

## Defence Industry - UK - November 2016

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“The risks and threats faced by the UK have increased in scale, diversity and complexity since the last SDSR in 2010. Russia’s resurgence, the increasing cyber threat, instability in the Middle East and North Africa, and the growing threat of international terrorism illustrate how the challenge has evolved. The defence industry is continuing to adapt to meet these growing threats.”

**Lewis Cone, B2B Analyst**

This report looks at the following areas:

- **How has Brexit already impacted the industry?**
- **Is the UK adapting to changes and developments in the nature of conflict?**
- **Following the reduction in fleet size, implemented by the 2010 SDSR, is the UK’s military capability still at a sufficient level?**

### Definition

For the purposes of this report, UK public expenditure on defence falls under the heading Total Managed Expenditure (TME). This is segmented into Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME).

DEL is further broken down between resource and capital budgets, with the resource budget formerly known as the current budget, while AME is largely made up by Main Departmental Programmes and locally financed expenditure.

All values quoted in this report are at current prices unless otherwise specified. The term billion denoted one thousand million.

Public Private Partnerships (PPP) cover a variety of procurement initiatives, such as Private Finance Initiative (PFI), Partnering Arrangements, Outsourcing, the Wider Markets Initiative, and the Defence Estates Prime Contract Programme.

PFI remains the cornerstone of the PPP programme. Through PFI, the government is committed to seeking value for money by using private sector management expertise, innovation, and capital investment. This involves the private sector creating or buying a new asset and then selling a range of services based on those assets to the MoD.

A Partnering Arrangement describes a long-term contract based on a partnering ethos until the end of the project. There is not necessarily a clear direction in a Partnering Arrangement, rather this is developed during the life-time of the contract.

Outsourcing, or contracting out, remains a key method of achieving targets set under the Public Service Agreement, with requirements often bundled together under a Multi Activity Contract. Outsourcing contracts are often five to seven years in length. Other forms of PPP are more appropriate when large capital investment is required or if a long-term contract is envisaged.

Prime Contracting is a different approach to the procurement system. A contract is awarded for the delivery of property management services, with payment linked to performance and innovation. The Prime Contractor will co-ordinate and actively manage sub-contractors, and ensure that lower-tier sub-

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contractors are working to the same objectives of meeting standardised targets and improving efficiency. This differs from the traditional method of estate maintenance procurement, which involves many contracts and many contractors and is expensive to operate and difficult to manage.

Wider Markets refers to exploiting spare capacity in assets on a commercial basis to make the best use of equipment, land, skills etc.

Some numbers in tables do not add exactly due to rounding.

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The level of market uncertainty leading up to Brexit negotiations, and the exit itself, will impact the wider economy and the defence industry

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### Further Sources and Contacts

Trade associations

Aerospace & Defence Industries Association of Europe

ADS Group Limited

British Naval Equipment Association

Northern Defence Industries (NDI)

Trade magazines

Aerospace Engineering/Aerospace & Defence Technology (Monthly)

Defence Contracts Bulletin

DefenceEye

Defence Global

Defence Helicopter

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