

The environment in which UK defence sector operates is going through what Paul Everitt, Chief Executive of ADS, in an exclusive interview with Nick Watts of Great North News Services called "an important and challenging time". With defence spending constrained in the UK, Europe and elsewhere, it became widely recognised by industry and Government, that reform is required to ensure that industry continues to deliver the right equipment and services at a price the taxpayer can afford.

As a result, the Government is currently undertaking a thorough review through the Defence Reform Bill, which is currently moving through the legislative process.

The Bill focuses on three key areas:

- **Defence procurement:** the Bill allows the government to transform the way in which it acquires defence equipment and support by permitting the Secretary of State for Defence to transfer the functions of the Defence Equipment and Support (DE&S) organisation to a government-owned, contractor-operated (GOCO) organisation, should that be the chosen outcome.
- **Single-source contracts:** the Bill creates a legal framework to regulate the pricing of single-source contracts, replacing the voluntary 'yellow book' arrangements that have been in place since 1968. It also creates a new non-departmental public body called the Single Source Regulations Office (SSRO) to enforce the regulatory framework.
- **Reserve Forces:** the Bill extends the powers in the Reserve Forces Act 1996 so that members of the reserves can be called out for any purpose for which regular forces may be used.

The UK defence sector recognises that reform of defence acquisition is required and is supportive of the principles behind the proposed reforms. Overall, the priority for industry is in ensuring that the armed forces have the equipment and support they need, the taxpayer receives value for money, and suppliers receive a fair return to allow investment for the future.

Yet these changes will fundamentally alter the way in which companies throughout the UK defence supply chain do business with the MoD. On single source contract reform, ADS is supportive of the government's aims of delivering better value for money and introducing a greater degree of industrial efficiency into a type of procurement that inherently lacks the incentives provided through competition. Yet the proposed regime may risk undermining the

government's stated objectives. ADS will, therefore, maintain close dialogue with the MoD to understand how it intends to implement in practice the proposed new system. "Our message to Ministers is that this is a major chunk of reform. We need to work carefully together to ensure that there are no unintended consequences."

Throughout the process, ADS will continue to highlight some key issues including:

- The independence and impartiality of the SSRO
- The universal application of the regulations and proposals around possible exceptions
- Predictability over contract price
- Impact on SMEs and subcontractors

ADS has been actively engaged in the parliamentary process since the Bill was introduced to Parliament in July, holding briefings for members of the Commons defence committee and members of the three main political parties. Written evidence was submitted to the public bill committee scrutinising the Bill, while ADS chief executive Paul Everitt provided oral evidence in September.

In the meantime, industry is working hard to understand where opportunities to grow might exist. The UK defence sector is world leading and the Defence Growth Partnership (DGP) – a joint industry and Government partnership – was set up to develop a long term strategy for the growth of the sector. Launching its strategic vision at DSEI, the group is now working on an implementation plan for each of the priority areas identified in its vision. Ultimately, the DGP will support industry in adapting to a changing environment, helping them make the most of new and existing opportunities, and maximising key expertise and capabilities.

"We need to be sure what the key strengths of the UK sector are – both in the large primes and our extensive SME supply chain, and how both the UK customer and how the wider customer base are looking to develop." Future operations will be more complex. A key requirement is likely to be creating security in difficult environments. The future is not, however, a straight choice between 'Defence v Security'.

"Contractors are looking at the opportunities that the security sector offers." At the top level this represents high tech services such as analytics. Many overseas customers are looking to regulate their security environment by developing capacity. This is not solely civilian because of the nature of the environment. "This is on the edge of what has traditionally been defence and security." Rather than seeing a switch from one sector to the other there is a migration of military equipment into a non-military environment. A good example of this is sensor technologies.

"There is a big export opportunity to support this; we're expecting the launch of the Security Growth Partnership shortly which will follow the same successful model of the other growth partnerships. This is led by the Home Office and is part of protecting the UK by projecting expertise into countries which pose risks to UK security."

Addressing the question of exports, Everitt is pleased by the way the sector has received top level support from the UK government. "It's a tough global market; everybody is looking to sell more around the world. Industry and government are looking very carefully at how we can improve our competitiveness in those markets. We've got to focus on what we're good at. The Defence Growth Partnership's strategic vision identified a number of areas which are key strengths and offer a good opportunity for sector growth:

- air capabilities - which have yielded 82% of UK defence export success over the last 10 years, and which have significant potential for growth
- intelligent systems – development of the electronics, software and systems integration that are at the heart of many military capabilities
- growing international business – developing more co-ordinated UK solutions, tailored to the needs of customers around the world
- technology and enterprise – establishing more effective ways of creating and exploiting the intellectual property of the future, such as autonomous systems
- skills – developing the next generation of apprentices, technicians, engineers and other professionals
- value chain competitiveness – improving the competitiveness of the UK's defence value chain, providing differentiation in terms of capability, cost and market access

During his time as Defence Secretary, Liam Fox MP called for industry and MOD to address the 'exportability' factor when designing equipment for the UK market. Everitt believes that it is still too early to tell how this is feeding through in major programmes, but recognises that exportability needs to be considered. The recent announcement of orders for Offshore Patrol Vessels for the Royal Navy could have significant export opportunities attached to them.

"Big platforms serve as catalysts for technology insertion. Front line commands will be now looking for relatively quick responses to problems as they arise." Companies in the supply chain will need to be more agile and expert. "This will mean different business models. Companies will have to invest in their own R&D. Industry is encouraging DSTL to be more focussed on where it invests, sending clear signals to industry of where it thinks future opportunities lie. Businesses can then make a judgement on whether they want to invest."