



As part of the MoDernising Defence Programme (MDP), UK Defence Secretary Gavin Williamson asked Philip Dunne, minister for defence equipment and support from 2012 until 2016, to conduct an independent investigation into the contribution that 'Defence' (the UK armed forces, Ministry of Defence (MoD) and industry) makes to the UK economy. The report notes that Defence's direct contribution to the UK's GDP includes over GBP7 billion (USD9.25 billion) in exports generated on average each year in addition to the MoD budget of GBP37 billion. The U K Defence Forum's Nick Watts wrote of the subject for Jane's Defence Weekly - this is an edited version.

"Defence directly or indirectly employs an estimated 500,000 people, or 1 in every 65 of the working population," Dunne told Jane's. This includes 25,500 apprentices, making Defence the largest provider. However, he notes that the Office of National Statistics (ONS) does not record the direct contribution of defence to the UK economy: something he would like to see change.

Dunne's report focuses on three areas: what the MoD can do to embed prosperity as an explicit objective into its decisions; increasing agility in procurement; and the relationship between the defence industry and the rest of the economy.

The 2015 National Security Strategy and Strategic Defence and Security Review (SDSR) ascribed as a National Security Objective the 'promotion of prosperity'. Dunne believes the MoD "could do better" in this regard, conceding that the ministry "has had other things on its agenda, so progress has not been as good as it could be". He noted, however, that there "are some early signs of new thinking, which are helpful".

Regarding agility in procurement, Dunne explained that this "has lots of elements â€" design, testing, and other matters â€" that won't change in a hurry". Nevertheless, he pointed to the example of the Royal Navy's future Type 31e general-purpose frigate as a project that has made good progress. "It'll take 12 months from the requirement for the ship [being published] to [the] tender [being issued], he said, noting that the ship has a modular design and is not a complex vessel, but is still a huge advance in terms of agile procurement, with a conscious effort being made by the MoD to speed up the procurement process.

True innovation in procurement, Dunne conceded, is something the MoD has not yet fully harnessed. "The Innovation Fund is GBP800 million over 10 years," said Dunne, referring to the MoD's Defence Innovation Initiative, launched in September 2016. "It is back-end loaded, so it won't contribute much capability initially. We need to see the fruits being invested. MoD needs to consider whether the funding profile is appropriate."

Dunne recognises that the MoD has been looking carefully at how it organises innovation and has, in fact, appointed an Innovation Champion: Kris Murrin. "Within each command there is an effort to incorporate agility and innovation," he said. "The Rapid Capabilities Office in the Royal Air Force [RAF] was responsible for the Carbonite satellite launched in January," he added, referring to the Carbonite-2 imaging satellite demonstrator, which was facilitated as a project after the MoD invested GBP4.5 million with Surrey Satellite Technology in mid-2017. This innovation process is similar to the urgent operational requirement (UOR) capability established to support the UK armed forces at the height of their operations in Iraq and Afghanistan. Frontline commands now have responsibility for their own service budgets under the delegated model, so there is an incentive to create savings.

Dunne thinks that the MoD and UK defence industry needs to be more fleet of foot in their approach to research and development (R&D). "Threats evolve rapidly; [the UK] needs to adapt technologies from other industries," he argued, pointing out that this is most applicable in the cyber and space domains. "[The] MoD must work closely with industry to identify threats and the opportunities to defeat them, taking advantage of disruptive technologies," said Dunne. "This is happening in pockets, but needs to be more widely used."

In its Industrial Strategy, published in November 2017, the UK government established a target to raise total UK R&D investment to 2.4% of GDP by 2027. Dunne believes the MoD should therefore consider whether the current 1.2% of the defence budget being spent on science and technology is adequate.

An important consideration in agile procurement is the question of value for money. In this regard "MoD business cases should look at the whole life cost, not just the up-front capital costs," said Dunne. Citing the procurement of the British Army's Ajax tracked reconnaissance AFVs, with which he is familiar from his time at the MoD, he noted that for this programme "there ... was a capital contract and a support contract. This approach gives more opportunity to express the UK content". Similarly, while the RAF's procurement of Boeing P-8 Poseidon maritime patrol aircraft constitutes the purchase of a US platform, the routine maintenance and support contract represents an investment by Boeing at RAF Lossiemouth.

Meanwhile, Dunne thinks the UK should take advantage of the opportunity afforded by Brexit to re-visit the EU procurement rules. "It'll enable the MoD to consider the impact on the UK economy as part of the procurement rules, notably indigenous content," he said. This should be consistent with the requirement to allow the UK freedom of action and operational advantage. His report calls for MoD procurement proposals to include a weighting of the impact on the UK economy, as well as on exportability and relations with allies, as part of their initial business case approval process.

Regarding the UK shortage in science, technology, engineering and mathematics (STEM) skills, Dunne said this presents both a challenge and an opportunity. "The military and industry must offer more flexible career structures to enable the armed forces to be attractive, with secondments from industry," he said, arguing that skill shortages must be identified. "The nuclear enterprise is a good example of how to manage this, through cross-fertilisation between industry, military and civil service," Dunne noted, commending this as a good model.

Defence exports are an increasingly important factor for the UK defence industry, with the 2015 SDSR identifying exportability as an important element. In this Dunne noted that the MoD can play a vital part. "The MoD role is important as a customer," he said. "It can encourage allies to look at the same capability."

The recent success with Australia, which last month selected nine UK-designed Type 26 frigates, shows that "the Team UK approach worked very well", Dunne concluded. "DSO [the UK Department for International Trade Defence and Security Organisation] and MoD worked together with industry – and that proved to be the critical differentiator."