

# SMART PROCUREMENT THE UK MODEL

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## ABSTRACT

One of the first conclusions to emerge from the Strategic Defence Review presented by the UK Secretary of State for Defence was the need for a radical reappraisal of the way defence procurement is carried out. The Smart Procurement initiative announced in July 1997 was aimed at adapting procurement processes to meeting the challenges of keeping pace with the fast rate of technological change, given the length of the procurement cycle.

The article outlines the roles and work of the Ships Support Agency within the framework of the Smart Procurement initiative. Directing engineering and material support of the Fleet of the Royal Navy and other customers as well as ensuring that proper consideration is given to support issues and design requirements during the procurement process.

My staff provides capable vessels for the Royal Navy, supporting ships and submarines throughout their long operational lives. The way we carry out that complex task is changing with the introduction of Smart Procurement, an initiative that brings with it new techniques and new ways of working, both within the UK MoD and in the defence industry. It brings fresh powers and responsibilities, and it aims to cut through the bureaucracy that, at times, has stopped us from giving our best. This represents a major change for all of us and we are on a steep learning curve. Testing this new approach has brought several surprises along with the anticipated rewards.

### **Continuing the 'Smart' tradition**

We would like to think that our methods of working have always been 'smart'. For example, we pioneered many of the initiatives which have become the cornerstones of smart procurement, including multi-disciplinary working groups, in which specialists from a wide variety of technical and non-technical backgrounds worked closely together on major projects. Smart Procurement takes the concept forward in one huge leap to deliver true cradle-to-grave support for our customers in the fleet, using the Integrated Project Team (IPT) as its vehicle.

Each IPT will have responsibility for a piece of defence equipment from its concept, through development and testing, throughout its in-service life and beyond, to its eventual disposal. The team members will change, of course, but the team will remain a working unit with a leader who bears ultimate responsibility for delivering that equipment to the front line. Crucially, expertise built up in a particular project will not be dissipated or disrupted by organizational factors such as an administrative move from the procurement area to in-service support.

With these new levels of responsibility comes a new scope of power, in particular the authority to identify better and more efficient ways of supporting equipment, and to make those improvements happen. Smart Procurement places far greater power in the hands of the IPT leader, and offers that individual the chance to trade off the benefits of cost and time when managing repairs, upgrades or refits. The team leader may decide, for example, whether

it is more important to get the job done quickly or whether saving money should have greater priority. He or she is supported in the task by a team which includes all the expertise, in the form of financial planners, project managers and contracts experts, to provide the appropriate support and management information. Unusually for the UK, the IPT concept also includes industry, whose members are only excluded during the competitive phases of any project.

From the announcement of the Smart Procurement initiative, as part of the Britain's far-reaching Strategic Defence Review (SDR) in 1998, pilot teams have been established and the process of transforming the way that major naval equipment is procured and supported is well under way.

### **The Frigate IPT**

One of this first wave of IPTs is the Frigates IPT, which was created as a pathfinder for the new method and is located within the Ships Support Agency (SSA). It carries out a particularly large and complex task; its leader controls the maintenance and upgrades of the Royal Navy's entire force of thirteen in-service Type 23 and seven in-service Type 22 frigates, and staff will oversee construction of the final batch of three Type 23 ships, too.

The team is only some nine months old, but already it has created an integrated system of management for the through-life support and the upgrade management of all these ships. Previously, responsibilities were split between two organizations within the MoD:

- The upkeep of vessels was managed by the SSA.
- Vessel upgrades were managed by the Procurement Executive, now re-named the Defence Procurement Agency (DPA).

With effect from April 1, 1999, the SSA has become part of Britain's new tri-service support organization, the Defence Logistics Organization, which will replace the single-service support commands in April 2000. Although the DPA will contain many of the IPTs, certainly in the earlier phases of the life cycle of a major project, they will transfer to the support area at some point.

The Type 23 IPT project started life on 2 November 1998, but before we could begin in earnest we had to prepare the ground. We needed to form the team, which was fully complemented by early May 1999, to work out how that team was to handle its customers and what exactly its relationship was to be with them. We needed to set and pursue targets, work out lines of accountability and involve industry.

We very quickly learned two main lessons:

- First, that communication is the key to the whole process.
- Second that we needed to ignore current practice, which organised work according to functional areas (radar, weapons engineering, marine engineers, etc), and re-organise our team so that they worked according to output and process.

The team examined every area of activity that affects their frigates, whether it was an equipment or a service, and devised a scoring system to establish which factors they should control, and which they should not. Having scored all areas of the project they categorized factors into three zones.

#### *Zone A*

Contained activities, which would be managed and funded within the IPT.

#### *Zone B*

Contained those activities, which would be funded but not directly managed.

*Zone C*

Those neither funded nor managed by the IPT at all.

In this final category, for example, the Frigates IPT decided that it should not take on responsibility for helicopter support, nor (unsurprisingly) responsibility for ships' crews.

The pace was fast, and intentionally so. Face-to-face briefing and true empowerment for the team meant that they achieved clearance for the organization in three days, a bureaucratic and political nicety that could have taken several months under the previous system.

**Working with Industry**

One big surprise came when we ran seminars inviting views from industry on the ways that they expected to participate in this new process. In fact, those members of the defence industry who turned up were looking for us to tell them, in clear and precise terms, what would be expected of them under this new way of working. We had to re-think the problem jointly with industry, and after discussion we have decided to set up a joint improvement team—a team of 10 people working for 12 months initially. We are under no illusion that delivering the expected benefits will be a tough task, but both industry and the MoD are going to give it their best shot in the Frigates IPT. The opportunity exists and we have grasped it; there is no doubt that the IPT concept is bound to produce some results, since it is an incentive system, with all team members sharing the benefit of efficiency savings.

Changes in the defence industry world-wide mean that, in some sectors, true competition is hard, if not impossible to achieve. The Smart Procurement concept rests on the principle that the blunt instrument of competition is not the only way to become more efficient, and seeks to build a collaborative relationship with industry, and a more flexible, intelligent approach to achieving our savings targets. Only those in industry can truly know whether they are prepared to work in this way, and there is still some way to go before we can confidently predict what the exact result will be. But we can be confident of two things: that the budget available to defence will continue to fall, and that the relationship between the defence industry and the MoD will change. Skill sharing and collaboration will play at least as big a part in that change as raw competition.

The joint industry-MoD improvements group in the Frigates IPT set itself ambitious targets, aiming to achieve:

- 20% off the cost of making operationally effective ships available to the Fleet.
- 30% off the time taken for a Fleet-wide upgrade.

This is hugely challenging, but we are confident that we can get very close indeed to these targets. So far we have positive plans to achieve half the cost savings.

**Initial successes**

We have identified ways of saving 24 months on the time it takes to achieve a Fleet-wide up-grade, and of ensuring we fit equipment at the first possible opportunity. This is especially important, as it makes a very real difference to our customers in the Royal Navy. One innovation that the IPT introduced is the establishment of an account manager for each class. This IPT member, who is in almost continuous contact with the Frigate squadrons, makes sure that there is a constant close understanding between the front line and those responsible for supporting them, helping to establish priorities and create a better understanding of each other's business. Already, we have demonstrated

just what can be achieved by integrating our maintenance periods and capability upgrades. HMS *Kent* will be an early beneficiary of Smart Procurement when we take advantage of an Assisted Maintenance Period to carry out some upgrade work, flexibility we simply did not have before.

As Britain's defence forces move towards the incremental acquisition of new technology, the IPT method of working will continue to allow us to upgrade much faster and in a way which integrates with the Fleet's needs and priorities. Maintenance and upgrade can never be seamless, but we have already found ways to make improvements.

The project team also has a far larger package of work in prospect, as the MoD considers ways to extend the operational life of the Type 23 class. When the Type 23 frigate was designed and commissioned, procurement theory at the time held that costly upgrades would become a thing of the past and our ships would be replaced with a new build at around the 18-year point.

### **The Ship Life Extension Programme**

Today, studies are underway into a Ship Life Extension Programme that could begin around 2005 and extend the operational life of the class into the third decade of the next century. These conceptual studies are investigating enhancements to the hull structure, to the power systems and to combat effectiveness. Some of those improvements are already being incorporated into the final three ships in the class. Yet the cost of constructing each ship has fallen by about one fifth between first-of-class and the contract for the final three vessels.

The Type 23 was designed as a lone deep-ocean submarine hunter. But the concept of operations envisaged in the SDR means that it will play a vital role in coastal-water operations, and will require enhanced capability to hunt down diesel-electric submarines. As a result, plans are being made to equip the ships with the potent new Sonar 2087. But even the ship life extension programme does not mark a return to the days of large-scale rebuilds. The concept is still very much of an upgrade to what is already a powerful multi-role vessel. And because a single IPT has complete oversight of the whole class, the whole frigate capability, it is much better placed than ever before to manage even a large transition yet still manage the class in a way that maintains the best operational effectiveness.

### **Feedback**

Our early experiences with the Frigates IPT have been fed back, refining the concept and assisting other teams in their transition to this new way of working. No doubt there are many more lessons in store for us, and for others in the Army and Royal Air Force support sectors. But the IPT concept remains a sound one. We have harnessed technical expertise, project management, financial control and the ability to devise contracts, and we have placed the people with those skills in an environment where they have the power to deliver results and stand to be regarded for doing so. We have encouraged new ways of thinking and new ways of co-operating with industry. There are signs that we will be able to deliver upgrades faster across the Fleet, particularly when equipment carries a low risk or we do not bear a huge burden for development and trial work, which is the perceived pattern for future procurement.

It is planned that the delegated powers extended to IPTs are just part of a de-layering and de-bureaucratisation of the acquisition process. In the future, whole life costs, the true cost of owning and operating equipment, will be taken into account at the outset. The approvals process, which votes taxpay-

ers' money to buy new equipment, will be simpler, with fewer stages, and once approval is granted far more responsibility for delivery against agreed targets will fall to the IPT leader.

Of course, the Frigate IPT has not been the only group carrying out this pioneering work. Parallel work has been carried out in projects for the other two services, and within new equipment projects for the Royal Navy, including the future attack submarine and the future aircraft carrier.

### **Outlook**

Our early foray into the concept of a one-stop shop for frigate support has been very encouraging. Smart Procurement has already brought about improvements. We know that our customer, the Royal Navy, is happy with the progress we have made and that is the real test of our new methods,