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An Uphill Struggle: Current Issues in UK Defence Acquisition

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Introduction

Both the Strategic Defence and Security Review (SDSR) 2010[1] and Lord Levene's 'Defence Reform' report of 2011[2] have again drawn attention to the variable performance of the Ministry of Defence (MoD) in acquisition matters[3] and highlighted a number of underlying reasons along with a series of recommendations on how it could address them. Such a situation, where the MoD has to conduct a major transformation while managing a vast portfolio of activity, has been made all the more critical by the impact of the financial crisis and economic recession. To help reduce the UK's budgetary deficit, defence is expected to deliver savings estimated at £4.3bn by 2014-15.[4] This article looks at the current issues that are facing the UK MoD during this time of transition in respect of defence acquisition.

A 'Growing' Inventory Problem

The first (on-going) issue was highlighted by the National Audit Office (NAO) in its June 2012 report on the Defence Inventory.[5] It observed that the MoD's inventory holdings are increasing, the result of an increase in operational activity over the past decade, the acquisition of new equipment, a failure to dispose of unwanted inventory, the purchase of more inventory than it uses and also acquiring a greater visibility of its stock levels. The Head of the NAO observed that in "the current economic climate where the Department is striving to make savings, it can ill-afford to use resources to buy and hold unnecessary levels of stock, and it clearly does so. The root cause of excess stock, which the Department is seeking to address, is that management and accountability structures currently fail to provide the incentives for cost-effective inventory management".[6] The Gross Book Value (GBV) of the Defence inventory[7] at the time of the Report's publication was £40.3 billion, increasing at approximately £200 million per month.

In recent years the MoD has instigated a number of initiatives to improve its inventory position, and it has recently commissioned the development of a Strategic Inventory Management Plan which is expected to be published in the near future. It has also vested 'ownership' of the Defence inventory in the appointment of Director General Resources in Defence Equipment & Support (DE&S) and he has issued direction to the Operating Centres aimed at improving the scrutiny of equipment support solutions, including their provision for inventory management. A number of other studies and research projects are underway; some of them focusing on what has been an enduring problem for the MoD: the disjointed nature of its logistics information systems and the quality and availability of its spares demand and consumption data. As the NAO observed, the '...Department's use of information to manage its supply chain falls short of general logistics industry best practice'.[8]

Future Force 2020, the Whole Force Concept and the Total Support Force

These issues are all linked. The SDSR outlined the model towards which the UK Armed Forces will evolve in the next eight years, entitled 'Future Force 2020'. Underpinning this is a new set of Defence Planning Assumptions (DPAs) that still includes an ability to conduct a range of different operations.[9] However, while being couched in terms of making the UK Armed Forces more 'relevant' and 'effective' for the 21st Century, if viewed alongside the reform of both the MoD and DE&S, it involves a major reduction in defence capability for the UK in order for the MoD to balance its books with the British Army shrinking from 102,600 to 82,000[10] personnel (the smallest it's been since the Boer War[11]), the Royal Navy shrinking by over 5,000 personnel to 30,000 and the Royal Air Force shrinking by over 7,000 to 33,000.[12]

The Whole Force Concept (WFC) was one of a range of ideas and initiatives to emerge from the SDSR of 2010[13] and was formalized in Key Recommendation 11 of the Defence Reform Review which stated that the MoD ". . . should develop the 'Whole Force Concept,' which seeks to ensure that Defence is supported by the most cost-effective balance of regular military personnel, reservists, MOD civilians and contractors."[14] It was emphasized by the Independent Commission to Review the UK's Reserve Forces[15] that the WFC should not be thought of as representing a rigidly definable structure and the Commission stressed its dynamic nature.

In addition to a review of reserve forces, a number of other enabling studies and initiatives underpin the WFC. Amongst them was how a new employment model could be structured, based on '...flexible structures, segmented careers, categories of readiness, and the mix of Regulars and Reserves with graduated commitment, set within a tri-Service structure, with options for full and part time working'.[16] Other reviews have focused on strategic force development and on force generation. However, in order to turn the concepts of both the WFC and Total Support Force (TSF – an important part of the WFC) into concrete reality will require that the mix of Armed Forces Regulars and Reservists, MoD civil servants, and contractors, is optimized. To achieve this optimization will demand the balancing of affordability and operational risk.

The Commission recognized the critical contribution of the reserves to the WFC but also the need for their quality and availability to be guaranteed. This would, they said, require an improvement in the proposition (prospects, responsibilities and rewards of service) to the reservists, a change in legislation to enable more routine mobilization, better employer support and employment protection, and better methods to achieve the integration of Regulars and Reservists. Work done by the Commission suggested that the UK could also learn much from the experience of its ABCA[17] partners who employ a whole force approach.

The MoD's vision for the TSF is of an end-to-end support force '...capable of deploying and operating with fully integrated support capabilities derived from a pre-planned mix of military and civilian individuals and organisations'.[18] It requires that Reservists and contractors be integrated into Regular force structures against readiness assumptions and force generation requirements. It envisages '...the greater planned use of contractors on operations, in functions that are commensurate with the category of threat level in order to accommodate force protection and duty of care responsibilities, normally with an increasingly higher proportion of contractors on successive roulements for enduring operations'.[19]

The UK MoD has outsourced much of its support capability, with many of its major platforms and equipment assets having long-term contracts for availability (CfA); and securing the provision of commodities and services through a range of other contracting arrangements. One indication of this is the number of contractors deployed in support of UK operations, with around 6,000 currently in Afghanistan. This represents a ratio of two contractors for every three uniformed military personnel.[20] However, the provision of this support has not been as coherent as the MoD would wish, a problem which the TSF is intended to address by bringing greater coherence to the integration of Regulars, Reservists and industry personnel, forming a single support force along the end-to-end Joint Support Chain. The scale and scope of industry commitment to operations will be shaped by their attitude to risk and what they deem to be an acceptable balance of risk and reward. To make such an informed assessment will require the sharing of information, including that associated with the risks inherent in deployed operations. This will require a change of mindset, based on the principle of 'need to share' rather than 'need to know', and it will also demand greater integration of MoD and industry IT systems.

MoD Reform

While it is encouraging that the MoD has recognised the need for change and has put in place a set of governance structures in order to enable that to happen, to work effectively these arrangements need:[21]

- A unified vision of the Department's structure, efficiently and effectively delivering defence capability, and how to get there;
- The determination of necessary cultural change,, such change to be properly led and sustained along with revised processes and procedures;
- United, consistent and strong leadership throughout the entire process;
- The Permanent Under Secretary (PUS) to have the appropriate responsibility and authority to undertake this transformation.

In line with this, a transformation package consisting of a portfolio of thirty-seven programmes with an additional ten deliverables was put together, which are split into three tiers of descending importance. This activity is led by the Defence Operating Board (Transformation), supported by the Defence Transformation Unit (DTU). This meets once a week and is co-chaired by the Second PUS and Vice Chief of the Defence Staff, with the Director General Finance being the other permanent member, and both the Director General Transformation and Director Corporate Strategy attending regularly.[22]

However, all this has meant an emphasis on short-term cost reduction. The Defence budget has a relatively high-level of fixed costs in the short-term, and a significant proportion, in both operational expenditure terms and acquisition terms, is committed years in advance. Given that personnel costs comprise over one third of the budget, a large proportion of the savings the MoD needs to make will come from reducing personnel numbers, and the numbers outlined in the SDSR were subsequently revised upwards in the spring of 2011 to 29,000 civilians and 25,000 military.[23]

Given that the MoD is still developing the details associated with Lord Levene's new operating model[24], the reductions in personnel numbers will be well advanced before the final details have been worked out. This means that these reductions will have been put into effect while there is still a significant lack of clarity as to exactly what the MoD's requirements will be with regard to its future workforce, in terms of both numbers and makeup. In being pressured to reduce costs in the short-term, and looking to do so via reducing personnel, the MoD faces a serious impact on morale as well as critical skill shortages in the future with consequent effects on its consultancy expenditure.[25]

DE&S Reform

Reform of DE&S was a key part of Lord Levene's report into reforming the MoD[26], the Defence Materiel Strategy (DMS)[27] and Bernard Gray's report of 2009.[28] While some progress has been made, there is still much to do. Over the last fifteen years, numerous initiatives have attempted to reform defence acquisition but with variable success as there is still (on average) a forty percent increase in the projected cost of new equipment and an eighty percent increase in the time taken to field it. Analysis identified three underlying causes:[29]

- The overheated programme;
- A weak interface between DE&S and the wider MoD resulting in poor discipline and change control;
- Insufficient levels of business capability in DE&S for the size and complexity of the programmes it is asked to deliver.

In order to address these problems, the DMS has considered various organisation design options to move away from the current structures that have hindered past attempts at improving defence acquisition, with three options being presented to Ministers:[30]

- A Trading Fund (TF);
- An Executive, Non-Departmental Public Body with a Strategic Partner (ENDPB/SP);
- A Government Owned – Contractor Operated (GOCO) entity.

While the MoD has been moving towards favouring the GOCO option[31], a number of questions remain unanswered, which include:[32]

- What would be the impact on timelines, the decision making process and autonomy?
- Would bureaucracy increase or decrease?
- What impact would it have on the opportunities for smaller businesses?
- How would a lead company to run DE&S be chosen?
- How long would the contract be for?
- What financial risks would a DE&S lead company be asked to take on board?
- How would a GOCO be held accountable by Parliament?

Unfortunately, the failure by G4S to deploy the security personnel it was contracted to provide for the Olympic Games, and the need for the MoD to cover the shortfall, has raised doubts about the appropriateness of the GOCO option. G4S's failure has meant that the Secretary of State for Defence is "rethinking his attitude to private sector acquisition" and learning about "when it was appropriate to adopt either model".[33]

Conclusion

For most organisations, any one of these issues would be a major challenge, involving a significant amount of time and effort to properly and effectively deal with it in such a way as to leave the organisation in good shape to face the future. Such a challenge would be complicated by having to do it during a time of austerity, with pressure to make savings in its budget, itself a major driver of the restructuring process. The MoD has to restructure itself, its central acquisition body, and the armed forces themselves as well as deal with a significant problem with regard to an on-going accumulation of inventory. All this, involving a major reduction in both civilian and military personnel numbers, needs an effective and workable change management strategy, as well as a change in the culture of the organisation and staff behaviours – only time will tell if they succeed.

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[2] Lord Levene. (2011) *Defence Reform: An Independent Report into the Structure and Management of the Ministry of Defence*, June 2011, located at http://www.mod.uk/NR/rdonlyres/B4BA14C0-0F2E-4B92-BCC7-8ABFCFE7E000/0/defence_reform_report_struct_mgt_mod_27june2011.pdf as of 1 October 2012.
[3] As a point of clarification, in defence terms the UK no longer looks at procurement separately (to say, logistics), but instead looks at the entire process from one end (determining requirements) to the other (disposal) and calls the process *acquisition*.
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[6] Amyas Morse (Head of the National Audit Office), 28 June 2012. Quoted here: http://www.nao.org.uk/publications/1213/managing_the_defence_inventory.aspx as of 25 October 2012.
[7] GBV is the gross value without adjustment for depreciation.
[8] National Audit Office. (2011) *Ministry of Defence: The Use of Information to Manage the Logistics Supply Chain*, HC 827, 31 March 2011,available here: http://www.nao.org.uk/publications/1011/logistics_supply_chain.aspx as of 25 October 2012.
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[18] ACDS (Log Ops). (2011) *Total Support Force - What it means for Defence and Industry*, Presentation to RUSI, 21 March 2011.
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[22] *Ibid*. p. 8.
[23] National Audit Office. (2012) *Ministry of Defence: Managing Change in the Defence Workforce*, HC1791, February 2012, at http://www.nao.org.uk/publications/1012/defence_workforce.aspx as of 9 October 2012, p. 5.
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