

Secretary of State for Defence
Ministry of Defence
Main Building, Whitehall,
London SW1A 2HB

Sir John Parker GBE FREng
16 Connaught Place
London W2 2ED

Dear Secretary of State,

Review of the Implementation of the National Shipbuilding Strategy

I have reviewed the progress made in implementing the National Shipbuilding Strategy (NSBS) since its publication in 2017. The Strategy was the Government's response to my 2016 independent report on naval shipbuilding, in which I made 34 recommendations. These recommendations were accepted by Government, and a summary of progress made against each of them is given in the Appendix to this letter.

Over the last several weeks, I have had discussions with officials from MOD and wider Government, as well as selected industry representatives (monitored by DE&S). They have all been commendably open and transparent in our discussions, and I thank them for that.

Overall, progress on implementing the National Shipbuilding Strategy is encouraging. Navy Command and Defence Equipment & Support (DE&S) have embraced the challenge of the Strategy with enthusiasm and are pushing forward cultural change¹, with strong leadership from the First Sea Lord and the CEO of DE&S. Collaborative working between Navy Command and DE&S has improved significantly.

The new recommended management and governance structure has been established through setting up both the Sponsor Group and the Client Board. The oversight of the three current procurement projects; the Type 31e, Type 26 and the Fleet Solid Support ships, is embraced within the governance system. The Client Board, chaired by the First Sea Lord with the CEO of DE&S alongside has proven to

¹ Recommendation 1

be effective². However, the Client Board still lacks the empowerment recommended in the Strategy.

Head Office needs to address (for each approved project released from the Sponsor Group to the Client Board):

- the issue of an assured capital budget, not subject to annularity
- realignment and simplification of the complex historic approval processes with the new governance model of Sponsor Group and Client Board (this project is now underway, initiated by Director General Finance)

Post-contract oversight of the Type 26 under the Strategy principles and an Independent Chair has been established³, and the impressive export success of the Type 26 in sales to Canada and Australia has proved that the UK can deliver export-winning designs and secure valuable opportunities for the large UK supply chain industry as well as the potential to build ships in the UK for selected markets.

Type 31e

The Type 31e has been taken forward as a priority, as I recommended⁴, as the pathfinder project for the National Shipbuilding Strategy. If it reaches contract by the end of this year, the Type 31e will have demonstrated the principles behind the Strategy and shown that grip on content, specification, design, and pace of timescale in contracting has been established. The introduction of competitive procurement between UK yards has resulted in initial intentions to bid from three consortia, who are committed to developing a modular, flexible design with the export characteristics the Strategy prescribed⁵. A very ambitious timescale to contract and a particularly stretched price target relative to international market were set initially, but Industry has responded with innovation.

[REDACTED]

It is particularly important that bids are accompanied by global competitiveness plans which will inevitably involve investment from industry, so this should be recognised in finalising contracting margins.

While there was some variation of opinion amongst the bidders on the richness of their engagement with DE&S, they all agreed that the process was fair and that the DE&S team offered plenty of opportunities for engagement and were highly motivated.

² Recommendations 1 and 2

³ Recommendation 11

⁴ Recommendation 14

⁵ Recommendations 15 and 16

I note that the timeline to contract has slipped since the initial announcement. This should not lead to unrealistic timescales for delivery being pushed onto yards. There should be equitable distribution of risk between contractor and customer [REDACTED], which I previously recommended. Collaborative rather than combative contracting will be essential for the Strategy to deliver a competitive yard output cost for both the home and export markets while stimulating the necessary yard investment.

I am pleased to see that exportability, the "e" of Type 31e, has been recognised and considered from the outset by both MOD and bidders, and that the Defence and Security Organisation of the Department for International Trade are closely involved⁶. [REDACTED]

[REDACTED] The consideration of exports from the outset has the potential to be transformational. The Royal Navy understand that exportability is crucial to enable them to have the ships they need and that the Royal Navy cachet will be a huge marketing plus for both yards and the supply chain.

Finance

In my 2016 report, I recommended that shipbuilding projects should be given an assured and ring-fenced budget when they are released from central MOD approvals⁷ via the Sponsor Group to the Client Board for management of time, design and specification. This was accepted in principle in the National Shipbuilding Strategy, and I strongly recommend that it is implemented. Assured budgets should ensure that there are no further delays to projects due to competing cash needs from other parts of MOD which have a long history of shunting projects to the right, sometimes by years, adding significantly to ultimate out-turn costs. These assured budgets should also not be subject to annularity once the capital is committed. Delays in contracting or slowing projects down are the drivers for additional costs both as capital cost and due to further cash consumption in supporting the aging fleet that should have been replaced. This approach would also lead to the proper empowerment of the Sponsor Group and Client Board with resultant cost savings on capital and refit budgets.

Governance and Head Office

The governance processes and boards set out in the Strategy have been implemented, but while the Client Board appears to have a clear role and to be working effectively, the cross-Government Sponsor Group does not appear to be as strong. It is currently primarily used to share information from MOD with other Departments, which is valuable, but the group could be used more effectively.

⁶ Recommendation 17

⁷ Recommendation 3

As the Investment Approvals Committee (IAC) holds the delegated financial authority from HM Treasury for major projects, it also holds the power, which the Sponsor Group does not. Until this changes, the Sponsor Group and the IAC should develop a more integrated approach to ensure that any approvals are efficiently secured through the cycle from Sponsor Group initial approval to Client Board to proceed with a project through to yard contract. The Sponsor Group should also develop its function as the centre of the cross-Government endeavour to implement the Strategy, encouraging all Departments to lean in on industry development, skills, exports and the maximising the economic benefits of shipbuilding and its supply chain.

I previously recommended that the complex approval processes throughout MOD should be reviewed and streamlined once the new Strategy governance had been set up⁸, and I understand that Project MAID, commissioned by the Director General Finance, is addressing this. At present, I note that the Head Office approval process is seen as burdensome and overly process driven. However, I was struck by the modernisation approach initiated by the Director General Finance and her willingness to create change and streamline processes.

There is a need to strengthen the Head Office input into the implementation of the Strategy. For full implementation, it is essential that Head Office ensure a strategic implementation plan is in place and adequately resourced. Full implementation has the capability to reduce cost to contracting, cash consumption by older ships via delivery of new ones on time, and the creation of a more efficient industry that can build its export capability, therefore it is a false economy to slow implementation by committing insufficient resource in the centre.

30-year Master Plan

The Client Board has made significant progress in developing the 30-year Master Plan, and undertaken initial engagement with industry⁹. The Master Plan is intended to give industry a level of visibility and security to encourage innovation and investment, and I recommend that the Master Plan is re-issued regularly to achieve this. However, without adequate funding to underpin the Master Plan, industry will lack confidence in it. It will be in danger of becoming less relevant and trusted rather than stimulating the industrial investments we should want to see

Industry

The Maritime Enterprise Working Group, including representatives from Government, industry and academia, has been established and is making good progress after a slow start¹⁰. The Group is working to better understand the skills

⁸ Recommendation 5

⁹ Recommendation 3

¹⁰ Recommendation 32

requirement and the competitiveness of the industry, and to challenge Naval Standards. The maritime sector has come together to set up Maritime Research and Innovation UK (MarRI-UK) to deliver coherence and leverage across UK Maritime research, development and innovation activity. This will fulfil the role of the virtual innovation centre¹¹ I recommended. Whilst this work is progressing, I would have liked to see more commitment of resources from both Government and industry, and more open communication from Government.

It is to be hoped that, once contracts of Type 31e have been placed, that industry confidence to respond will see capital to support their world class competitive plans being deployed.

UK vs. international competition

In my 2016 review, I recommended that "warships should be built in the UK for reasons of national security and the sustainment of National Sovereign capabilities"¹². The National Shipbuilding Strategy accepted this, but then defined warships as frigates, destroyers and aircraft carriers for this purpose. This is contrary to the policy in most developed economies, where all defence-funded vessels are built in home yards and utilising their national supply chain. While I understand some aspects of the logic behind the National Shipbuilding Strategy decision, I do not, as an industrialist, believe it to be the right strategic approach.

We need to recognise the importance of volume in the industry to avoid volatility and under-utilisation of overheads and direct labour in UK yards capable of building such vessels. Volume is an important efficiency driver. If we are intent on building an industry which is efficient and capable of generating competitive bids in the home and export market, the yards capable of competing need to be given the opportunity to be adequately loaded. It should be recognised that exploiting capability and competitiveness in many countries is driven off home market loading and utilisation of overheads etc.

There is significant parliamentary, industry and public interest in increasing the number of categories of ships eligible for UK only competition. While I do not wish to delay or damage the procurement of the Fleet Solid Support ships, I recommend that UK-only competition should be considered for future defence-funded vessels including amphibious vessels and mine countermeasure vessels.

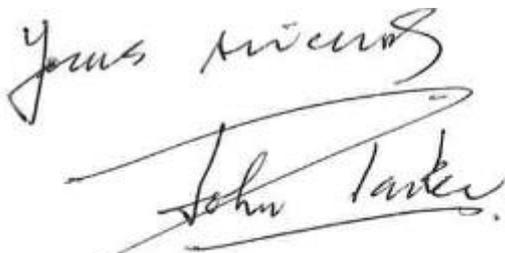
¹¹ Recommendation 23

¹² Recommendation 18

Recommendations

In summary, I recommend that:

- The Client Board should be fully empowered in line with the NSBS.
- The complex historic approval processes should be simplified and aligned with the new governance model (noting that work is underway on this).
- The Sponsor Group should clarify and strengthen its role as the hub of the national shipbuilding endeavour, including progressing work on socio-economic impact of shipbuilding, the supply chain, skills and prosperity.
- The focus on maximising exports and export potential should be maintained.
- Shipbuilding projects should be given an assured and ring-fenced budget when they are released from the approvals process to the Client Board.
- These assured capital budgets should not be subject to annularity once capital has been committed.
- Long-term funding to underpin the 30-year Master Plan should be considered.
- Both MOD and Industry should strengthen their commitment to the Maritime Enterprise Working Group, and MOD should be more open in its dealings with the Group.
- MOD should aim for collaborative contracting models with equitable risk sharing and provision for industry to invest in their global competitiveness plans
- Head Office should ensure a strategic implementation plan is in place and that it is adequately staffed and resourced to fully implement the NSBS.
- A wider range of ship classes should be procured via UK-only competition. This will drive volume into the industry, supporting efficiency and sustainability of a competitive bidding capability.
- Progress on implementation should be reviewed internally in 2021, by which time significant implementation progress should have been made on the National Shipbuilding Strategy, and on the procurement of Type 26, Type 31e and Fleet Solid Support ships.

A handwritten signature in black ink, appearing to read 'John Parker', written over a horizontal line.

Sir John Parker, GBE FREng
Independent Reviewer of the National Shipbuilding Strategy