



## Defence Equipment and Support (DE&S)

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Defence Equipment and Support (DE&S) is responsible for equipping and supporting the UK's Armed Forces. On 1 April 2014 it became a bespoke trading entity, an arm's length body of the Ministry of Defence.

Transforming DE&S is one of the major reforms currently underway within the Ministry of Defence in a bid to resolve the significant problems identified with the defence procurement system: an historically overheated equipment plan; a weak interface between DE&S and the Ministry of Defence; and insufficient levels of business capability at DE&S.

The new entity has been given new freedoms by the Treasury to retain, reward and manage DE&S staff, who remain Crown Servants. A competition was launched for Managed Service Providers in spring 2014 to bring in private sector expertise into DE&S.

The Ministry of Defence originally sought to transform DE&S into a Government-owned, Contractor-operated (GOCO) and ran a competition in 2013 to attract industry. However the competition was halted in December 2013 after only one bid was received. The MOD instead opted to transform it into a trading entity. The legislative framework for a transition to a GOCO is laid in the *Defence Reform Act 2014* should a future Government wish to pursue the GOCO proposal.

While there was widespread recognition of the need to improve DE&S, there was considerable uncertainty about the GOCO proposal. This note tracks the development of the GOCO proposal through to its abandonment.

This note examines the new trading entity status of DE&S. A Framework Document and a Corporate Plan were published in mid-May on the eve of prorogation.

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# 1 Introduction

The Ministry of Defence spends about 40% of its entire budget on equipment and support – £13.9bn out of a total £34.3bn in 2012/13.<sup>1</sup> £14.8bn is allocated to equipment procurement and equipment support in 2014/15<sup>2</sup> and in total the MOD has laid out plans to spend a £156 billion on equipment and support over the next ten years.<sup>3</sup>

The body responsible for delivering new equipment and supporting existing equipment for the Armed Forces is Defence Equipment and Support, known as DE&S.

On 1 April 2014 DE&S became a bespoke government trading entity, an arm's length body from the Ministry of Defence.

This is part of the Government's plan to transform the acquisition and support organisation of the Ministry of Defence. However this was not the outcome they originally intended in 2013, when the MOD sought to convert DE&S into a Government-owned, Contractor-operated entity, known as a GOCO.

Defence Equipment and Support is responsible for equipping and supporting the UK's Armed Forces. It is responsible for an annual budget of £14.8 billion and an annual operating budget of £1.3 billion (2014/15). It is based at Abbey Wood in Bristol and has a staff of 12,500.

For years the equipment budget has been beset by cost and time overruns. Equipment acquisition is a complex process beset by financial and time constraints, the political impact of legacy programmes and is influenced by both strategic perceptions and domestic industrial priorities. Successive governments have struggled with these often conflicting dynamics and made various attempts over the years to improve the process. Defence Equipment and Support (DE&S) was formed in 2007 as a result of a previous attempt to improve defence acquisition.

The Secretary of State for Defence announced on May 2012 he had balanced the defence budget and laid out a ten year equipment plan. However he also said DE&S must be reformed in order to resolve the underlying factors that have led in the past to burgeoning budgets and delays.

These delays were identified in a report commissioned by the previous Government by Bernard Gray. His report, published in late 2009, concluded:

the Ministry of Defence has a substantially overheated equipment programme, with too many types of equipment being ordered for too large a range of tasks at too high a specification. This programme is unaffordable on any likely projection of future budgets.<sup>4</sup>

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<sup>1</sup> [MOD Departmental Resources 2012-13](#)

<sup>2</sup> DE&S Corporate Plan 2014-17, p16

<sup>3</sup> This is for the core equipment plan for the next ten years. The total spend includes unallocated funding of £8.4bn, totalling a £164bn equipment plan. "[The Defence equipment plan 2013/14](#)", *Ministry of Defence*, 13 February 2014

<sup>4</sup> [Review of Acquisition for the Secretary of State for Defence: an independent report by Bernard Gray](#), October 2009

The Labour Government accepted many of his recommendations but rejected his suggestion to transform DE&S into a Government-Owned, Contractor-Operated entity, saying at the time that they could not see how it lead to a better outcome for defence.

The current Government took a different view. Reforming DE&S is one of the major planks of a major reform programme underway within the Ministry of Defence.<sup>5</sup> It appointed Bernard Gray as Chief of Defence Materiel - in charge of Defence Equipment and Support – and was put in charge of the Defence Materiel Strategy with a remit to identify the best future operating model for DE&S. The GOCO model was identified and fleshed out in a White Paper, *Better Defence Acquisition* (Cm 8626), published in June 2013.

However the GOCO option was abandoned in December 2013 when only one bid was received. Instead, the MOD opted to develop the in-house alternative proposal, known as DE&S+, and decided to turn DE&S into a bespoke trading entity on 1 April 2014.

The MOD negotiated new freedoms with the Treasury to recruit, reward and manage staff along more commercial lines, something that had been identified by Bernard Gray as causing particular difficulties in the past. Private sector skills will be ‘injected’ into the organisation via Managed Service Providers. Six contracts are available to support DE&S in project management, IT, Management and Finance Information and Human Resources.

2014 marks the beginning of a three year transition phase for DE&S lasting until April 2017. The Defence Secretary said the goal is to make it ‘match-fit’ as a public sector comparator for a future market testing of the GOCO proposition.

A Framework Document and a Corporate Plan were published in mid-May 2014 on the eve of prorogation.

The GOCO proposal drew considerable interest from Members of Parliament, the Opposition, the Defence Select Committee, and defence experts. The Defence Committee raised concerns with the GOCO proposal in its report *Defence Acquisition*, published in February 2013 (HC 9, 2012-13).

The Shadow Defence Minister, Vernon Coaker, described the abandonment of the GOCO proposal an “embarrassing U-turn.”<sup>6</sup> Concerns have been raised about the roles of the Managed Sector Providers and the relationships between the contractors and the MOD and the contractors and each other. Some individuals quoted by media described the contracts as a “mess.”<sup>7</sup>

The Defence Committee is currently considering the new changes as part of its inquiry entitled *Defence Materiel Strategy*.

The arrangements for turning DE&S into a GOCO are laid in the *Defence Reform Act 2014*. The Opposition argued strongly against retaining the enabling legislation when it passed through the House of Lords after the cancellation of the competition. They argued if a future Government wished to pursue the GOCO option, they should be the ones to introduce the legislation. The Opposition ultimately accepted a Government concession to make it a

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<sup>5</sup> The Ministry of Defence is separately implementing many of the recommendations made in another major report, *Defence Reform: an independent report into the structure and management of the Ministry of Defence*, by Lord Levene, in June 2011

<sup>6</sup> HC Deb 10 December 2013 c148

<sup>7</sup> “MoD's latest procurement plan still 'a mess'”, *Financial Times*, 13 May 2014

statutory requirement for the Government to publish information about the options for future reform. This is likely to take the form of a White Paper.

The new trading entity does not require new legislation.

Whether the new trading entity will achieve the Government's goals is not yet known. One word of caution was expressed by Dr John Louth, an expert in defence acquisition and industry at the Royal United Services Institute, who worries that if the new trading entity simply reflects previous practices "it has been a long journey to arrive back at the starting point."<sup>8</sup>

The changes to DE&S should not be viewed entirely in isolation. The Ministry of Defence has embarked on a wholesale reform of its structure and operating model. However this note focuses its attention on the transformation of Defence Equipment and Support. It outlines the reasoning for the new, bespoke trading entity and what it means. It pays particular attention to the Government's proposed, later abandoned, GOCO arrangement. This is because the legislation enabling the transfer of the whole of defence acquisition and support to a private contractor now exists in the *Defence Reform Act 2014* and may be used by a future Government. As such, the concerns voiced by Members of both Houses and defence experts about the GOCO are detailed here and in the Notes produced by the House of Commons and House of Lords Libraries on the Defence Reform Bill.

## **2 DE&S now: a central Government Trading Entity**

Defence Equipment and Support (DE&S) is responsible for equipping and supporting the UK's Armed Forces. It has an annual operating budget of approximately £1.3 billion and is responsible for a £14.8 billion equipment procurement and support budget for 2014/15.

DE&S became a bespoke trading entity on 1 April 2014, which means it is now an arm's length body to the rest of the Ministry of Defence. It is now in year one of a three year transition period.

The Defence Secretary, Philip Hammond, said "the changes we are introducing will result in a higher performing delivery organisation, which is better able to deliver vital equipment and support to the front line, on time and at the agreed price."<sup>9</sup>

Mr Hammond outlined a vision that "by the middle of the next Parliament, DE&S is a genuinely customer-facing, match-fit organisation, providing a robust public sector comparator should a future Government decide to re-examine the potential for a GOCO model."<sup>10</sup>

The Chief Executive of DE&S, Bernard Gray, expressed his desire to make DE&S to become the "pre-eminent defence materiel organisation", telling employees "I believe we can become a world class programme management organisation, envied and respected around the world."<sup>11</sup>

Full details of the new entity were laid in the Library of the House on 14 May 2014 in a [Corporate Plan 2014-2017](#) and a [Framework document](#) (DEP2014-0742).

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<sup>8</sup> "UK Defence Procurement: the abandonment of GOCO", *RUSI Newsbrief*, January 2014 vol 34 No. 1

<sup>9</sup> [HC Deb 14 May 2014 c25WS](#)

<sup>10</sup> [HC Deb 14 May 2014 c25WS](#)

<sup>11</sup> *Desider*, April 2014, issue 71, p4

## Key facts

- 12,500 staff
- Headquarters at Abbey Wood in Bristol
- £1.3bn operating budget for 2014/15
- Responsible for £14.88bn equipment procurement and support budget for 2014/15
- Responsible for £164bn ten year equipment and support plan
- Headed by Chief of Defence Materiel who is also the Chief Executive of DE&S
- Three year transition period from 2014 to 2017

### 2.1 A trading entity: what does that mean?

The new status means it is now an “arm’s length body” to the rest of the MOD.

The Defence Secretary said DE&S has been “provided with the unparalleled freedom to manage its own business, outputs and work force within an operating cost envelope set to drive significant efficiencies.”<sup>12</sup> Barry Burton, the Director Materiel Strategy at DE&S, describes it as “an arm’s length body within the public sector but with genuine freedoms around how it recruits, rewards, retains and manages staff.”<sup>13</sup>

No other part of the Civil Service has been given the same freedoms, according to Bernard Gray, the Chief of Defence Materiel. He told DE&S staff that government has given DE&S “full management control of how we run the equipment programme. Fundamentally, we get to decide how we run our business.”<sup>14</sup>

### 2.2 When was this decided?

The Defence Secretary announced his intention to convert DE&S into a bespoke Government trading entity in December 2013. This was as a direct result of his decision to cancel the competition to convert DE&S into a GOCO.

The MOD had already been developing an improved model of DE&S to act as a public sector comparator to the GOCO. This was known as DE&S plus. Mr Hammond reasoned that because DE&S needed the injection of private sector skills, he intended to build on the DE&S plus model with a view to making it ‘match-fit’ as the public sector comparator for a future market testing of the GOCO. Such a future market testing will not occur in the current Parliament and it will be up to the next Government, post-2015, to decide whether it wishes to revisit the GOCO proposition. Mr Hammond said in his statement:

We are clear that the only realistic prospect of resolving the challenges facing DE&S in an acceptable time scale is through a significant injection of private sector skills. I have therefore decided to build on the DE&S plus proposition, transforming DE&S further

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<sup>12</sup> [HC Deb 14 May 2014 c25WS](#)

<sup>13</sup> *Desider*, March 2014, p4

<sup>14</sup> “Unique and momentous opportunity for DE&S”, *Desider*, May 2014, issue 72, p8

within the public sector, supported by the injection of additional private sector resource, thus ensuring that the organisation becomes “match-fit” as the public sector comparator for a future market testing of the GOCO proposition.

To do this, we will recognise the unique nature and characteristics of DE&S as a commercially facing organisation by setting it up as a bespoke central Government trading entity from April 2014;

We will give the new entity a hard boundary with the rest of MOD, a separate governance and oversight structure with a strong board under an independent chairman, and a chief executive who will be an accounting officer, accountable to Parliament for the performance of the organisation—delivering another of Levene’s recommendations; and, crucially, we will permit the new organisation significant freedoms and flexibilities, agreed with the Treasury and Cabinet Office, around how it recruits, rewards, retains and manages staff along more commercial lines, to reflect its role of running some of the most complex procurement activity in the world. We will of course consult trade unions on the practical arrangements for implementation.<sup>15</sup>

### **2.3 What advantages does this bring?**

Giving DE&S the flexibility to improve its workforce is the overriding theme that comes out of the Ministry of Defence. The MOD has negotiated new freedoms with the Treasury that will allow it to speed up recruitment, match market rates for individuals and financially reward staff.

Bernard Gray, the Chief of Defence Materiel, and senior MOD officials have repeatedly spoken of their frustration with the difficulty of recruiting highly skilled staff at civil servants wages and retaining experienced personnel who move to the private sector for greater pay.<sup>16</sup>

Professor Trevor Taylor, who has monitored defence acquisition for many years, notes there was widespread recognition that DE&S had problems in retaining technical and commercial middle grade staff who could be tempted by high-salary offers from the private sector, adding it is “almost self-evident that populating the DE&S with better skills and knowledge should improve the UK’s ability to tackle the complex issues of defence acquisition, to the benefit of the armed forces and the taxpayer.”<sup>17</sup>

Jon Thompson, the Department’s Permanent “Secretary, told the Public Accounts Committee it was more than just the people. He said making DE&S an arm’s length body will address the problems identified in Gray’s 2009 report with the interface between the MOD and DE&S because there will be a clearer arrangement between the service customers and DE&S. He said this will “bring some reality to people who are making decisions about what capability they want—what the cost of it is, what the capability trade-offs are and so on. You get a harder conversation than DE&S simply being told to go off and do it.”<sup>18</sup>

Mr Hammond told the House:

These changes will reinforce the customer-supplier interface between the military command customers and DE&S, facilitating a more business-like approach, allowing

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<sup>15</sup> [HC Deb 10 December 2013 c147](#)

<sup>16</sup> Defence Committee, *Oral evidence: the Defence Materiel Strategy*, 12 February 2014, HC 876-ii 2013-14, Qq218-219

<sup>17</sup> Trevor Taylor, “British defence-acquisition reform, three years on”, *RUSI Journal* February/March 2014, v159.1, p32-38

<sup>18</sup> Public Accounts Committee, *Oral evidence: Ministry of Defence Equipment Plan and Major Projects Report 2013*, 13 February 2014, HC 1060 2013-14, Qq144-145

us to move earlier to a hard-charging regime and thus further addressing one of the weaknesses identified in the 2009 Gray report. They will allow DE&S to procure crucial private sector input through a series of support contracts to deliver key changes to systems and processes, and to strengthen programme management while organic capabilities are built. They will also permit the recruitment into DE&S of key commercial and technical staff at market rates and with minimum bureaucracy.<sup>19</sup>

The specific freedoms given to DE&S are outlined in Annex A of the Framework document. These include:

- Agreement of an operating cost envelope. Within that cost envelope, DE&S will have the freedom to manage all aspects of its workforce, thus allowing it to make major pay and grading changes.
- 25 members of its staff may be paid more than the senior salary cap set by HM Treasury without further agreement. Additional staff above the 25 cap will have to be agreed on an individual base.
- DE&S will be exempt from the relevant Cabinet Office Controls v3.2. This includes external recruitment, redundancy and compensation and consultancy.

The Corporate Plan lists the benefits the new status will provide, broken down into two categories:

Better Value for Money for Defence:

1. Reduced cost increase on approved projects
2. Reduced delay in approved projects
3. Reduced late stage cancellations
4. Savings on support spend
5. Reduced external contractor spend

Increased Stakeholder Confidence:

6. Increased operating cost efficiency
7. More reliable delivery of outputs
8. Increased stability for capability planning
9. Improved reputation inside and outside of defence<sup>20</sup>

## **2.4 Why a bespoke trading entity and not a trading fund or executive agency?**

HM Treasury provides guidance on non-departmental public bodies in *Managing Public Money*.<sup>21</sup> Mr Gray told the Public Accounts Committee that a bespoke trading entity is one of the categories of public entities within this. He explained “everybody there will remain civil servants, but we will be at arm’s length, much like a trading fund, with an owners’ council, an

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<sup>19</sup> HC Deb 10 December 2013 c148

<sup>20</sup> DE&S Corporate Plan 2014-17, p15

<sup>21</sup> This is guidance published by HM Treasury. Chapter 7 discusses Arm’s Length Bodies

appointed chair and non-executive directors, a business plan and an overall framework plan that governs the organisation.”<sup>22</sup>

A table comparing the key features and differences of the bespoke trading entity compared to DE&S as it was pre-April 2014, the GOCO mode, an Executive Agency and a Trading Fund was provided to the Defence Committee by the MOD in written evidence. This can be found in the Appendix of this note.<sup>23</sup>

The new entity remains part of the Ministry of Defence and is a Crown Body. It is funded through Departmental Estimate. Employers remain Crown Servants. It publishes its own plans and Annual Report and Accounts. Accounts are consolidated into those of the parent department, the MOD, unlike with a Trading Fund.

The Ministry of Defence as a whole is responsible for three Trading Fund Agencies, three Executive Non-Departmental Public Bodies (NDPBs) and one Public Corporation.<sup>24</sup> These are:

- Trading Funds - the Defence Support Group, the Defence Science and Technology Laboratory (dstl), and the UK Hydrographic Office)
- Executive NDPBs - National Museum of the Royal Navy, National Army Museum, and Royal Air Force Museum
- Public Corporation - Oil and Pipelines Agency

## **2.5 Governance structure and accountability to Parliament**

The Secretary of State for Defence remains accountable to Parliament for all aspects of DE&S’ performance. The Minister for Defence Equipment, Support and Technology, currently Philip Dunne, has day-to-day ownership. DE&S is led by the Chief of Defence Materiel who is its Chief Executive and Accounting Officer. The Owner’s Council will monitor DE&S on behalf of the MOD while the DE&S Board will be responsible for the strategic leadership for DE&S. It will be led by a non-executive chair.

The Framework Document outlines Parliamentary accountability and the governance structure.

### ***Parliamentary Accountability***

The Chief of Defence Materiel (CDM) is the Accounting Officer and is directly responsible to Parliament for the resources and performance of DE&S. The CDM will give evidence to select committees on matters to do with DE&S. The Ministry of Defence Permanent Under Secretary remains accountable to Parliament for the Department as a whole.

### ***Governance structure***

The DE&S Executive Team is led by the Chief of Defence Materiel, currently Bernard Gray, who is its Chief Executive. He is also the Accounting Officer for DE&S. The other members are the Director General Resources (Chief Finance Officer) and the Chiefs of Material for Fleet, Land, Air and Joint Enablers. This totals six posts.

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<sup>22</sup> Public Accounts Committee, *Oral evidence: Ministry of Defence Equipment Plan and Major Projects Report 2013*, 13 February 2014, HC 1060 2013-14, Qq143

<sup>23</sup> “*Supplementary evidence from the Ministry of Defence*”, *Defence Committee*, 12 February 2014

<sup>24</sup> Details of which can be found in the MOD *Annual Report and Accounts 2012-13*, p82

The Chiefs of Materiel for Fleet, Land, Air and Joint Enablers gained responsibility for managing the delivery of DE&S equipment and support teams in their domains in an earlier restructure, in May 2011. This was when the post of Chief of Materiel (Joint Enablers) was created. The post of Director General Resources was also created, replacing that Chief of Corporate Services.<sup>25</sup>

Mr Gray's contract ends in December 2014 and there will be a competition for a new Chief Executive.

DE&S will have a new governance structure:

- An Owner's Council, chaired by the Minister for Defence Equipment, Support and Technology, to monitor and evaluate the performance of DE&S on behalf of the MOD
- A new board, led by a Non-Executive Chair, with a group of other Non-Executive Directors, together with an executive team led by the Chief of Defence Materiel as the Chief Executive Officer

The DE&S Owners Council "supports and advises the Owner on the review and setting of DE&S' strategic objectives. It is an internal Ministry of Defence committee. It is chaired by the Minister for Equipment, Support and Technology. Its purpose "is to review the progress of DE&S against the corporate plan, which is agreed in advance of any relevant role, looking at performance in all of its various respects", the MOD's Principle Under Secretary, Jon Thomson, told the Defence Committee. He added "the Owners council looks at the performance of DE&S from the perspective of the Ministry of Defence." He said this is a normal arrangement for arms' length bodies, similar to the Hydrographic office.<sup>26</sup>

The DE&S Board provides the strategic guidance and leadership for DE&S. It will be chaired by a non-executive director who will be appointed on a three-year fixed term contract, extendable for a further three-year term. The Board will have several sub-committees: Audit, Remuneration, Nomination, and Safety.

Both the Framework Document and the Corporate Plan lay out in greater detail the governance structure of DE&S.

## **2.6 Workforce and staffing reductions**

DE&S currently employs 12,500 staff, the majority at headquarters in Bristol. This is down from the 16,500 on its books at the time of the White Paper in June 2013.<sup>27</sup>

Approximately 3,600 staff transferred to other parts of the Ministry of Defence in 2013/14:

- 2,000 Information Systems and Services staff to Joint Forces Command
- 1,000 staff in Naval Bases to Naval Command
- 600 commercial staff to MOD centre

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<sup>25</sup> "Restructuring of Defence Equipment and Support announced", *Ministry of Defence*, 20 April 2011

<sup>26</sup> Defence Committee, *Oral evidence: the defence materiel strategy*, 12 February 2014, HC 876-ii 2013-14, q130-132

<sup>27</sup> *Better Defence Acquisition: Improving how we procure and support Defence equipment*, Cm 8626, p10

A further 2,000 staff may be transferred out of DE&S altogether in 2014/15 as part of the move to outsource logistics. At the time of writing, there is a competition for Logistics and Commodities and Services (LCS). Those staff would be transferred under the TUPE regulations.<sup>28</sup>

## 2.7 Three year transition

April 2014 marks the beginning of a three year transition period. By 2017, Philip Hammond said, DE&S should be a “genuinely customer-facing, match-fit organisation, providing a robust public sector comparator should a future Government decide to re-examine the potential for a GOCO model.”<sup>29</sup>

The transition process is split into two periods:

- Transition: April 2014 to April 2015: build the capacity to improve the inherent capability of DE&S to explain what is being delivered, by when, for whom, to what standard and at what price; and the costs of risks of this activity.
- Transformation: 2015 to 2017: Implement an agreed Transformation Plan to create a match fit organisation.<sup>30</sup>

## 2.8 Outsourcing: Managed Service Providers

Throughout 2014 DE&S will be running a number of competitions for Managed Service Providers “to deliver the skills we cannot generate in-house.”<sup>31</sup> Bernard Gray told the Defence Committee he is looking at three different work packages:

1. A programme management organisation to provide skills in formatting and managing complex programmes
2. An IT system to implement changes to the management information systems
3. A Human Resources support organisation to stand up a stand-alone HR function<sup>32</sup>

The competitions will run via an open competition through the OJEU process. Mr Gray said the priority is the management system, telling MPs “I feel I am short on programme management finance expertise; I do not feel I am short on defence expertise.”<sup>33</sup> He also explained that he thinks the IT and the HR packages will be a “job-and-finish thing” whereas the programme management will be an enduring one.<sup>34</sup>

Industry has already expressed concerns about the procurement process. There is particular concern that Work Package One is being divided into four contracts, matching the four Domains (Land, Fleet, Air and Joint Enablers), with no single company allowed to be awarded more than two Domains. The MOD said this is to prevent market dominance by a

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<sup>28</sup> “Defence Equipment and Support Corporate Plan 2014 – 2017”, 14 May 2014, p17

<sup>29</sup> HC Deb 14 May 2014 c25WS

<sup>30</sup> “Defence Equipment and Support Corporate Plan 2014 – 2017”, 14 May 2014, p10

<sup>31</sup> “Defence Equipment and Support Corporate Plan 2014 – 2017”, 14 May 2014, p14

<sup>32</sup> Defence Committee, *Oral evidence: the defence materiel strategy*, 12 February 2014, HC 876-ii 2013-14, q170

<sup>33</sup> Defence Committee, *Oral evidence: the defence materiel strategy*, 12 February 2014, HC 876-ii 2013-14, q179

<sup>34</sup> Defence Committee, *Oral evidence: the defence materiel strategy*, 12 February 2014, HC 876-ii 2013-14, q174

single company. There are four domains because under the Levene reforms<sup>35</sup>, each of the three single services, plus new Joint Force Command, were given budgetary responsibilities and are now responsible for deciding how much should be spent on equipment and related support.

Peter Smith, writing on the Spend Matters website, suggested “it all looks very complicated.” He questioned the wisdom of dividing Work Package One into four lots, suggesting it creates the potential for four MSPs to fight each other as they compete for funding and priority.<sup>36</sup>

The Independent quoted an industry insider as saying “you can't have four different groups managing the likes of BAE” and wrote “there are fears that there will be lack of communication between the two-to-four “managed service providers” on projects that cut across the armed forces, potentially causing budget overruns.”<sup>37</sup> The Financial Times similarly quoted an executive who said “there are big questions about how all the companies would work together. All in all, it's a bit of a mess and unlikely to give great value for the taxpayer.”<sup>38</sup>

### ***The Work Packages in detail***

Contract notices for Work Package 1, project delivery, and Work Project 3, for HR, have already been issued, the Defence Secretary told the House in mid-May. He anticipates the contracts being in place later in 2014.<sup>39</sup>

#### ***Work Package 1 – Project delivery***

To improve project delivery across DE&S. There are four contracts covering project delivery in each of the four Domains: Land, Fleet, Air and Joint Enablers. Companies may bid for any number of contracts but will only be contracted to support a maximum of two Domains. The contracts will range from £200 million to £400 million and will be for an initial three years, extendable by one year and a further year, referred to as 3+1+1.

The contract notice was issued on 14 April 2014 and invitations to negotiate were issued to eight companies on 12 May.<sup>40</sup>

The contract notice states the MSPs “will design, build, implement, help operate and embed a system of project management techniques and project controls across DE&S that will improve effectiveness and efficiency of its output delivery.” It adds:

To successfully deliver the requirements, the MSPs will require significant experience and know-how of delivering complex technological products and services in demanding environments and will bring in high quality management and control techniques, including supplier management. They will have a key role in defining the behaviours required in the DE&S workforce and the MSPs' personnel must be role models of ‘what good looks like’ as DE&S transforms. The significant number of interfaces associated with the Materiel Strategy change programme, demands that the MSPs must adopt and be committed to a collaborative working approach.

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<sup>35</sup> The MOD is in the process of putting into place the reforms proposed by Lord Levene in his [Defence Reform: an independent report into the structure and management of the Ministry of Defence](#), July 2011

<sup>36</sup> “MOD contract notices published for Defence Equipment & Support MSPs”, *Spend Matters*, 24 April 2014

<sup>37</sup> “Critics take aim at latest scheme to outsource MoD procurement”, *The Independent*, 26 May 2014

<sup>38</sup> “MoD's latest procurement plan still 'a mess'”, *Financial Times*, 13 May 2014

<sup>39</sup> HC Deb 14 May 2014 c24-25WS

<sup>40</sup> HC Deb 14 May 2014 c24-25WS

In delivering the contract the Project Delivery MSPs shall provide sufficient suitably qualified and experienced staff to deliver the requirements. This shall include a senior individual who is capable of operating in close support of the Chief of Materiel (MOD 3\* civilian/military officer) for the relevant Domain and also staff to work in a 'rainbow' central team comprising DE&S personnel and personnel from the other Work Package MSP organisations. The MSPs shall be able to make available additional suitably qualified and experienced personnel to undertake bounded project activities within the Domains as necessary.<sup>41</sup>

#### *Work Package 2 – Finance, Management Information and Information Technology*

The contract will be worth between £50 million and £200 million. The contract notice has not, at the time of writing, been given. However the Prior Information Notice provides the following information about Work Package 2, which it states will deliver two requirements:

- a) to transform and improve its finance capability;
- b) to develop, implement and embed a Management Information and Information Technology (MI/IT) strategy (assisting with the procurement and implementation of the MI/IT endorsed recommendations), with a policy and process framework.<sup>42</sup>

According to DE&S' internal magazine it will "improve quality of management information... through an improved financial control system" and it will be responsible for the "design, roll-out and implementation of management information systems as well as for providing training for use in the new systems."<sup>43</sup>

#### *Work Package 3 – Human Resources*

This is to create an in-house Human Resources organisation. The contract notice was issued on 12 May. It says the requirements for the HR MSP are broadly split into 3 categories:

- a) those associated with the design, establishment and embedding of a dedicated new Corporate HR Function within the boundaries of the freedoms and controls given;
- b) those associated with the development, implementation and embedding of the employment policy and process framework; and
- c) those associated with the DE&S workforce, including designing a HR strategy featuring a new workforce model to enable effective deployment of staff, building capability, and the delivery and embedding of a changed culture within the organisation.<sup>44</sup>

The notice gives an estimated contract value of between £20 million and £100 million and is 42 months in duration. The notice states:

The MSP will have a key role in leading the transformation of the DE&S workforce. The significant number of interfaces associated with the Materiel Strategy change programme, demands that the MSPs must adopt and be committed to a collaborative working approach. The DE&S envisages that the Human Resources MSP (WP3) requirements will be met by a combination of consultancy in support of HR Strategy development, seeding of senior, high capability individuals in the business to deliver the required changes, staff augmentation to help build a new HR function in the near

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<sup>41</sup> ["United Kingdom-Bristol: Materiel strategy – Managed service providers – Work package 1 – Project delivery"](#), OJEU Document Reference 132318-2014

<sup>42</sup> ["United Kingdom-Bristol: Corporate finance and venture capital services"](#),

<sup>43</sup> "Providers will take a key role in 'match fit' DE&S", *Desider*, March 2014 p6

<sup>44</sup> ["United Kingdom-Bristol: Human resources management consultancy services"](#), OJEU document reference 166697-2014

term, facilitation of workforce development and also staff to work in a 'rainbow' central team comprising DE&S personnel and personnel from the other Work Package MSP organisations. The MSPs shall be able to make available additional suitably qualified and experienced personnel to undertake bounded HR activities within the business as necessary.

The Framework Document and Corporate Plan were both published on the eve of prorogation on 14 May 2014, meaning there has no opportunity for Parliament to assess the two documents. In December 2013 the Shadow Defence Secretary, Vernon Coaker, expressed the Opposition's support for a DE&S+ model but called for greater clarity and detail of the proposal.<sup>45</sup>

The Defence Committee has an inquiry into [Defence Materiel Strategy](#) in progress.

### 3 Why does DE&S need reforming?

Successive Governments have consistently struggled to deliver key equipment capabilities within agreed costs and timescales. The Ministry of Defence articulated the need for reform in evidence to the Defence Committee, saying "the deep-rooted problems of defence acquisition have defied previous reform and radical action is needed to address them. Doing nothing is not an option."<sup>46</sup>

Equipment acquisition is a process beset by financial and time constraints, the political impact of legacy programmes and is influenced by both strategic perceptions and domestic industrial priorities.

Successive governments have struggled with these often conflicting dynamics and made various attempts over the years to improve the process. Tom McGuffog, a former non-executive director on DE&S' predecessors, notes wryly that Samuel Pepys, in 1660, was one of the first to attempt to inject some rigour and financial acumen into the procurement system.<sup>47</sup>

The National Audit Office has repeatedly highlighted costly budget and time delays of the largest major projects in its annual *Major Projects* reports. In 1997, for example, it reported that the 25 largest defence equipment projects underway at the time were forecast to cost over £3 billion more than originally planned and would, on average, enter service over three years late.<sup>48</sup> The main causes of procurement problems were identified by the MOD as:

- slippage: due to technical difficulties, budgetary constraints leading to the postponement of expenditure, the redefinition of requirements and difficulties over collaborative programmes;
- cost over-run: due to programme changes, changes in equipment specification, poor estimating and inflation of prices for defence equipment in excess of inflation in the economy as a whole

The Public Accounts Committee noted in its inquiry into the *Major Projects 2005* report that although the Department had reduced the forecast costs of its top 19 projects by £700

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<sup>45</sup> HC Deb 10 December 2013 c150

<sup>46</sup> Defence Committee, *Defence Acquisition*, 5 February 2013 HC 9 2012-13 para 132

<sup>47</sup> T McGuffog, "Improving value and certainty in defence procurement", *Public Money and Management*, 14 September 2011, vol 31: 6

<sup>48</sup> National Audit Office, *Ministry of Defence: Major Projects Report 1997*, HC 695, Session 1997-98

million, the reductions “were not the result of better project management.” The Committee added the MOD “has yet to demonstrate that it can consistently manage individual projects to deliver the planned operational benefits to the Armed Forces to cost and time.”<sup>49</sup>

RUSI set up an Acquisition Focus Group in 2006 to examine defence equipment acquisition. In a 2007 briefing paper it observed:

(The) MoD has produced a number of initiatives to improve defence equipment procurement, the most recent of which are Smart Procurement (1998, later Smart Acquisition), the Defence Industrial Strategy (2005), Enabling Acquisition Change (2006) and the Defence Technology Strategy (2006). These initiatives have been welcomed and generally perceived as significant steps towards better procurement. However, Smart Procurement was never properly implemented and the remainder are, as yet, far from being realised, with the result that little demonstrable improvement in output, in terms of reduced cost and time, is apparent.<sup>50</sup>

The paper noted a lack of acquisition expertise, citing the then Chief of Defence Procurement as describing poor performance in the Defence Procurement Agency as “endemic”, blaming inadequate experience and expertise, lack of personal qualities and minimal training.

The Daily Telegraph wrote an editorial in 2009 deploring the “continuing scandal of bungled procurement” at the Ministry of Defence, writing:

There is something fundamentally wrong with the procurement process inside the MoD, which seems impervious to attempts down the years to make it more efficient and professionally run. Things have worsened under a Labour government that is happy to send British troops into battle, yet dithers in its decision-making and does not provide the means to match the military commitments.<sup>51</sup>

The Financial Times likewise described the defence equipment budget as “long seen as bloated and inefficient”.<sup>52</sup> In 2009 the National Audit Office highlighted the potential shortfall in the MOD’s budget of £36bn over the next ten years.<sup>53</sup>

The Public Accounts Committee observed in its *Major Projects 2011* report that the Department “continues to struggle with managing its equipment programme on an affordable basis, resulting in the cancellation or deferral of major projects and a damaging impact on value for money.”<sup>54</sup>

The previous Government commissioned Bernard Gray to investigate defence procurement, His *Review of Acquisition for the Secretary of State for Defence* was published in October 2009 and was largely critical of the way defence acquisition was conducted by the MOD. He found that of 40 the projects he examined, on average they cost 40% more than they were originally expected to and delivered 80% later than first estimates predicted. This amounted

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<sup>49</sup> Public Accounts Committee, *Ministry of Defence: Major Projects Report 2005*, 27 June 2006, HC 889, para 1

<sup>50</sup> “Why does it all take so long?”, *RUSI Defence Systems*, June 2007

<sup>51</sup> “A scandal at the MOD”, *Daily Telegraph*, 24 August 2009

<sup>52</sup> “Affordable defence: Britain must heed the lessons from procurement inquest”, *Financial Times*, 16 October 2009

<sup>53</sup> National Audit Office, *Major Projects Report 2009*, HC 85-I, Session 2009-2010

<sup>54</sup> Public Accounts Committee, *Ministry of Defence: Major Projects Report 2011*, 10 February 2012 HC 1678 2010-12

to a cost overrun of approximately £35bn, almost equal to an entire year's defence budget, and an average overrun of nearly 5 years.<sup>55</sup> His overarching conclusion:

The Ministry of Defence has a substantially overheated equipment programme, with too many types of equipment being ordered for too large a range of tasks at too high a specification. This programme is unaffordable on any likely projection of future budgets.<sup>56</sup>

Bernard Gray drew the same conclusions when in office as Chief of Defence Materiel when leading the Defence Materiel Strategy. Philip Hammond, the Defence Secretary, said in 2012:

Over the last year, Bernard Gray, the Chief of Defence Materiel, has analysed the root causes of the current situation and identified three interlinked issues. These are: a historically overheated equipment programme, where far more projects were planned than could be paid for; a weak interface between DE&S and the wider Ministry of Defence with poor discipline and change control between those setting requirements for equipment and those delivering the programmes; and insufficient levels of business capability at DE&S for the scale and complexity of the portfolio it is asked to deliver. The result has been significant additional costs in the defence budget of the order of hundreds of millions of pounds each year, with money spent managing the consequences of delay rather than delivering maximum capability for the armed forces.<sup>57</sup>

The Defence Secretary had previously been sharply critical of the previous Government's handling of the defence budget when he announced that after two years of work, the defence budget was in balance. He described the previous defence budget as "meaningless" because projects were committed to without the funding to pay for them, creating a "fantasy programme." He described "systematic over-programming" and a "conspiracy of optimism" in which officials, the armed forces and suppliers consistently planned on a best-case scenario.<sup>58</sup> In order to maintain the balanced budget,

Mr Hammond argued "real changes" were needed to defence procurement.<sup>59</sup> Bernard Gray warned in his 2009 *Review of Acquisition* "if Government fails to tackle this challenge, then the Review team contends that the delivery of equipment will get later and later, that it will become more and more costly, and the UK will ultimately be unable to field the defences it needs."<sup>60</sup>

The Opposition has repeatedly challenged Mr Hammond's assertion that there was a black hole in the defence budget of £38 billion, which he declared in his statement to have resolved.<sup>61</sup>

The Ministry of Defence published a ten year equipment and support plan in 2012.<sup>62</sup> Professor Trevor Taylor, in a recent review of the Government's reform efforts, notes the equipment plan "should not be seen as an unqualified triumph", pointing to a lack of hard detail in the plan, the NAO's questions of the supports-costs element of the plan, whether the

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<sup>55</sup> *Review of Acquisition for the Secretary of State for Defence*, October 2009

<sup>56</sup> *Review of Acquisition for the Secretary of State for Defence*, October 2009

<sup>57</sup> [HC Deb 17 July 2012 c124WS](#)

<sup>58</sup> HC Deb 14 May 2012 c263

<sup>59</sup> *Better Defence Acquisition: improving how we procure and support Defence equipment*, Cm 8626

<sup>60</sup> *Review of Acquisition for the Secretary of State for Defence*, October 2009

<sup>61</sup> See for example Shadow Defence Secretary Vernon Coaker, HC Deb 10 December 2013 c149

<sup>62</sup> HC Deb 14 May 2012 c263. The equipment plan was published in January 2013 and updated in January 2014

Government's defence ambitions can be realised with the cuts made to equipment, and the lack of confidence in the MOD's figures that led to one of the bidding consortia deciding against submitting a bid to run the GOCO arrangement. He caveated that however by adding "there is little doubt that the UK's recent plans for buying equipment have had a degree of financial realism that had not been present for more than twenty years."<sup>63</sup>

The Public Accounts Committee, in its report into the Equipment Plan 2013-23, noted that the MOD "has made some progress this year in controlling costs on its major projects and managing the way it procures equipment." However the Chair of the Committee, Margaret Hodge, added:

We still have concerns over whether the MoD's Equipment Plan is affordable.

There are some big uncertainties. The Ministry underspent by a huge £1.2 billion on the Equipment Plan in 2012-13. Yet it has no idea whether this is because of genuine savings or whether costs are simply being stored up for later years because of delays on projects.

[...]

We are concerned that, despite improvements, cost control of some individual projects remains poor. Project teams do not yet have enough staff with the right skills to employ proper cost and risk management techniques.<sup>64</sup>

#### **4 The genesis of the GOCO proposal**

The genesis of current reforms, and in particular the GOCO proposal, can be found with the previous Government.

The Labour Government introduced a number of initiatives designed to bring the defence equipment budget under control. It introduced the 'Smart Procurement Initiative' that evolved into 'Smart Acquisition' to try to reduce cost and budget overruns. It created two new organisations in 1999 that were the antecedents of DE&S: the Defence Procurement Agency (DPA) and the Defence Logistics Organisation (DLO). Later, a Defence Acquisition Change Programme was introduced to deliver aspects of the Defence Industrial Strategy and a 2006 report *Enabling Acquisition Change*. One of the most significant organisational changes to emerge from the Change programme was the merger of the Defence Procurement Agency and the Defence Logistics Organisation to form the Defence Equipment and Support (DE&S) in 2007.<sup>65</sup>

The previous Government commissioned Bernard Gray to investigate defence procurement, His *Review of Acquisition for the Secretary of State for Defence* was published in October 2009 and was largely critical of the way defence acquisition was conducted by the MOD. It reached one overarching conclusion:

the Ministry of Defence has a substantially overheated equipment programme, with too many types of equipment being ordered for too large a range of tasks at too high a

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<sup>63</sup> Trevor Taylor, "British defence-acquisition reform, three years on", *RUSI Journal* February/March 2014, v159.1, p32-38

<sup>64</sup> "Progress on costs but concerns over MoD's equipment plan 2013-23", *Public Accounts Committee*, 13 May 2014

<sup>65</sup> Two House of Commons Library Research Papers provide a historical account of defence procurement: C Taylor, *UK Defence Procurement Policy*, Library Research Paper 03/78, 20 October 2003 and C Taylor, *British defence policy since 1997*, Library Research Paper 08/57, 27 June 2008

specification. This programme is unaffordable on any likely projection of future budgets.<sup>66</sup>

Bernard Gray suggested in his 2009 *Review of Acquisition for the Secretary of State for Defence* transforming DE&S into a Government-Owned, Contractor-Operated entity as a way to inject key skills and tools into the organisation:

How best to inject key skills and tools into the DE&S organisation is the third main area of concern for this report. This report contends that the most effective way to achieve the objective of creating a worldclass programme management organisation in DE&S, would be through a partnership with a private sector programme management organisation, of the type operating in civil engineering and other complex engineering fields.

The suggested route to achieve this is through a Government-Owned, Contractor Operated entity. However, creation of such a Go-Co is a significant and controversial step, and this report recommends that it should be subject to further work over the next 12 months to ensure it does not cut across other defence objectives.<sup>67</sup>

The Government at the time rejected that suggestion. In a statement to the House in October 2009 the then Secretary of State for Defence, Bob Ainsworth, stated:

I do not intend to take up his suggestion to establish DE&S as a Government-owned, contractor-operated entity, to put it more at arm's length from the rest of the Ministry of Defence. The Government have thought about this carefully, but we are not convinced that such a change would ultimately lead to better outcomes for the armed forces or defence generally. Having the DE&S as fully part of defence ensures a close working relationship with the military. Equipment acquisition is core business for my Department, and we have to get it right.<sup>68</sup>

Mr Ainsworth later “at that stage we could not see how it could be made to work.”<sup>69</sup>

The MOD did however support the overall analysis of Gray report: that the fundamental problem with defence acquisition has been deep-seated cost pressures in the MOD's equipment programme. The MOD set out its initial thoughts and recommendations in *The Defence Strategy for Acquisition Reform*, a complementary document to its Green Paper published February 2010 entitled *Adaptability and Partnership: Issues for the Strategic Defence Review*. The document outlined a six strand approach that included Improving internal acquisition skills and capabilities.<sup>70</sup>

The three main political parties promised to undertake a Strategic Defence Review after the 2010 election.

## **5 The Coalition Government: reforming DE&S**

The Coalition Government announced a wholesale review of the way the Ministry of Defence is run shortly after taking office. 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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<sup>66</sup> *Review of Acquisition for the Secretary of State for Defence*, October 2009

<sup>67</sup> *Review of Acquisition for the Secretary of State for Defence*, October 2009, p8

<sup>68</sup> HC Deb 15 October 2009 c36WS

<sup>69</sup> HC Deb 10 December 2013 c153

<sup>70</sup> [House of Commons Library Standard Note \*Strategic Defence Review Green Paper: Preliminary Observations\*, SN05341, 11 February 2010](#)

Bernard Gray was appointed Chief of Defence Materiel and was tasked with heading a Defence Materiel Strategy which ultimately led to the Ministry of Defence exploring the possibility of outsourcing DE&S to a private sector contracting entity, known as a Government-Owned, Contractor-Operated entity, or GOCO for short. The Government introduced the Defence Reform Bill to lay the legislative basis for a GOCO but ended the competition in December 2013 when only one bid was received. DE&S has instead been turned into a bespoke trading entity with a view to make it 'match-fit' by 2017, to enable the next Government to turn DE&S into a GOCO.

The whole process was closely scrutinised by Members and defence experts. A common theme was difficulty in understanding exactly how the GOCO would work in practice and how it would both save the Government money and allow the contractor to make a profit.

## 5.1 The Materiel Strategy

The Government signalled their intentions with the appointment of Bernard Gray as Chief of Defence Materiel and head of Defence Equipment and Support in December 2010.<sup>71</sup>

Mr Gray was the first civilian appointed to the post and the move was regarded as “a radical overhaul of the way the Department operates”.<sup>72</sup> Lord Astor of Hever, Parliamentary Under-Secretary of State at the MOD, described the appointment as “a sign of our commitment to drive through further change.”<sup>73</sup> Defence analyst Malcolm Chalmers of RUSI observed the appointment suggested MOD support for the GOCO proposal because “it will be surprising if Mr Gray took this job only to reject one of his main recommendations.”<sup>74</sup>

The Materiel Strategy was launched in May 2011 by Dr Liam Fox, then Defence Secretary, under the leadership of Mr Gray.<sup>75</sup> Mr Gray said the work aimed to achieve three principle outcomes: “MOD gets best value in Defence Materiel; a balanced equipment and support programme; a DE&S with engaged and motivated staff and the behaviours, accountabilities, skills and processes required to do the job.”<sup>76</sup>

Mr Gray presented five options for the future of DE&S to the Government in December 2012. Two, maintaining the status quo and full privatisation, were rejected, leaving three options, described by Peter Luff, the then Defence Minister, in a speech:

Option one: DE&S becomes a Government-owned, Contractor-operated set up – a GOCO - along the lines of the Atomic Weapons Establishment.<sup>77</sup>

Option two is for an Executive non-departmental public body with a Strategic Partner, similar to the Olympic Delivery Authority.

Or, Option three; it becomes a trading fund along the lines of DSTL, the UK's Defence Science and Technology Laboratory.<sup>78</sup>

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<sup>71</sup> “Bernard Gray appointed Chief of Defence Materiel”, *Ministry of Defence*, 16 December 2010

<sup>72</sup> “MOD critic to lead defence procurement”, *The Financial Times*, 17 December 2010

<sup>73</sup> HL Deb 25 January 2011 c844

<sup>74</sup> “MOD critic to lead defence procurement”, *The Financial Times*, 17 December 2010

<sup>75</sup> “New defence materiel strategy announced”, *Ministry of Defence*, 31 May 2011

<sup>76</sup> “New defence materiel strategy announced”, *Ministry of Defence*, 31 May 2011

<sup>77</sup> See Library Briefing SN05024, *Recent Developments at the Atomic Weapons Establishment*, March 2009 for further detail on the operation of AWE.

<sup>78</sup> “DE&S Minister Luff's speech at International Armoured Vehicles 2012 conference”, *DefenceIQ*, 24 February 2012

The outcome of the Materiel Strategy was announced by Philip Hammond, the new Defence Secretary, in July 2012. Mr Hammond said that in reviewing the acquisition process, Mr Gray had identified three interlinked issues: a “historically overheated equipment programme”; a “weak interface” between DE&S and the MOD; and “insufficient levels of business capability at DE&S”.<sup>79</sup>

As a result, Mr Hammond said the Government would examine in detail two possible options: a Government-owned, contractor-operated (GOCO) entity, or an executive non-departmental public body with a strategic partner from the private sector. He said the GOCO option was the stronger of the two. As such, the MOD would focus on developing and testing the GOCO option further. He said if the value for money case for GOCO over ENDPB/SP is conclusive, the GOCO will be tested against a public sector comparator during an investment phase.<sup>80</sup> The public sector comparator would become known as DE&S+, an improved version of the existing DE&S.

The Government’s plans were the subject of considerable attention.

The RUSI Acquisition Focus Group published a series of questions in its briefing on the GOCO options.<sup>81</sup> It concluded:

The GOCO proposal suffers from an inherent weakness, since it seemingly rests on an argument that, because the government is not very good at negotiating and managing contracts with the private sector, it is going to negotiate a contract with a private sector entity to undertake this task on its behalf. Persuasive arguments against this logic need to be marshalled.<sup>82</sup>

The Defence Committee took evidence from a wide range of interested parties and external observers for its inquiry *Defence Acquisition*. The Committee raised some issues about how a GOCO could work in practice, particularly given the international dimensions of defence and defence procurement:

We agree that the current arrangements, constrained by public sector employment rules, are unsatisfactory, and we accept that the decision on the future of DE&S, while urgent, is too important to be rushed. It is clear that a GOCO is not universally accepted as the best way forward, and that there are particular concerns about how the MOD’s overall responsibility for acquisition could be maintained in a GOCO. In particular, we believe that problems might arise if a non-UK company were given responsibility for UK defence acquisition. We further believe it is vital that consultations are satisfactorily concluded with allies, to ensure that there is no adverse impact on cooperation, before any proposals are implemented.<sup>83</sup>

The Committee has subsequently taken further evidence for its follow-up inquiry *Defence Materiel Strategy*.

## 5.2 Assessment phase and White Paper

A final 12 month assessment phase examining two options, the GOCO and a public sector comparator called DE&S+ or DE&S plus, was announced in April 2013. In a Written Ministerial Statement the MOD outlined the steps that would be taken:

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<sup>79</sup> HC Deb 17 July 2012 c123WS

<sup>80</sup> [HC Deb 17 July 2012 c124WS](#)

<sup>81</sup> “The defence materiel strategy and the GOCO proposal for Abbey Wood”, *RUSI Briefing Paper*, July 2012

<sup>82</sup> “The Defence Materiel Strategy and the GOCO Proposal for Abbey Wood”, *RUSI*, July 2012, pp 6–7.

<sup>83</sup> Defence Committee, *Defence Acquisition*, 5 February 2013, HC 9 2012–13, para 133

During this assessment phase, we will work with HMT and the Cabinet Office on the “DE&S+” option to explore the extent of change that could be delivered while keeping the organisation fully within the boundaries of the public sector.

In parallel, a commercial competition will be launched that will enable us to determine with potential private partners how a GOCO would work in practice, and what the costs and benefits would be. By the end of the assessment phase, we would expect to have proposals in a form capable of being contracted, if we decide to proceed with the GOCO model.

We have made no secret of our expectation that the GOCO option is likely to prove better value for money, but we need to test this assumption with the market, to see what can be delivered and at what cost. No decisions have yet been made. At the end of this 12 month assessment phase we will have a comprehensive set of qualitative and quantitative data for both possible operating models which will enable us critically to evaluate the two options and make a final decision about the future of DE&S.<sup>84</sup>

In June 2013 the MOD subsequently published a White Paper fleshing out the details of these proposals. The *Better Defence Acquisition* (Cm 8626) laid out the arguments why reform was needed:

For years, successive governments have struggled to reform Defence Acquisition and support, with little success. The same problems have been identified time and time again, and have remained, apparently intractable, despite our best efforts to resolve them. While balancing the Defence Budget has eased the situation to a degree, there remains a high probability that, unless we are able to resolve the root causes of the problems, programmes will continue to run over time and over budget.<sup>85</sup>

It also outlined how the GOCO model would work:

The MOD is proposing to introduce a GOCO model, by letting a contract with a private sector contracting entity. The Contracting Entity will operate on behalf of the MOD a limited company (the Operating Company) into which certain services currently being provided by DE&S will be transferred, together with the employees providing those services. The Government would own a Special Share in the Operating Company on national security grounds. On expiry or termination of the contract, the Operating Company would either transfer to a new company or revert back to MOD.<sup>86</sup>

In effect, under this option a private sector organisation would have responsibility for the entire defence procurement and support budget over the next nine years (the length of the contract). It would be responsible for delivering the MOD’s current ten year, £160 billion equipment plan, including the replacement of elements of the UK’s nuclear deterrent beyond 2016.<sup>87</sup>

In response, the then Shadow Secretary of State for Defence, Jim Murphy, said:

I wish to be clear that welcoming this process today is not the same thing as supporting a GOCO in principle. There needs to be rigorous examination of all the possible options and a robust comparison between the two options of a GOCO model and DE&S+. That comparison should rest on the principles of ensuring value for money within programmes; industry adhering to new targets on time and cost;

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<sup>84</sup> HC Deb 25 April 2013 c62WS

<sup>85</sup> *Better Defence Acquisition: Improving how we procure and support Defence equipment*, Cm 8626 para 14

<sup>86</sup> *Better Defence Acquisition: Improving how we procure and support Defence equipment*, Cm 8626 para iv

<sup>87</sup> [HC Deb 10 June 2013 c55](#)

maintaining parliamentary accountability; enhancing a culture of consequence for decision makers; and military involvement being based on tri-service working, not on single-service rivalry.

[...]

In conclusion, we will support what we hope is a genuine competition. We will scrutinise the processes carefully, because efficient and effective defence procurement is essential, not just for the Ministry of Defence bottom line, but for the remarkable men and women of our armed forces, whom we place in harm's way to serve on the front line.<sup>88</sup>

Mr Hammond gave a timescale of a decision in summer 2014 “with a view to the new arrangements, whether GOCO or DE&S, being stood up before the end of 2014.”<sup>89</sup>

Primary legislation is required to convert DE&S into a GOCO and the Government introduced the Defence Reform Bill in July 2013. It received Royal Assent on 14 May 2014. See section 6 for more on the Act.

### 5.3 Abandoning the GOCO

On 10 December 2013 the Defence Secretary announced he was halting the competition because it had only received one proposal from the two consortia remaining in the process. Philip Hammond said that with only one bidder remaining in the competition, the public sector comparator that the MOD had been developing (known as DE&S plus or DE&S+) would not generate enough competitive tension to ensure an effective outcome for the armed forces and value for money for the taxpayer: “we do not have a competitive process. I have therefore concluded that the risks of proceeding with a single bidder are too great to be acceptable.”<sup>90</sup>

The decision was not entirely unexpected as Mr Hammond had informed the House in mid-November that, with only one bid received from a commercial consortium, it was considering whether to proceed with the process.

#### *The lead up to the announcement*

When the Invitation to Negotiate was released in July 2013 there were three consortiums who met the pre-qualification criteria:

- Atkins/Serco/CH2MHill/SAIC
- Bechtel/PWC/PA
- KBR/URS/Balfour Beatty/Deloitte

However the KBR/URS/Balfour Beatty/Deloitte consortium withdrew from the competition shortly after, raising concerns about there being only two consortia left.

The Minister for the Cabinet Office wrote to the Secretary of State for Defence recommending that if one of the remaining bidding consortia dropped out, a review of the viability of the competition should be conducted. As a result, the Defence Secretary told the House, in a written statement on 19 November 2013, that he requested a review of the

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<sup>88</sup> HC Deb 10 June 2013 c53-54

<sup>89</sup> HC Deb 10 June 2013 c55

<sup>90</sup> [HC Deb 10 December 2013 c147](#)

process by the MOD and the Cabinet Office. That review was published on the same day as the written statement. The review observed that:

The Materiel Strategy Programme is inherently capable of delivery by only a small number of firms/consortia, and therefore any competition is unlikely to generate more than four or five realistic bids. Given its size and uniqueness in the UK, it is not wholly unexpected, although less than desirable, that only two bidders were able to proceed by the issue of ITN (invitation to negotiate).

[...]

The competitive field for DE&S is not extraordinarily small. Typical US GOCO competitions field only two-three bidders.<sup>91</sup>

The review concluded that with two remaining consortia “a viable competition currently exists but with significant risks attached” but recommended “a formal stop/go decision is taken if the market reduces further prior to preferred bidder stage.” The review also stressed the in-house alternative being developed by the MOD, known as DE&S+, as of “key importance to both the procurement process as an additional competitive pressure, and to provide a viable alternative if the market fails to deliver in the short or medium term.” It recommended the leadership and resourcing of DE&S+ be enhanced and further support should be sought from the Treasury and Cabinet Office to ensure that it was a “credible, fully developed and deliverable alternative.”<sup>92</sup>

One of the two remaining bidding consortia – the Portfield consortium (CH2M Hill, Serco and Atkins) – withdrew from the competition in mid-November. The Secretary of State informed the House of this in a written statement on 19 November 2013. He described their withdrawal as “regrettable” and noted that the “reduction in competitive tension will make it more challenging for the Department to conclude an acceptable deal with the remaining bidder, notwithstanding the competition from the DE&S+ bid, which will be received shortly.” He said the Government would now have to make a decision as to how to proceed:

The Department, with the Cabinet Office and HM Treasury, will now study the detailed proposal received from Matériel Acquisition Partners (led by Bechtel with PA and PwC in support), which is substantial at over 1,200 pages. In parallel, the DE&S+ team will continue to refine and enhance their proposition. This analysis will inform a decision on whether it is in the public interest to proceed with only a single commercial bidder and an internal option, or whether alternative approaches should be considered and a further statement will be made once this process is complete.<sup>93</sup>

The Shadow Secretary of State for Defence, Vernon Coaker, said “the withdrawal of one of only two consortia raises huge questions about the viability of the entire GOCO process under this Government.”<sup>94</sup>

The Defence Secretary and Bernard Gray gave the reasons given by CH2M Hill for not tendering a bid to the Defence Committee in February. They understand CH2M Hill were not

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<sup>91</sup> Cabinet Office and Ministry of Defence, *Report to the Secretary of State: Viability of the Materiel Strategy procurement*, November 2013, DEP2013-1845, paras 10-13

<sup>92</sup> Cabinet Office and Ministry of Defence, *Report to the Secretary of State: Viability of the Materiel Strategy procurement*, November 2013, DEP2013-1845

<sup>93</sup> [HC Deb 19 November 2013 c44-45WS](#)

<sup>94</sup> “The Defence Secretary needs urgently to clarify plans to allow a Government-Owned, Contractor-Operated Service to run Britain’s Defence Procurement – Coaker”, *Labour press release*, 19 November 2013

confident they could make a return on the investment they would have to make if they won the contract:

I think our judgment is that they felt that they could not be confident of the returns they would earn on the investment that they believed they would be required to make up front in order to deliver the transformation, given the very tough stipulations that we made in the ITN—the invitation to negotiate—which were designed to protect the taxpayer, in the sense of ensuring that we were not delivering reward to a GOCO partner unless they could demonstrate that they were directly responsible for the saving that gave rise to the remuneration.<sup>95</sup>

### *Halting the competition*

The Defence Secretary informed the House on 10 December 2013 that he was halting the competition:

The heart of our approach was to test the market's appetite for delivering a GOCO along the lines we had set out, using the competitive process to drive innovation and value. We have always recognised that there are risks inherent in the GOCO approach. With only one bidder remaining in the competition at this stage, I have had to make a judgment about whether the public sector comparator alone would generate sufficient competitive tension to ensure an effective outcome for the armed forces and value for money for the taxpayer.

I wish to place on record that Materiel Acquisition Partners has engaged effectively with the very challenging brief we set out. It has presented us with a credible and detailed bid, but we do not have a competitive process. I have therefore concluded that the risks of proceeding with a single bidder are too great to be acceptable.<sup>96</sup>

Mr Hammond endorsed the GOCO as a “potential future solution to the challenge of transforming DE&S” but, in the meantime, outlined plans to build on the DE&S+ proposition to enable it to become “match-fit” as the public sector comparator for a future market testing of the GOCO proposition. This would take the form of a bespoke central Government trading entity from April 2014, with a hard boundary with the rest of the MOD, a separate governance and oversight structure and “significant freedoms and flexibilities, agreed with the Treasury and Cabinet Office, around how it recruits, rewards, retains and manages staff along more commercial lines.”<sup>97</sup>

The Shadow Defence Minister, Vernon Coaker, said in response:

His flagship policy on defence procurement has come crashing down around him—not so much GOCO or DE&S plus, but a no-go and D-minus for the Defence Secretary. It is another embarrassing U-turn from the Government.<sup>98</sup>

He described the situation as a “mess” and that the new entity “poses more questions than it gives answers.” He said:

Does the Secretary of State really expect the House and the country to think that this is anything other than a last-ditch attempt to rescue what is left of the Government's

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<sup>95</sup> Defence Committee, *Oral evidence: The Defence Materiel Strategy*, 12 December 2014, HC 876 2013-2014, Q1

<sup>96</sup> [HC Deb 10 December 2013 c146](#)

<sup>97</sup> [HC Deb 10 December 2013 c148](#)

<sup>98</sup> [HC Deb 10 December 2013 c148](#)

credibility, and to try and hide the shambles and chaos that are engulfing the Ministry of Defence?<sup>99</sup>

Mr Coaker later told *The Independent*, upon the creation of the new entity, that “the Government’s botched procurement plans have caused confusion and demoralisation at DE&S. The complaints from industry about unclear lines of communication and poor management of major projects can’t go unheard. The Defence Secretary needs to listen and act.”<sup>100</sup>

Lord Levene of Portsoken specifically avoided duplicating the work of Bernard Gray when he conducted his review of defence in 2011.<sup>101</sup> However in his second annual review, sent to the Defence Secretary in mid-November 2011, he endorsed the DE&S plus model that the new entity is based on.<sup>102</sup>

The new entity is explored fully in section 2.

#### **5.4 Will the GOCO proposition be revived?**

Quite possibly, though not in the current Parliament. Philip Hammond said in his December 2013 statement that DE&S needs to be transformed to make it ‘match-fit’ as a public sector comparison if a future Government wishes to do so:

All the evidence from this competition tells us that GOCO can deliver a value for money proposition for the taxpayer. To make it contractible, we will have to develop the DE&S proposition significantly so that it has a better and stronger baseline against which potential contractors can measure their return, and so the Department can be confident that we are not giving away public money in any contract we enter into. It remains a possibility for the MOD, once DE&S-plus is match fit, to consider running the GOCO competition again to test the proposition, in the interests of the armed forces and taxpayers, and to challenge the private sector to come forward with a proposal that will deliver value for money against the match-fit DE&S.<sup>103</sup>

As it stands, the GOCO scheme is, in the words of Professor Trevor Taylor, “in cold storage but capable of being revived.”<sup>104</sup>

## **6 The Defence Reform Act 2014 and future Parliamentary Action**

The Defence Reform Act received Royal Assent in May 2014. The Act contains three parts, part 1 of which establishes the arrangements for reforming Defence Equipment and Support and turning it into a Government-Owned, Contractor-Operated organisation.<sup>105</sup>

The Act requires the Secretary of State for Defence to publish and lay before Parliament a report on “the options for carrying out defence procurement” if it decides to pursue the GOCO option. The report must include an impact statement regarding the proposed arrangements. In addition, any statutory instrument containing an order in respect of Part 1

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<sup>99</sup> HC Deb 10 December 2013 c149

<sup>100</sup> “Critics take aim at latest scheme to outsource MoD procurement”, *The Independent*, 26 May 2014

<sup>101</sup> “Defence Reform: an independent report into the structure and management of the Ministry of Defence”, June 2011

<sup>102</sup> “Defence Reform: second annual review”, *Lord Leven of Portsoken letter to the Secretary of State for Defence*, 13 November 2013

<sup>103</sup> HC Deb 10 December 2013 c151

<sup>104</sup> Trevor Taylor, “British defence-acquisition reform, three years on”, *RUSI Journal* February/March 2014, v159.1, p32-38

<sup>105</sup> There are two other parts to the Bill: part two, concerning single source contracts, and part 3, amending regulations governing the Reserve Forces.

(the relevant section of the Act) to be made by affirmative procedure. These are contained in clause 50(3) of the *Defence Reform Act 2014*.

### **6.1 Requirements for a ‘White Paper’**

The decision to abandon the GOCO competition came on the Bill’s Second Reading in the House of Lords. As such, it dominated Second Reading and was discussed at length in Committee and at Report.

The discussions fell into two broad areas: whether Part 1 should remain in the Bill, in light of the Government’s decision not to proceed with the GOCO competition; and, if Part 1 is to remain in the bill, what level of parliamentary oversight is required by statute if a future Government decided to pursue the GOCO option. In response to concerns voiced by Members of the House of Lords, the Government introduced two amendments concerning parliamentary oversight and scrutiny. These are contained in clause 50.

Lord Rosser, the Shadow Defence Minister in the House of Lords, argued persistently against retaining Part 1. His view was keeping Part 1 in the Bill enabled a future government to change DE&S into a Government-owned, Contractor-operated body and it should therefore be up to a future government to bring in the necessary legislation:

Since it will be a future Government who will take the decision to make a radical change in our defence procurement arrangements, if that is what they decide, it is that Government, not a Government who have decided not to make the change during their term of office, who should have their proposals and reasons for the change subject to full scrutiny by Parliament through a Bill.<sup>106</sup>

At the Committee stage the Government moved an amendment to provide for any statutory instrument containing an order in respect of part 1 to be made by affirmative procedure, thereby enabling both Houses the opportunity to consider Part 1 before its commencement.

The Government moved an amendment at Third Reading making it a statutory requirement for a future Government to publish information on the GOCO options before the order commencing Part 1 is brought forward. This was an endorsement of amendment 9 at Report, which had been moved by Lords Craig, Stirrup, Levene and Roper, which had called for a White Paper and impact statement to be published. New clause 50(3a)-(3e) requires the Secretary of State to publish and lay before Parliament a report on “the options for carrying out defence procurement”. This report must include an impact statement regarding the proposed arrangements. Lord Astor of Hever, Parliamentary Under Secretary of State and the Lords Spokesman on Defence, made it clear in the Third Reading debate that, although the new clause did not refer to publishing a White Paper, it “reflects that commitment”.<sup>5</sup> Lord Craig gave the Government’s amendment at Third Reading his support, as did Lord Rosser for the Labour opposition.

### **6.2 Passage of the Bill**

The Defence Reform Bill was introduced to the House of Commons in July 2013. Part 1 of the Bill establishes the arrangements for reforming Defence Equipment and Support (DE&S), the procurement arm of the Ministry of Defence, and turning it into a Government-Owned, Contractor-Operated (GOCO) organisation. There are two other parts to the Bill, concerning single source contracts and amending regulations governing the Reserve Forces.

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<sup>106</sup> HL Deb 3 February 2014 cGC11

The Bill completed its remaining stages in the House of Commons on 20 November 2013 and was introduced into the House of Lords on the 21 November 2013. Third Reading was on 2 April 2014. The Bill returned to the Commons on 29 April 2014 and granted Royal Assent on 14 May 2014.

### **6.3 Library material on the Defence Reform Act**

Detailed background on the bill was provided in Library Research paper 13/45, [Defence Reform Bill](#), which was prepared for the Bill's second reading in the Commons. Notes on specific stages of the Bill are as follows:

- [Defence Reform Bill: Public Bill Committee stage](#), House of Commons Library Standard Note 06732
- [Report Stage and Third Reading of the Defence Reform Bill](#), House of Commons Library Standard Note 06768
- [Defence Reform Bill](#), House of Lords Library Note LLN 2013/038
- [Defence Reform Bill: Lords Amendments](#), House of Commons Library Standard Note 06869

## 7 Appendix A: Key Features of Organisations

This table was provided by the Ministry of Defence to the Defence Committee in written evidence to illustrate the key features of a bespoke central government trading entity, as opposed to an Executive Agency, a Trading Fund, a GOCO or retaining DE&S as it was pre-April 2014.<sup>107</sup>

Key Feature	DE&S (as was)	Executive Agency	Trading Fund	GOCO	Bespoke DE&S Central Govt Entity
<b>Status</b>	Part of the Department forming a Top Level Budget within the MOD	Part of a Dept	Part of a Dept (in some instances can be a department in its own right)	Central Government body but legally separate corporate identity	Part of a Dept
<b>Crown Body</b>	Yes	Yes	Yes	[No]	Yes
<b>Established by</b>	Administrative Action	Administrative Action	Set up through a Statutory Instrument under the Government Trading Funds Act (GTFA)  1973	Administrative Action supported by legislation	Administrative Action
<b>Governance</b>	4* Chief of Defence Materiel (CDM) supported by a board	CEO supported by a board	CEO supported by a board; the board is led by an independent non-executive Chair and includes non-execs	CEO responsible to the Governor for the operation of the GOCO and accountable to Parliament for the expenditure of public money.	CEO (Chief of Defence Materiel) supported by a board led by an Independent non-executive Chairman and non-executive directors.
<b>Ministerial accountability</b>	Accountable to Departmental Minister	A Minister in the parent Dept makes key decisions on the agency's affairs	Under the "control and management" of a responsible Minister	A Minister will retain responsibility for the oversight of the GOCO	Under control and management of responsible Minister

<sup>107</sup> "Supplementary evidence from the Ministry of Defence", *Defence Committee*, 12 February 2014

<b>Key Feature</b>	<b>DE&amp;S as was</b>	<b>Executive Agency</b>	<b>Trading Fund</b>	<b>GOCO</b>	<b>Bespoke DE&amp;S Central Govt Entity</b>
<b>Parent Dept</b>	Has direct control	Has direct control	Under the “control and management” of a responsible Minister, the main mechanism being through the Owner’s Council	Control via MOD Governor organisation.	Control and management exercised via responsible Minister  Main mechanism is through the Owner’s Council
<b>Funding</b>	Through Departmental Estimate	Estimates and/or fee income Included within parent Department Estimate.	Financed primarily from its trading income by charging customers for the delivery of goods and services. Expenditure and income are not reported in the Estimates process	Hard Charging Expenditure and Income are not reported in the Estimates process	Through Departmental Estimate and trading by charging MOD customers for services to deliver the Equipment Programme.
<b>Employees</b>	Crown Servants  (civil servants and military personnel)	Crown Servants  (civil servants and military personnel)	Crown Servants  (civil servants and military personnel)	Public sector employees	Crown Servants  (civil servants and military personnel)
<b>Accounts etc</b>	Publishes plans and accounts as part of parent department’s central accounts	Publishes own plans and Annual Report and Accounts. Accounts are consolidated into those of the parent Department.	Publishes its own plans and Annual Report and Accounts that are not consolidated with its parent department’s accounts	Accounts are not consolidated into the accounts of the department.	Publishes own plans and Annual Report and Accounts. Accounts are consolidated into those of the parent Department.
<b>Ability to retain a cash surplus</b>	No	No	Yes  It is also expected to generate a financial return commensurate with the risk of the business in which it is engaged.	N/A	To be determined

<b>Key Feature</b>	<b>DE&amp;S as was</b>	<b>Executive Agency</b>	<b>Trading Fund</b>	<b>GOCO</b>	<b>Bespoke DE&amp;S Central Govt Entity</b>
<b>Parliamentary Accountability</b>	Through Departmental PAO. CDM as TLB holder is not an Accounting Officer.	CEO is Agency Accounting Officer (under designation/delegation by the departmental PAO); oversight by Department PAO	CE is appointed by HMT as the Accounting Officer for the Trading Fund and is personally accountable to Parliament; oversight retained by Departmental PAO. Division of responsibilities between Departmental PAO and Trading Fund AO articulated in Framework Document.	CEO is accountable to Parliament for the operating costs of the business. Equipment programme expenditure remains with MOD	CEO is an additional Accounting Officer (under delegation from departmental PAO) Division of responsibilities between Departmental PAO and CEO as AAO articulated in the Framework Document.
<b>Freedoms and Controls</b>	No additional freedoms above those negotiated at Departmental level	Right to pay, grade, promote and manage staff should be delegated to the CE (from the Permanent Secretary). Agencies should be able to vary terms and conditions to respond to local employment market conditions - requires freedoms as agreed with CO/HMT. SCS staff remain responsibility of parent department	Department Perm Sec delegates responsibility for terms and conditions of service of staff (noting they remain civil servants) including pay, grade, promote and manage staff and have their own policy framework (HR, finance) SCS staff remain responsibility of parent department. Ability to obtain freedoms as agreed with CO/HMT	Significant HR and operating freedoms due to change in status of staff.	Right to pay, grade, promote and manage civil service staff delegated to the CE. Will have/seek/obtain significant freedoms to operate outside those of the core civil service as agreed by CO/HMT.

## Appendix B: Timeline

- 1 April 2007 – Defence Procurement Agency (DPA)<sup>108</sup> merged with the Defence Logistics Organisation (DLO) to form Defence Equipment and Support.<sup>109</sup>
- October 2009 – The [independent review into defence acquisition](#), led by Bernard Gray before his appointment as Chief of Defence Materiel, is published. One of the main recommendations of the report was for the status of DE&S to be changed. The proposal for establishing DE&S as a GOCO was touted for the first time.
- 15 October 2009 – A [Written Ministerial Statement](#) sets out the MOD's initial responses to the Gray report. At the time the MOD rejected the recommendation that DE&S be restructured into a GOCO.
- February 2010 – The Green Paper [The Defence Strategy for Acquisition Reform](#) (Cm 7796) is published.
- October 2010 – The Strategic Defence and Security Review is published. It acknowledges the earlier Green paper on acquisition reform and announces that defence acquisition will be considered as part of the overarching programme of defence reform.
- December 2010 - The consultation paper [Equipment, Support and Technology for UK Defence and Security](#) (Cm 7989) is published. The paper makes mention of acquisition reform, and invites comments, but acknowledges that further work is being taken forward as part of the wider programme on defence reform.
- December 2010 – Bernard Gray appointed Chief of Defence Materiel.
- 20 April 2011 – The [restructuring of DE&S management](#) is announced.
- 31 May 2011 – The new [Defence Materiel Strategy](#) is announced.
- 13 June 2011 – The Major Projects Review Board is stood up.
- June 2011 – Lord Levene's report [Defence Reform, An independent report into the structure and management of the Ministry of Defence](#), is published.
- End of 2011 - Bernard Gray reportedly submitted his review of DE&S to the Secretary of State for Defence immediately prior to Christmas 2011. That report is not publicly available
- February 2012 – the White Paper [National Security Through Technology: Technology, Equipment and Support for UK Defence and Security](#) is published.
- 17 July 2012 – The MOD makes a [statement on the future of DE&S](#). In that statement the Secretary of State for Defence confirmed the case for the GOCO option is stronger than that of an executive non-departmental public body.

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<sup>108</sup> Previously the MOD Procurement Executive, the DPA was established on 1 April 1999 as one of the recommendations of the 1998 Strategic Defence Review.

<sup>109</sup> One of the main recommendations in the 2006 report *Enabling Acquisition Change*.

- January 2013 – the 10-year Defence Equipment Plan is published for the first time.
- 25 April 2013 – [the final assessment phase for the restructuring of DE&S was announced in the House](#). Expected to last 12 months, this period of assessment will examine two options for DE&S: the public sector comparator (DE&S+) and a GOCO.
- 19 November 2013 – The MOD makes a [statement confirming it has received one bid](#) for the GOCO. The Secretary of State for Defence says the Government will now consider the way forward.
- 10 December 2013 – The MOD makes a [statement cancelling the competition](#) for the GOCO. The Secretary of State for Defence announces DE&S will become a bespoke government trading entity.
- 1 April 2014 – DE&S becomes a bespoke government trading entity.
- 14 May 2014 – the MOD makes a [statement confirming the transformation](#) of DE&S into a trading entity. Copies of the Framework Document and the Corporate Plan are published and laid in the Library of the House.