



Support Contracts – Trust But Verify

Unlike previous UK CLEP White Papers which have offered solutions to well-known Support issues, this paper poses 2 key but linked questions to frame the issues, seek suggestions from IPS practitioners and start engagement with commercial colleagues engaged in Support contracts.

- First, who should perform which functions along the value chain from the customer desired, affordable Support demands to verifiable, deliverable, profitable but value-for-money delivery by suppliers? how do we reconcile the differing commercial incentives of customers and suppliers to set requirements that will deliver coherent, effective, affordable Support in varied, often unpredictable scenarios? How can Support become an opportunity for greater profit to incentivise suppliers?
- Second, how do we reconcile the differing commercial incentives of customers and suppliers to set requirements that will deliver coherent, effective, affordable Support in varied, often unpredictable scenarios? How can Support become an opportunity for greater profit to incentivise suppliers?

A solution to these questions has long evaded consensus perhaps inevitably as it is essentially a commercial issue. But as we enter a period of serious grand strategic threat in which, after years of neglect and lack of investment in the fighting and sustainment capability of our Armed Forces in favour of other social priorities, industry and government are now inextricably bound together in a national imperative to deliver at both scale and pace.

In essence, how do we transform from a starkly competitive commercial relationship to co-operation for mutual benefit? There are 2 dimensions to this dichotomy.

- Each party must fulfil its own specific responsibilities across the value chain while shouldering the risks and opportunities with commensurate reward.
- Just as important but perhaps more difficult, both parties must learn to work together. To paraphrase CDLS's comments in a recent speech, we need ***“Trust built in Peace, Relied upon in Conflict”***, and President Reagan's popularisation of US comments towards the end of the Cold War ***“Trust, but Verify”***.

Who Should do What in Support?

Unrealistic budgets and timescales have contributed to significant endemic cost growth and schedule slippage leading to understandable parliamentary pressure for more effective control to deliver programs on time and meet performance criteria. In response, procurement agencies have consistently increased the volume of instructions and guidance for Delivery Teams¹. The volume is now so great that only the creators appear aware of the details and is leading to conflicting calls for ever more detail but simplification. Large numbers of MOD staff are focused on writing policy while those delivering products are over-stretched. And going forward, HMG wishes to reduce the cost of the Civil Service by 10% which translates into ~20% reductions in headcount.

Similar pressures were experienced after the end of the Cold War through Options For Change, Front Line First, the Defence Costs Review and others. Significant reductions in the headcount of the Armed Forces and civil service, particularly in procurement and especially in Support, were managed by transferring many responsibilities to industry under the guise of Partnering. But as MOD progressively lost its expert customer knowledge in Support, it relied more heavily on industry's perceived, if perhaps unwarranted, expertise but without the commercial backing to require and enforce IPS from the earliest stages of every project. Short-term budgetary pressures reduced expenditure on Support which has consistently reduced our resilience while wasting public money.

¹ Worse, much of this guidance is kept internal to MOD and not freely available to industry.

As we enter another round of MOD workforce reductions but simultaneously require greater resilience, it is time for a fundamental review of **Who Does What in the Support Value Chain?** The MOD cannot afford to set every policy for itself with bespoke guidance when SDR requires NATO First and desires increased Defence export sales.

All organisations believe they need more resources but that is too easy a solution. The harsh reality is that leaders must ask and decide what to stop doing to release resources for priorities. That is never a perfect solution but it is the correct one. To cut its cloth, MOD must focus on what it must do because industry cannot. That means adopting national and international standards and resisting the temptation to adjust them under the guise of tailoring which merely consumes much staff effort for little practical benefit in the short-term.

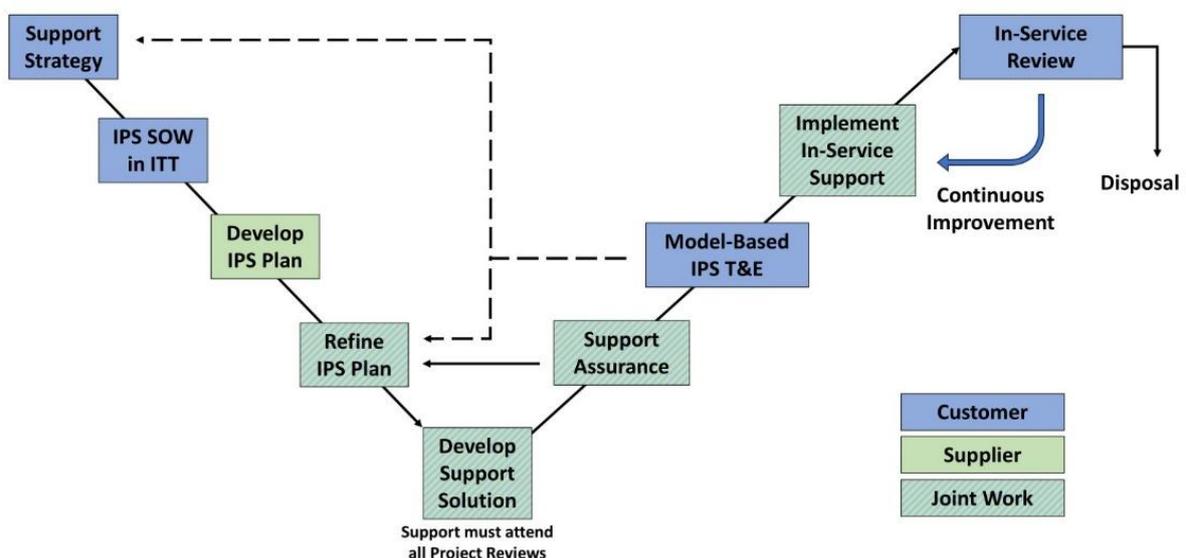
Many would argue that Business Modernisation for Support (BMfS) and the Defence Equipment Engineering Asset Management Systems (DEEAMS) are a major part of the solution to current fragmented and ageing IT systems that are a major root cause of Support weakness. It is true that we need to streamline Defence Support processes and these IT systems should help to enable them. But how much of the Support activity must MOD perform in-house? Without repeating the mistakes of previous efforts to outsource Support, MOD must decide and focus on what it alone can do; a return to the previous common-sense division of **Decider – Provider**.

MOD’s focus must change from **Doing Things Right** to **Doing the Right Things**. Only MOD can perform some key functions:

- Require the adoption of IPS from the earliest stage of every project to Design For Support. The policies and standards are already very clear and universally acknowledged.
- Specify how will the system be used and what existing assets can be re-used. The main product from the Support Strategy is the IPS SOW. It must include the IPS Plan, define the rates and locations of system use and the resources that can be deployed in support in a Use Study.
- Review, clarify, amend requirements proposed by the Supplier through validated trade-offs, and approve the IPS and LSA Plans. These must also define how Support cost and performance will be measured and managed.
- Secure the required short-term (program delivery and initial operating and Support costs) and long-term through-life budgets.
- Assure, but not conduct, the necessary IPS tasks to deliver the required Support. While process assurance is useful, that is primarily a supplier responsibility. MOD must evaluate Support performance and cost using Supportability Modelling & Analysis (SM&A) and simulation in Support Test & Evaluation before Logistic Support Date or contract award.
- Require regular through-life Supportability Audits to generate continuous improvement.

Work on other things is unnecessary and wastes scarce resource.

The process is outlined in the graphic below.



Commercial Incentivisation of Support

Support is a complicated business which consumes large amounts of public funds and can generate big commercial profits. The customer always bears the ultimate price and risk one way or another.

There is a fundamental tension between the Customer's desire for affordable, through-life availability and usage and profitable delivery for the duration of the current contract. Over time, the commercial relationship between customer and supplier has become more adversarial as MOD's lack of Support expertise has deepened.

Whether viewed by the buyer or the seller, commercial pressure to obtain the best price will always be present. Buyers recognise that businesses must make profit, just not too much. Single Source Regulations seek to cap margins while open competition is commonly accepted as the simplest means to assure Value for Money of the price although wider factors such as Most Economically Advantageous Tenders and Social Value are now accepted.

Suppliers naturally resist customer efforts to negotiate prices downwards if that reduces turnover and margin. Over-pressure can create tension and bad behaviour that erodes trust as suppliers are tempted to resort to technical or legal contract loopholes to avoid attribution. Industry also observes that MOD is poor at defining and sticking with its Support requirements which disincentivises adoption of Performance Based Logistics (PBL) and similar arrangements.

Collectively, we need to find a way for Support to become an opportunity for greater profit but not more expensive. As cost and the relationship between risk and reward are the critical factors in pricing, both sides benefit if costs can be reduced through efficiency and effective risk management.

Too many current Support contracts are cut-and-paste lists of traditional DEFCONs. While many of these are important and useful, commercial architects from both sides must become more imaginative and agile. This can be achieved using 3 key contract principles. To have mutual benefit, it must be a Gainshare arrangements such as Target Cost Incentive Fee that promote shared risk behaviour through trade-offs. These can have complex relationships of price caps and risk limits. Secondly, the customer receives some reduction in price but the bulk of any savings are recycled to the supplier either to fund greater Resilience (which increases turnover) or for investment in enhanced capabilities with greater export potential. Lastly, the arrangements must be long-term to secure return on investment or have special contract measures where the customer buys-out any remaining amortisation from early closure.

Finally, trust will only be built on solid foundations where Support costs are clearly identified, demand flexibility is an implicit part of the mechanism, risk is shared and managed appropriately and likely performance and cost are well understood. For this, transparent SM&A using agreed data and assumptions is a critical enabler. Future performance and cost must be simulated in various operational scenarios to project performance indicator metrics for comparison against contract payment mechanisms. Only when all these approaches to **Verify** are in place will sufficient evidence be available for both sides to **Trust** the projections.

Summary

Innovative Support mechanisms can deliver more attractive contracts without adding greatly to their cost. But they require changes in corporate and individual behaviour with grate clarity of requirements, transparency of data and assumptions through SM&A and risk sharing.

We must start to engage more closely with commercial colleagues who work on Support contracts.

These steps will **Build Trust in Peace that we will need to rely upon in Conflict.**