



## In brief: Outsourcing defence procurement

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The Defence Reform Bill announced in the Queen's Speech in May 2013 will enable the Ministry of Defence to make radical changes to defence acquisition.

The proposed reforms are significant. The Government wants to change Defence Equipment and Support, the body responsible for procuring and supporting defence equipment, into a Government-owned, Contractor-operated entity, known as a GOCO. This would mean a private sector company would be responsible for managing the UK's entire defence procurement programme. No other country has done this. A White Paper setting out the Government's arguments, the options available and the reasons for pursuing the GOCO option will be published in spring 2013. A final decision on the future of Defence Equipment and Support is expected in 2014.

The defence equipment programme accounts for about 45% of the total defence budget and the Ministry of Defence has committed to a £160 billion ten year equipment and equipment support plan. The Defence Secretary has been sharply [critical](#) of what has been called the "black hole" in the defence budget inherited from the previous Government caused, in part, by an "overheated defence equipment plan."

[Defence Equipment and Support](#) (DE&S) is responsible for buying and maintaining equipment for the UK's armed forces. It employs approximately 16,000 people and is based in Abbey Wood, Bristol. It has an annual budget of approximately £14 billion.

Attempts to reform the way the MOD buys equipment are not new. The previous Government commissioned an independent report into Defence Acquisition, led by Bernard Gray. The [Review of Acquisition for the Secretary of State for Defence](#) was published in October 2009 and was largely critical of the way defence acquisition is conducted by the Ministry of Defence. Among the report's main recommendations was a proposal for the Defence Equipment and Support (DE&S) organisation to be outsourced to a "Government owned, Contractor operated" organisation, a proposal which met with significant opposition by the then [Government](#). The report acknowledged the creation of such a body is a "significant and controversial step" The Strategic Defence and Security Review, published in October 2010 (Cm 7948), said a review of defence acquisition would be considered as part of the overarching programme of defence reform.

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Gray was appointed Chief of Defence Materiel in January 2011 and in May Dr Liam Fox, then Defence Secretary, launched a new [Defence Materiel Strategy](#). Neither the Lord Levene report [Defence Reform: An independent report into the structure and management of the Ministry of Defence](#), (July 2011) nor the White Paper [National Security Through Technology: Technology, Equipment and Support for UK Defence and Security](#), (Cm 8278, February 2012), delved too deeply into reform of DE&S because of the Materiel Strategy underway.

The Defence Secretary, Philip Hammond, announced the [Defence Materiel Strategy](#) on 17 July 2012. According to Mr Hammond, Bernard Gray identified three main problems with the present system of procurement: an “historically overheated equipment programme”; a “weak interface” between DE&S and the MOD; and “insufficient levels of business capability at DE&S”. As a result, the Government will examine in detail two possible options: a Government-owned, contractor-operated entity, or an executive non-departmental public body with a strategic partner from the private sector. The latter has become known as “DE&S+”. He said the GOCO option was the stronger of the two.

A final assessment phase lasting twelve months was announced in [April 2013](#). Mr Hammond also launched a commercial competition to determine with potential private partners how a GOCO would work in practice, and what the costs and benefits would be. He reiterated the Government’s preference for the GOCO option but said no decisions have been made – one is expected in 2014. A White Paper will be published later in spring 2013 setting out the MOD’s analysis of the problems in defence acquisition, the options available and why GOCO is the preferred option.

The proposal to transfer the whole of defence acquisition and support to a private contractor has provoked considerable debate. A RUSI acquisition focus group questioned the logic of choosing a Government-owned, Corporate-operated entity in a July 2012 [briefing paper](#). It raised a number of questions, including the potential conflict of interest, length of contract, ministerial and parliamentary oversight, who would make the ultimate decisions, what financial risks would it bear and how would those risks be assessed and how would the GOCO make money while also saving the MOD money. The Defence Select Committee asked the MOD to respond to the RUSI paper, which it did in written evidence to the Committee for its [Defence Acquisition](#) report (HC 9, 2012-13, ev 57). The MOD acknowledged the questions asked are already under consideration but reinforced its view that “doing nothing is not an option”. The Defence Committee expressed concern about the impact such a move might have on its relations with allies. A joint bilateral Pentagon/MOD team has been set up to explore some of the issues voiced by Washington, according to [Defence News](#).

Shadow defence minister Alison Seabeck [confirmed](#) Labour’s support for procurement reform but said the Government has still to make the case for a GOCO. The [CEO of trade group ADS](#), Rees Ward, similarly said the Government still had many questions to answer about how the GOCO would work, ranging from how financial risk will be apportioned between the GOCO and the MOD and what the relationship between the two will be.

The Government has said the majority of the GOCO’s staff will be existing DE&S employees, transferred under TUPE arrangements ([Defence Acquisition](#), ev 57). The trade union [Prospect](#) suggests its members oppose the move to a GOCO.

*The Defence reform Bill will also increase the size and role of the Reserve Forces.*