

**DEFENCE SUPPLIERS FORUM**  
**SECOND MEETING 2016**  
**0930hrs-1130hrs, Wednesday 12 October 2016**  
**5<sup>th</sup> Floor, Pepys Suite, MOD Main Building**

**Government**

Rt Hon Michael Fallon MP	Secretary of State for Defence (Chair)
Nick Hurd MP	Minister of State for Climate Change and Industry, BEIS
Harriet Baldwin MP	Minister (Defence Procurement)
Tony Douglas	DE&S CEO
Louise Tulett	DG Finance
Nick Elliott	DE&S DG Commercial
Ian Gibson	Director, Shipbuilding Strategy
Thomas Bonney	Head of Industrial Policy
Simon Everest	DIT DSO Operations Director
Paul Wyatt	Head of Defence Strategy and Priorities
Charly Wason	Single Source Advisory Team Hd
Niroshan Chandrakumar	Industrial Policy 3 (Secretary)

**Industry**

Ian King	CE, BAE Systems PLC
Archie Bethel	CE, Babcock International Group PLC
Paul Kahn	CE, Airbus Group UK
Victor Chavez	CE, Thales UK
Peter Ruddock	CE, Lockheed Martin UK
Steve Wadey	CEO, QinetiQ
Steve Rowbotham	COO, GDUK
Simon Fovargue	Vice President and GM, Hewlett-Packard Defence
Rupert Soames	Group CEO, SERCO UK and Europe
Dave Armstrong	CE, MBDA
David Pitchforth	Vice President, Boeing Defence UK
Steve Dearden	President Submarines, Rolls-Royce

**Representative from the SME Forum**

Christopher McHugh	Director, Society of Maritime Industries
Ed Bates	Chairman, Aish Technologies

**Apologies**

Norman Bone	Chairman, Leonardo MW Limited
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**1. DEFENCE UPDATE**

Since the last DSF Main, the EU referendum has taken place and a new Government has been formed. The decision to leave the EU will not change UK's position as a key contributor to European security or its position as the leading Defence power in Europe. The Secretary of State is heavily engaged in Brexit discussions including on access to EU markets.

**2. BEIS ROLES, RESPONSIBILITIES AND THE INDUSTRIAL STRATEGY**

The Department for Business, Enterprise and Industrial Strategy (BEIS) has been set up following the formation of the new Government. BEIS is leading work on a cross-Government Industrial Strategy; a key priority for the Prime Minister which supports her vision of "an economy that works for all". BEIS will be working closely with industry and with the MOD, particularly with MOD's work to refresh Defence Industrial Policy and the National Shipbuilding Strategy. In addition to industrial and commercial sectors, the Industrial Strategy will consider education and skills; infrastructure, research, innovation and science; business finance; entrepreneurship; taxation; and corporate governance. Industry should see Britain's departure from the EU as an opportunity for growth. The

BEIS Minister of State for Climate Change and Industry has confirmed his role as co-chair of the Defence Growth Partnership.

### **3. Defence Innovation Initiative**

The Innovation Initiative aims to empower a culture that is innovative by instinct. It is about finding different ways to maintain our edge and advantage over our adversaries. The Innovation and Research InSight Unit (IRIS) has been created to inform the future direction of MOD S&T and the defence and security accelerator to fast track innovative technology. The £800M Innovation Fund will be used to improve the way MOD spends the rest of the Defence budget. As part of a cultural shift that makes this less of an initiative and more routine business, MOD and industry should be prepared to accept failure in order to learn and adapt quickly. Industry's role is crucial since it will often be the source of innovation and industry is encouraged to participate in the Centre for Defence Enterprise Consultation and the ongoing challenge calls they have recently issued. The core innovation team will challenge the justification of red tape with process owners. Industry raised concerns about the effect of Intellectual Property Rights on innovation, particularly in the context of SMEs, this will be fed back to the MOD IPR team.

**Action: Paul Wyatt to provide details to the Forum on how to apply for involvement in the Joint Autonomy Innovation Challenge.**

### **4. Shipbuilding Strategy**

Sir John Parker was invited to act as the independent chair of the National Shipbuilding Strategy. The Strategy aims to put the sector on a sustainable footing for the next 20-25 years; able to meet the requirements of the Royal Navy, maximise export opportunities, deliver value for money, and retain key skills. Following extensive and welcome industry consultation, Sir John's report will be sent to Ministers in advance of the Autumn Statement.

### **5. Industrial Policy Refresh**

SDSR 2015 committed to refresh defence industrial policy within the framework of *National Security through Technology* (2012). The refreshed defence industrial policy is therefore likely to be published as a MOD policy document, rather than as a new white paper. MOD will always strive to obtain the best value for money for the taxpayer, but is determined to do so in a way which benefits the UK economy and wider prosperity, underpinning the new National Security Objective to promote prosperity in the SDSR. Work to refresh defence industrial policy is likely to include new approaches on strengthening the UK supply chain; making it simpler for non-defence sector companies and small and medium-sized enterprises to deal with the MOD; a better long-term approach to skills sustainment; and how requirement-setting takes account of the export potential and opportunities in adjacent civilian markets. MOD expects to begin consultation soon with industry on refreshing defence industrial policy, while continuing to work closely with BEIS to ensure the work is aligned with the cross-government Industrial Strategy. Timescales for publishing the refreshed defence industrial policy have yet to be agreed.

### **6. Single Source Baseline Profit Rate**

MOD is aware that industry has concerns about the Baseline Profit Rate (BPR) centred around the methodology for calculating the rate rather than the rate itself. MOD is keen to make greater use of contracting mechanisms that incentivise cost reduction and reward good performance. The Single Source Regulations Office (SSRO) published and subsequently consulted on their methodology used to calculate the BPR. The methodology for next year will be released in January 2017, and will be sufficiently detailed to allow third parties to replicate the calculation. The process to find a new chairman for the SSRO is on-going. Industry raised concerns about the administrative burden, especially for smaller companies, involved with Qualifying Defence Contracts (QDCs); whether contract extensions had to become QDCs and the impact of the BPR on their appetite for risk and investment.

### **7. AOB**

The next meeting will take place on 9 March 2017 from 10:30-12:30 in the Pepys Suite, MOD Main Building