of developing UK industry. That is the purpose of this report.’

**Sue Ferns**, Prospect Senior  
Deputy General Secretary

# Design, build and maintain: Effective defence procurement

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