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**“Achieving Value for Money:
Is Partnering the Solution?”**

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Achieving value for money: is partnering the solution?
A defence enterprise approach

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‘Value for money’

- Good value for money is the optimal use of resources to achieve the intended outcomes. ‘Optimal’ means ‘the most desirable possible given expressed or implied limitations or constraints’
 - Conference Programme
- Value for money gains are defined as improvements in the combination of whole life costs and quality that meet the user’s requirements.
 - OGC, Value for Money Measurement
- ‘Motherhood and apple pie’
 - used to represent what most Americans think is very good and important
 - (Cambridge Advanced Learners’ Dictionary)

Value for money in defence

- Complicated to complex
 - Dimensions of value
 - Costs
 - Acquisition and in-service support
 - in-service support: how much and for how long?
 - uncertainty in estimates
 - weighting of acquisition versus in-service
 - Gross cost to MoD or net cost to Government?

Value for money in defence

- Complicated-complex
 - Dimensions of value
 - Costs
 - Performance
 - Has multiple dimensions, including reliability
 - weighting of the elements?

Value for money in defence

- Complicated-complex
 - Dimensions of value
 - Costs
 - Performance
 - Economic consequences
 - Employment, technology and management learning, balance of trade

Value for money in defence

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Value for money in defence

- Complicated-complex
 - Dimensions of value
 - Costs
 - Performance
 - Economic consequences
 - Political consequences: at home and overseas
 - Place of risk among competing offers
 - including foreign exchange risk

Value for money in defence

- Dimensions of value
 - Multiple
- Subjective
 - The Chairman of the PAC?
 - The Army brigadier?
 - The Barrow shipyard worker?
 - The editor of the Daily Mail?
 - The editor of The Guardian?

Value for money in defence

- Subjective
- Dynamic
 - between 1988 and 1991?
 - between 2012 and 2017?



Conclusion

- Value for money
 - an elusive but politically useful phrase
 - it can mean whatever a speaker wants it to mean
- Blame or credit
- Stuck with it!



The focus here

- Things yet to be developed
- Few potential suppliers
 - high entry barriers to sector
- Significant risk
- Significant ££££

Competitive tendering for major defence projects

- The implication of the preceding
 - The assessment schemes in many competitive tendering exercises have significant flaws
 - Competitive tendering in a context of significant risk encourages excessive optimism
 - bids as 'lie sheets'?

Partnering

- Not partnership
 - shared legal liability
- MoD staff and their suppliers see themselves
 - as in a cooperative not confrontational activity
 - to achieve a common goal
 - while having compatible interests

The challenge of the major development project

- A knowledge-based perspective
- Iansiti and the knowledge required for a successful innovation

Enabling
source
technologies

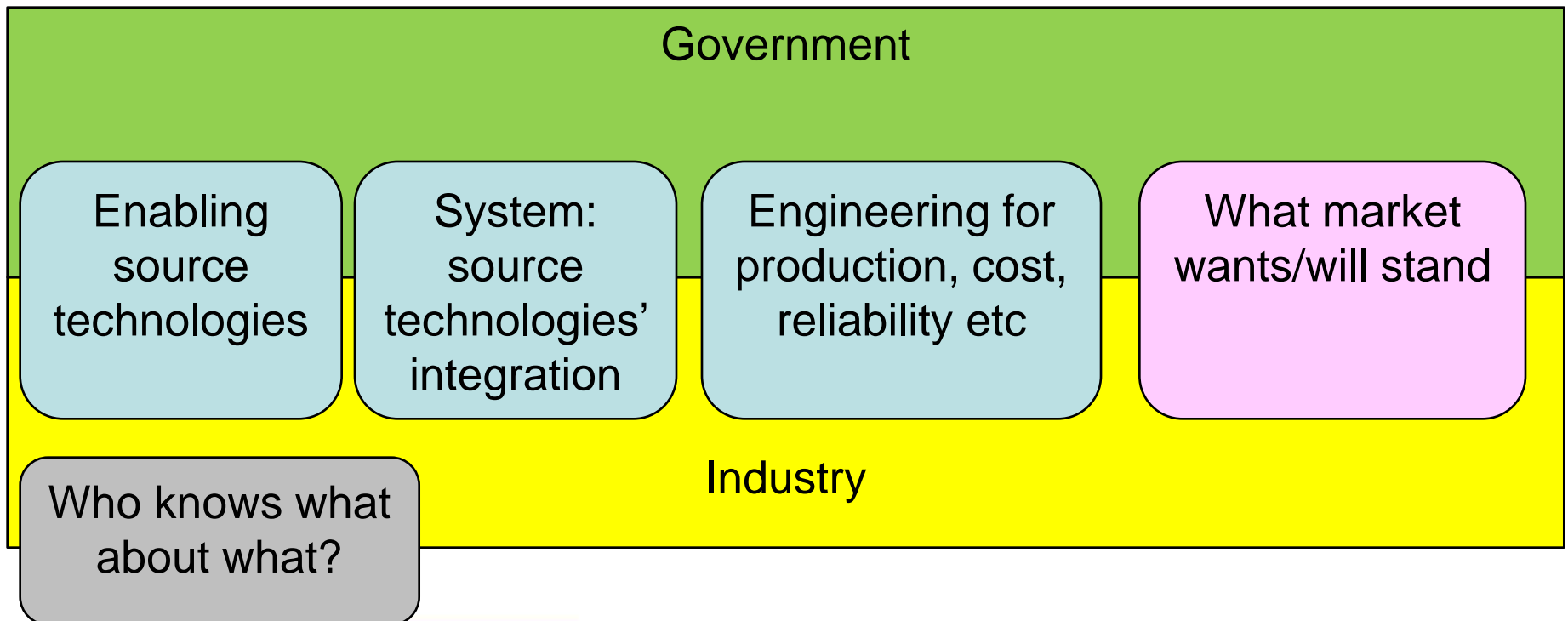
System:
source
technologies'
integration

Engineering for
production, cost,
reliability etc

What market
wants/will stand

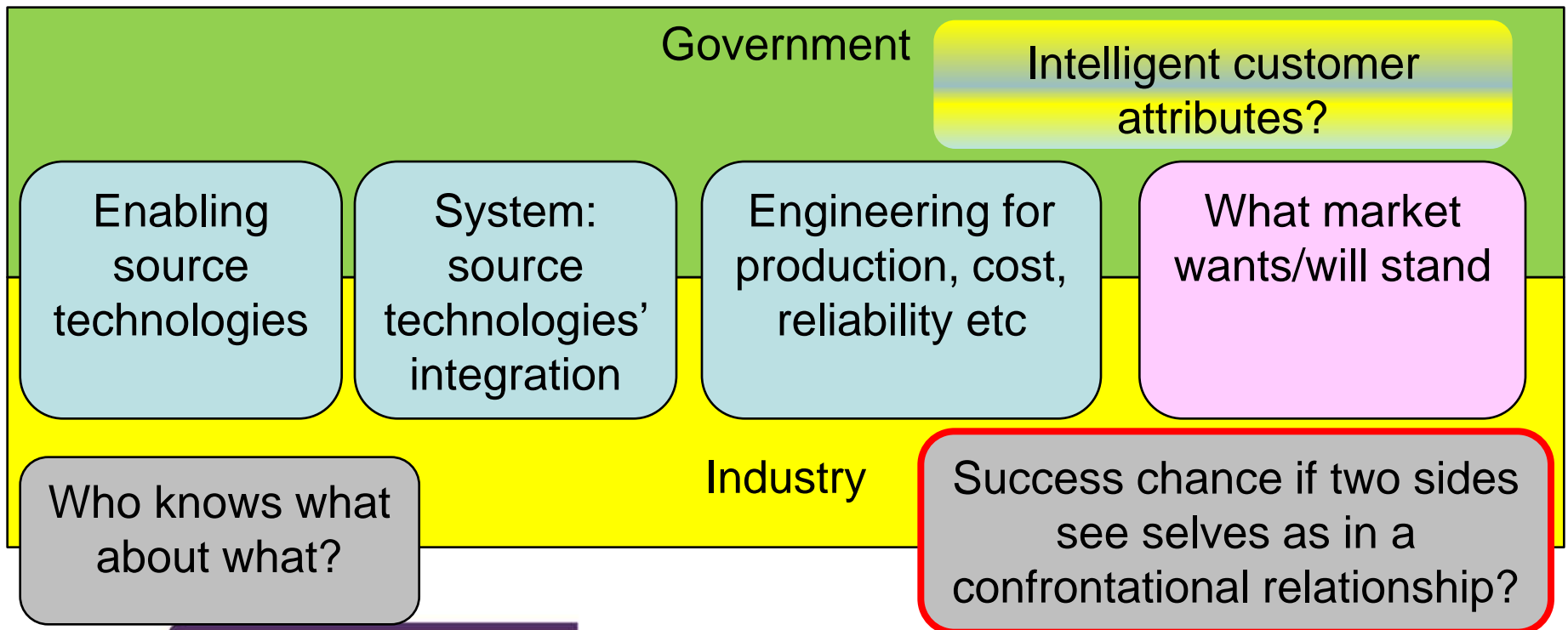
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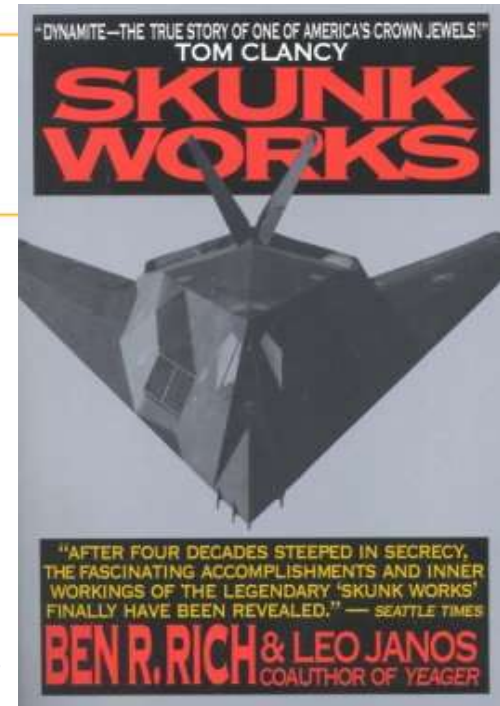


The Way Forward

- Expanding the importance of competition among projects
 - beyond the selection of a contractor
- Exploring a project with the promising firm or firms
- Approval and commitment to the project
 - Classified but explicit sense of the financial value of the project to defence and a maximum delivery date
 - What is the project worth as well as what should it cost
 - Defence should be more 'businesslike'
- Review and perhaps cancellation of projects that exceed their limits
 - A Nunn-McCurdy parallel to involve NAO and HCDC

How could this work?

- Team Complex Weapons
- Sweden and the Erieye and Australia and the Wedgetail
- Singapore & Israel
- Optimising at least improving workforce and organisational motivations in private and public sector?
 - transactional factors
 - interest and excitement factors
 - patriotism: important work for UK inc
 - glory and recognition



Shared or
confrontational
endeavour

Competition versus partnering: different risk sets

Reconciliation with other elements

- In principle government funded IP should stay under the control of the government
 - available to UK companies, but its export from the UK should be strictly controlled
 - company IP must be closely controlled by the Government
 - but background and foreground IP?
 - government purchase of IP costly and to be addressed early (GAO)
- Recovery of Government D funding through exports:
 - US practice in FMS deals?
 - What the market will bear?

Reconciliation with other elements

- SSRO agenda
 - profit rate setting
 - Role of risk?
 - Sole source and fixed price contracts
 - Target cost and incentive fees
 - allowable costs
 - ‘Wasteful’ spending
 - Improper spending
 - relationship with the DE&S and NAO roles
 - concern about demonstrated recovery of its own costs
 - should have started with limited ambition and worked up

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- IP issues
- Development costs recovery issues
- Profit margin issues

Harder or facilitated
by transparency and
partnering?

Conclusion

- More MoD effort to understand the maximum worth of a project
- A greater readiness to cancel
 - MoD most vulnerable when 'locked in'
 - If really fears lock-in, the N option!
- Recognise that
 - the drivers of individual and thus organisational performance are not all transactional
 - fear is a limited motivator?