DSR
Directorate of Supplier Relations

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MoD KEY SUPPLIER MANAGEMENT, MOD DEVELOPMENTS IN ACQUISITION - UPDATE

JANUARY 2008

INTRODUCTION

1.   Since 2004, the Directorate of Supplier Relations (DSR) and its predecessor the Supplier Relations Group (SRG) has implemented the MoD's Key Supplier Management (KSM) policy. The aims of KSM are:

- Performance improvement in both MoD Key Suppliers and the MoD;
- Better planning and decision making; and
- Coherence in MoD interactions with Key Suppliers.

        For the past two years, DSR Key Supplier Engagement Managers (KSEMs) have gathered and consolidated the results of the Key Suppliers' views of the Defence Procurement Agency (DPA) and Defence Logistics Organisation (DLO) and *last year's results were compiled and data analysed to reflect the new Defence Equipment & Support (DE&S) corporate structure.*

2.   At the DSR annual seminar in July 2007, a number of industry representatives expressed an interest in receiving an annual report detailing how MoD was addressing industry's concerns captured during the Performance Review process with the aim of developing **an improved understanding within industry of MoD and DE&S Corporate initiatives**. Additionally, DSR hoped that the activity undertaken to develop this pilot report would help maintain awareness within DE&S of the 2006/07 'Key Supplier Annual Assessment of DPA and DLO Performance' report six months on from its release.

3.   The purpose of this report is to:

        a.   expand on the major issues and recommendations raised in the 2006/07 MoD Performance Review **against the MoD's three lowest performing categories**;

        b.   explain the <u>corporate</u> initiatives that the MoD has in place currently and is developing for the future that address the issues and recommendations raised from the 2006/ 07 Performance Review process;

        c.   demonstrate MoD's commitment to the <u>two-way</u> Performance Review process and to corporate reform;

        d.   *<u>raise awareness within MoD</u>*, especially those developing or managing related initiatives or policy, *of Key Suppliers' concerns*; and

        e.   <u>obtain industry feedback</u> on the reforms and initiatives which MoD is undertaking in response to the 2006/07 Performance Review.

        The report does not attempt to capture the large number of initiatives underway at project and Cluster level within DE&S to address local and project-specific issues highlighted by Key Suppliers as part of the KSM performance review process in each area.

4.   Developing this report involved **reviewing the performance issues** raised within the consolidated 2006/07 'Key Supplier Annual Assessment of DPA and DLO Performance' and separate 'Annual Assessments of Key Suppliers Performance' reports *to ensure recurring themes or pressing issues had been identified.* During this process DSR sought to obtain information about new initiatives that may address some of the issues raised and, over a period of time, lead to an improvement in MoD performance. This report was produced and drafted following consultation with the appropriate Departmental initiative or policy lead.

5.   The MoD has embarked on a wide ranging programme of change to the way it undertakes acquisition. These changes are being implemented by the Defence Acquisition Change Programme (DACP) which included the creation and development of DE&S. These significant changes are already addressing many of the issues raised by Key Suppliers. Annexes A and B contain further details about the DACP and DE&S formation including an update on recent developments. The gathering and collection of Key Supplier views therefore becomes even more important to us than it was before and has been built into the new arrangements for assessing acquisition performance, giving visibility to those views at the highest levels within the Department and informing our decisions about how best to shape DACP going forward.

BACKGROUND

6.   Following the merger of the DPA and DLO to create DE&S, an updated report on the outcome of the 2006/07 annual Performance Reviews was submitted, in May 2007, to each Director General (DG) cluster in DE&S and was copied more widely across DE&S (e.g. with key functional or process owners) and the wider MoD. The data obtained was consolidated and analysed by the DSR Key Supplier Engagement Management (KSEM) teams. This was the second such report that had been produced. **As part of the '360 degree' process, a significant number of MoD's Key Suppliers completed (by e-mail, interview or workshop) a total of 426 project questionnaires covering the performance of 108 Integrated Project Teams (IPTs).**

7.   On average, the Key Suppliers scored the DPA and DLO overall performance as 'Highly Performing' at 6.5 out of 10. The Key Suppliers considered 99% of the IPTs to be performing 'Satisfactorily' (i.e. scoring 5 or above).

8.   Of the categories examined within the 'Supplier on MoD Performance Maturity Model' (Annex C), the three lowest scoring categories for MoD were:

> **Management of People:** the Key Suppliers scored MoD performance at **6.1**. This was down from the previous review score of 6.4.

> When completing the marking of this category, participants were asked to consider whether the skills matrix and number of staff employed was appropriate and deployed at the right level to deliver.

> **Commercial Management:** the Key Suppliers scored MoD performance at **6.1**. This was up from the previous review score of 5.7.

The Commercial Management category was marked by considering whether all parties had an understanding of each others' business drivers, the resultant contract and that the appropriate "Commercial Tools" were used effectively to optimise delivery.

Quality of Output: the key Suppliers scored MoD performance at **6.1**. This was down from the previous review score of 6.5.

The Quality of Output category considers quality and timeliness of outputs – to include technical outputs, reports of all types, issues of GFX, training and services.

9.   Each of these categories is addressed in turn below, including a summary in each case of the MoD corporate developments seeking to improve skill levels and performance.

MANAGEMENT OF PEOPLE

Issues

10.   Key Supplier respondents focused primarily upon the following key issues summarised below.

Staff Resources: Key Suppliers expressed concern over current MoD resource levels, observing that personnel in many IPTs appeared over-stretched, particularly in areas such as Commercial and Technical.

Resource Management/ Staff Turnover: Key Suppliers expressed concern over the frequent staff changes in project teams. They felt that the frequent turnover of staff impacted on the delivery of projects, because additional time and effort was required to train new personnel into the project. Frequent staff turnover (both military and civilian) was considered to hinder efforts to establish effective longer term working relationships and for some programmes this resulted in a drop in performance as new staff gained the necessary experience. Some Key Suppliers commented that the selection process for new candidates took too long, which led to long-term post gapping, which was inefficient and detrimental to organisational performance. Although some Key Suppliers recognised the demands placed on IPTs to meet efficiency targets, many believed that better staff succession planning was required to minimise the potential detrimental effect on programmes.

Responsibility and Skills: Some Key Suppliers noted that the MoD was over-reliant on certain individuals to make decisions, with little consideration given to ensure there was an alternative point of contact when these people were unavailable. Key Suppliers felt that many members of the team, particularly desk officers, were not appropriately empowered to make decisions, which sometimes led to delays in project progress and/or deliveries. A few Key Suppliers commented that there needed to be an improvement in the level of skills and knowledge at desk officer level, particularly in specialist roles such as Commercial and Technical.

MoD Developments

11. Specialist Resource Teams. With the move to greater efficiency, the DE&S recognises that the workforce will become smaller. This will mean that the organisation may lack the requisite number of employees to respond to a broad, varying set of customer and supplier needs without the ability to move resources to where priorities lie. To enable the organisation to do this, MoD has **introduced Specialist Resource Teams and Flexible Deployment**. Specialist Resource Teams have already been running in the HR function for some time. Staff are posted to a "pool" and deployed by the pool manager to where priorities lie. In April 2007 a Specialist Resource Team was created within DG Commercial's Commercial Project Enablement Team (CPET) enabling more flexible deployment of skills and resources within DG clusters. Similar arrangements were introduced for finance staff.

12. *The flexible deployment of staff across a management area enables post rotation based on Cluster DG priorities.* This can allow managed moves of staff on a level transfer basis, under line managers' authority, into existing posts. **Some clusters are expected to extend this process to other functional areas (e.g. technical).** All staff within the function in a particular cluster must be available to be flexibly deployed. However, it is foreseen that there will be a core of staff within the cluster that are by necessity likely to remain more static, adding a stable element which may be needed to provide continuity. Flexible resource deployment will begin to address industry's concerns over IPT resource numbers and the potential for DG cluster personnel to use managed moves for career development may result in staff remaining within clusters for long periods (capturing and retaining relevant skills and experience). This flexibility is also aimed at reducing the incidence of protracted gapping of important posts.

13. Induction/ Posting Periods. The Team Learning and Development Plans that are constructed throughout the DE&S bring benefits in the area of people management. A key area that they emphasise is the use and implementation of a quality induction programme which should include a programme of introducing new personnel to key stakeholders and industry counterparts. There are no plans to enforce longer posting periods. However, some Job Opportunities Bulletins (JOBs) posted internally now stipulate longer posting periods or *relate posting periods to the achievement of key programme or project milestones* therefore **reducing staff changes at critical programme stages**. The ability to raise these expectations against JOBs rests within the management area submitting the JOB.

14. Recruitment Time. The length of time JOBs need to be on the internal advertisement system has been reduced and the process of submitting JOBs simplified by the provision of an on-line JOB submission template. In addition, new delegated authorities allow locally approved *'managed moves' of staff between posts within DG clusters* where there is a priority business need and where that move will benefit the broader development of personnel within the cluster.

15. Post-gapping. There has been a move away from manpower complement management by headcount. This may have encouraged teams to maintain posts that were no longer needed in order to preserve a contingency, denying post cover to other teams. Instead, DE&S manage manpower through cash, where annual allocations take

account of past spend and are tested for realism. *This should lead to more effective allocation of manpower resources.*

16. <u>Succession Planning</u>. DE&S plan to introduce a 'succession planning zone' at B1 level and upwards to ensure MoD develops the range of staff with the quality of experience required in critical delivery posts. This is designed to target talented individuals and *provide development paths towards more senior posts* in a structured way. At the C2-B2 level, MoD plans to introduce 'a talent management zone', which aims to track individuals to ensure their development opportunities build the foundations upon which they can later attain more senior posts.

17. <u>Up-skilling</u>. The primary focus for up-skilling will be on five key skills groups during 2007/ 08. These are:

- *Commercial Skills;*
- *Engineering Skills;*
- Financial Management Skills;
- Logistics Skills; and
- Programme and Project Management Skills

A 12 month initial programme of up-skilling was launched, in June 2007, in these five areas to provide the impetus required through:

a. setting quantitative targets for each skill area;
b. ensuring that development programmes are in place and funded;
c. targeting recruitment to refresh weak skill areas; and
d. monitoring progress against targets.

18. The initial targets have been identified and are now being validated. Along with the five key areas of knowledge, a culture of self-development is being reinforced through line management action. *A target has been set for all DE&S staff to complete a minimum* of *six days training per year for 2007/08 in addition to four training days for developing professionally related competences*. **This programme should result in the improved desk level officer competence industry had commented upon as being required.**

19. <u>Development Programme</u>. In October 2007 **Aspire**, a new development programme that aims to produce future contenders for leadership roles across the whole Acquisition Community, was launched. Aspire replaced the Acquisition Leadership Development Scheme (ALDS) and the DLO/DPA Management Development Programme (MDP). The scheme provides a challenging and intensive development programme with formal training, learning sets, developmental projects, career counselling and psychometrics. The development of the Aspire programme is one of a series of linked HR projects which **aim to deliver organisational performance through participative leadership**. A review is also to be conducted about how development programmes can be expanded for B2 grades.

20. <u>Reward</u>. A review has also been undertaken of the Departmental *Special Bonus Scheme* to ensure **financial motivation** for individuals obtaining certain relevant professional and further educational training. This review resulted in some uplifts to awards and new award categories. Further improvements are being sought in the

commercial community to reflect up-skilling by way of attainment of professional qualifications.

COMMERCIAL MANAGEMENT

Issues

21.   Key Supplier respondents focused primarily upon the following key issues summarised below:

Team Work and Communication: A number of Key Suppliers viewed the relationship between the Commercial and Project teams as 'fragmented' with the Commercial teams not being fully integrated into the project team. Improved communication, between Commercial and Project Management staff, was seen as a crucial improvement to enable faster and increasingly robust decision making. Key Suppliers also commented that they would like to see improved communication with IPT Commercial teams, with regular meetings to develop more effective relationships and the joint working practices required.

Processes: Many Key Suppliers expressed concern that MoD Commercial processes were rigid and bureaucratic, which sometimes led to delays in contractual progress. Some Key Suppliers commented on the inflexible approach Commercial branches follow in interpreting Commercial policy, with some branches reverting to traditional 'adversarial' negotiating methods. A few Key Suppliers commented that the current Commercial framework and processes impaired the ability to consider business drivers and did not incentivise the Supplier to improve.

Resources: Key Suppliers were concerned with the continued turnover of Commercial Resources, perceiving that Commercial teams were overloaded, with staff often being stretched across a number of programmes. Key Suppliers have commented that the Resource issue had often led to delays in the production and/or quality of Commercial documentation, and sometimes the actual placement of contracts. Some Key Suppliers wanted to see the frequent turnover of staff addressed and more stable workforces in place.

Commercial Skills and Empowerment: Many Key Suppliers commented that they felt Commercial skills and empowerment were not always at the right level. Key Suppliers believed that, instead of only having very senior and/or minimal (one member who makes all the decisions) decision makers, IPTs needed to ensure that Commercial delegation and empowerment was distributed to ensure that decisions were made in a timely manner and at the right level.

MoD Developments

22.   Commercial Band B Recruitment. A second *Band B internal recruitment drive* is planned to encourage non-commercial specialists to enter the Commercial function through a training and placement programme aimed at developing their competence to fill future Band B Commercial Posts. By providing new functional development opportunities to non-commercial functional specialists this **cross fertilisation of functional specialists** could help improve the relationship between Commercial and project staff which industry

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commented was required. The initial recruitment drive involved placing 7 new B band level staff into the Commercial Function.

23.   Defence Commercial Function Skills Framework. The framework is being *designed essentially to be a combination of the current Commercial and Procurement Functional Competency frameworks*. It also seeks to address any duplication with the Single Skills Framework and reflect both defence values for acquisition and the formation of the wider Defence Commercial Function. The aim is to publish the new framework in time for the next reporting year. **Having a single framework could underpin improved Commercial and Procurement personnel interactions and team working.**

24.   Commercial System. The MoD Commercial System will be based around a coherent set of policies, simplified and streamlined processes, clarity on responsibilities, access to appropriate skills, and robust assurance of implementation. The components of this approach include:

- A consistent commercial policy framework, incorporating all business environment, defence industrial and commercial policies. The framework provides a guide for how, where and by what means these policies are applied in our relationship with suppliers;
- Commercial decisions based on best practice and informed by a commercial decision support environment which provide commercial practitioners with a standard process to be followed through life and clearer guidance on how to implement policy;
- Terms of business which translate policy into standard terms required in all future MoD contracts, clarifying which terms are mandatory and non-negotiable, and those which can be tailored according to circumstances;
- Commercial assurance that our major commercial deals will achieve our commercial objectives, with an appropriate risk and incentive structure; and
- A business culture within MoD which values a business perspective ensures commercial considerations are robust and central to defence decision making, and guarantees access to the necessary specialist skills and expertise.

By adopting a systematic approach to implementation of our key policies, MoD will be able to apply performance standards and assurance processes more consistently. This will provide clarity about what we expect from MoD teams and makes it clearer to our suppliers how policy is being implemented. In doing so MoD will be increasing the pace and flexibility of its processes and commercial models.

25.   Relationship Management Plans (RMPs). The MoD proposes to mandate the use of RMPs, as outlined in the draft MoD Partnering Handbook. Supply Chain Relationships In Action (SCRIA) is identified as an example of best practice and its use should be prominent within the plan. **RMPs/ SCRIA should provide an aide for IPT Commercial and Project staff to develop more effective relationships with their industry colleagues.**

26.   <u>Contractual Terms and Conditions</u>. The Private Finance Initiative has been successful in generating standard commercial terms, benchmarked against latest good practice and the MoD now wishes to apply these disciplines more widely across its business. Our most complex projects demand an increasingly sophisticated commercial approach which recognises risk, the substantial level of capital employed, and timely incremental technology insertions. For partnering and other large, complex, long term projects MoD will use specific terms and conditions supplemented by mandated standard terms that can be tailored to fit individual business circumstances. In addition, improved relationship management requirements such as Relationship Management Plans will be incorporated to drive the right behaviours and to enable more effective joint working with our suppliers; thus enabling individual objectives to be pursued but still achieving mutually successful business outcomes. The benefits of adopting a standard approach are:

- A streamlined process and standard contracting terms will reduce the time spent on negotiating contracts, allowing commercial resources to be better targeted;
- It offers a better understood basis for contracting on key issues and it will make it easier for SMEs to do business with MoD;
- Consistent handling of key suppliers, providing clarity to suppliers on what to expect when doing business with MoD;
- Robust, consistent and auditable steps to ensure the delivery of through life value for money; and
- MoD raises its standard – benchmarking to compare against good practice.

At the other end of the spectrum MoD will maximise the use of simplified terms for less complex, low risk procurement and exploit e-enablement to reduce red tape and speed up the commercial process. By being consistent in our approach we can shape industry's expectations of MoD as a customer, better align decision making with assurance and due diligence processes, better manage supplier relations and development, and make best use of latest good practice to drive continuous improvement.

27.   <u>Specialist Resource Teams</u>. Introduced at paragraph 11 these new teams will improve the resource issues raised by suppliers in this category.

28.   <u>Commercial Awareness Guide</u>. DDefCP have been tasked to **develop the Commercial Awareness Guide toward the non-commercial MoD staffs**. This will raise general awareness of commercial issues. Due to the early stage of the process which is still at the information gathering level, we have no estimate of the publication date.

29.   <u>Commercial Skills</u>. The Commercial Awareness and Practitioner Programme (CAPP) Training was first developed to improve delivery and update commercial foundation training. The first stage was completed in September 2006, and has been accredited by CIPS at level 3 of the NQF. The second phase seeks to improve the overall standard of Commercial training, delivering improved opportunities for joint working with industry and developing a blended learning approach for the Certificate of Competence (CofC) equivalent to CIPS level 4. Phase 2, is due to be completed in March 2008. *The introduction and development of the CAPP is one of the primary initiatives that the MoD Commercial function has for reaching the high standards of Commercial skills that both industry and the MoD expect of our Commercial staff.* So far the course has been undertaken by approximately **1400 Commercial and non-commercial staff.** It has also assisted greatly in the improvement in communication with industry as industrial participation is a feature of the courses and industry applicants are welcome. The CAPP contains a number of at desk interactive modules that allow for a wider take-up of the training, provides flexibility and reduces the need for commercial staff to undertake the training away from the office – which could redress industry concerns over Commercial staff availability.

30.   The Commercial Function Business Graduate Scheme has been running successfully since September 2002. It was designed to create a steady flow of professional Commercial Managers. Graduates undertake a two-year programme of placements across the Commercial function in order to obtain as wide an experience of it as possible. The Department is looking to include an industry placement tour (circa 3 month) within the programme. Graduates *are also sponsored through the Office of Government and Commerce Certificate in Purchasing and Supply, moving on to begin Chartered Institute of Purchasing and Supply study in the second year.*

31.   **Over 50 personnel have so far graduated through the Commercial Business Graduate scheme with a further 15 at various stages.** There are a further 20 posts to be filled in June 2008, with the graduates now being selected through a bespoke assessment centre process.

32.   <u>Decision Making</u>. Senior Management Commercial Development Courses have been designed with objectives to:

        a.   *improve outcomes and reduce cycle times* for the Department's major projects by equipping senior management with an up-to-date and relevant framework with which to drive projects and engage industry; and

        b.   *enhance understanding and communication with industry* in order to implement the Department's requirements in the Defence Industrial Strategy (DIS).

33.   It is expected that courses will be introduced in spring 2008 as a requirement for all 1 star and above posts where the recipient is responsible for any major capital programme. They are designed to enhance senior management's capacity and capability to address the complex commercial issues facing the Department's major capital programmes, by giving them the opportunity to apply, and adapt current business decision making techniques with colleagues who are facing similar business challenges. By the end of the course, participants will have been exposed to a broad and challenging spectrum of views and experiences surrounding procurement across government departments. Participants will also be familiar with the commercial drivers facing the defence industrial sector and have furthered their understanding of how to apply effectively business decision making techniques to ensure the delivery of best value for money outcome. It is planned that the courses will promote Commercial values and knowledge across the upper levels of the MoD. The aim is for this in turn to have a positive effect upon the position of Commercial officers throughout the organization and provide increased Commercial function integration and greater Commercial confidence (and decision making ability).

QUALITY OF OUTPUT

Issues

34.   Key Supplier respondents focused primarily upon the following key issues summarised below:

Delivery of GFA: Key Suppliers commented that the timely delivery of GFA was seen as a significant issue, with many Key Suppliers concerned that the frequent late delivery of GFA was impacting overall project timescales and contract deliverables. Some Key Suppliers commented that they believed IPT resource issues to be a reason behind the continuous late delivery.

Quality of GFA: When GFA was received, Key Suppliers were concerned about the poor quality/ standards of the documents, equipment or data. Key Suppliers commented that they often found documents and data to be incorrect or required further clarification, due to vagueness and/ or incompleteness. This often led to additional work for Key Suppliers to correct these outputs.

Quality of Requirements: Some key Suppliers raised concern on the timeliness and quality of Requirement documentation, stating that documentation was often vague or incomplete, resulting in the Key Supplier having to spend time clarifying requirements.

Communication/ Feedback: Key Suppliers commented that they would like to see an improvement in feedback, following the delivery of contracted outputs; this would help prevent issues arising further down the line, and/ or provide guidance as to why some documentation was rejected.

MoD Initiatives

35.   GFX[1]. The Asset Accounting Centre (AAC) is a Public Accounting Authority for Government Furnished Assets (GFA) held in industry. The prime GFA services undertaken by the AAC are:

      a.   risk assessed systems audits in respect of GFA including DEFCON 23 Jigs Tools and Test Equipment;

      b.   *information, advice and guidance on GFA operation and records*;

      c.   collection, vetting and processing of Resource Accounting & Budgeting (RAB) data in relation to GFA;

      d.   notification of GFA losses for financial recovery; and have

      e.   *training provision for Industry and MoD*.

      These activities are becoming more widely deployed and the activities of the AAC in relation to GFA are being better communicated. This activity could lead to wider improvements in the way IPTs manage GFX.

36.   Further GFX support is provided to Air Environment IPT's by the Government Furnished Services (GFS) team which acts as a centralised centre of excellence for the management and control of loans to industry.

37.   DG Clusters. It is envisage that with greater oversight and management of IPTs from the new DG 2 star cluster areas within DE&S that Quality of Output issues raised by industry will begin to be alleviated through these new structures and associated processes.   With the formation of DE&S in April 2007, old and newly created IPTs have been grouped into clusters that are aligned with the various defence industry sectors. These clusters will be provided with their own resources (e.g. Commercial Specialist Resource Teams) that the DGs will have responsibility over. These can then be focussed upon improving the areas where lower performing output results exist. **It is expected that this new structure will improve output and efficiency, especially as the clusters mature and bed-down.**

38.   Communication/ Feedback. In spring 2004 the then DPA/DLO Executive and Management Boards endorsed the implementation of the S&CPM process as the means of capturing and reporting in an objective way, performance achievement by suppliers and MoD on all new contracts valued over £5M (a £100K threshold applied for consultancy services). The purpose of introducing **S&CPM was to capture and report objectively, performance achievement** by suppliers **and MoD teams**.

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2.   GFX is the term related to the broad range of terms related Government Furnished provisions to Industry (e.g. Government Furnished Assets, Government Furnished Services, Government Furnished Equipment etc).

39.   The process had been created in response to a joint MoD/ Industry Commercial Policy Group initiative and was designed to enable the Department to produce aggregate performance information on either a single supplier (across a number of projects) or an MoD business domain such as a DE&S 2 star cluster area. *Three key elements of S&CPM Supplier Reviews on MoD are Quality and Clarity of Issued Documentation, Communication and Management.*

40.   S&CPM data therefore supplements the performance data which DSR gather through the KSM Performance Review process and will in future present these results to the DG cluster leaders to identify areas where performance improvements are required. Therefore, although S&CPM does not directly resolve industry concerns regarding GFX and documentation provision, a mechanism exists for industry to place targets on MoD project teams and where these are not met, albeit concerns should be raised to IPT leaders, S&CPM results will indicate areas of poor performance where DG 2 star level interactions are required to drive forward improvements.

41.   Requirements. Within DGS&E (Safety and Engineering) a Requirements and Acceptance Advice & Assurance cell exists to support the formulation of effective and meaningful User Requirements. *Increasingly this cell will take on an assurance role to improve the Quality of Requirements and Requirement documentation.* New Capability Planning Groups that will involve industry earlier in Project definition activities may also provide scope for improvements to industry concerns related to the quality of requirements.

42.   Project Management Licensing Scheme. The Project Management Licensing Scheme was launched in March 2007 and is managed within DGS&E 'Through Life Project Management'. The scheme aims to ensure that practising and future Project Managers in DE&S are equipped with an appropriate and externally recognised Project Management qualification. Licences have been issued to over 150 DE&S personnel who have gained the relevant qualification and demonstrated the required level of experience.

43.   The aim of the Project Management Development Programme (PMDP) is to train, educate and develop individuals in project management to improve the management and delivery of all types of projects. The programme provides a structured development environment that is open to civilian and military staff and industry representatives working on secondment to the MoD or working closely within the MoD acquisition community. PMDP members are encouraged to join the Association of Project Management (APM). Membership of the APM also provides an external view of project management processes and procedures whilst keeping members abreast of the latest thinking on project management. The Programme also provides a mechanism for the Department to identify and measure these skills within the acquisition community.

44.   The scheme will result in an improved skills base at desk officer level and possibly therefore Project Management activities undertaken in relation to industry concerns regarding GFX and documentation provision, Requirements Management and Commercial Management will be managed more effectively.

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45.   <u>DACP</u>. The formation of DE&S and the DACP TLPM and A3 (Appropriate Acquisition Approaches) workstream outputs could also have a positive impact on improving Quality of Output performance. It is hoped that MoD TLCM/ A3 team representatives will participate in industry's 21st Century Supply Chain TLCM workstream when it commences in 2008.

CONCLUSION

46.   There are a number of policies and processes in place or being developed and reviewed under the auspices of the Defence Acquisition Change Programme (DACP) and through the formation of DE&S. In 2007/08 an Acquisition Performance Framework was introduced by the Defence Acquisition Change Programme sponsoring group which will use annual performance review assessment results on Key Suppliers and on MoD as performance indicators. This will provide added impetus within MoD on dealing with industry concerns and is therefore a welcome development.

47.   Although many of these initiatives have been developed in close consultation with industry (e.g. through the links with Trade Associations or under the auspices of the NDIC and its sub-groups) we welcome feedback from industry on their perceived impact. We would also welcome Industry's views on the extent to which Industry finds this report informative.

48.   Following on from the DSR annual seminar and further suggestions raised by Industry representatives regarding MoD's Supplier Management approaches DSR have contributed to a new Supply Network Policy which was approved by the MoD's Acquisition Policy Board at the end of 2007. This policy incorporates some of the suggestions for improved supplier management raised at the DSR seminar in July 2007. The implementation phase of this work will begin very soon and DSR will provide an update on progress in the spring using the MoD's DSR Annual Seminar Internet site.

ANNEX A: DEFENCE ACQUISITION CHANGE PROGRAMME

The Defence Acquisition Change Programme (DACP) is a single coherent acquisition reform programme. Established in the summer of 2006, it was initiated to deliver structural, organisation, process, culture and behavioural change to facilitate good Through Life Capability Management (TLCM), identified in the Defence Industrial Strategy (DIS) and the recommendations from the Enabling Acquisition Change (EAC) report.

The Permanent Under Secretary is the Senior Responsible Owner (SRO) for the DACP, and chairs a 4-Star Sponsoring Group. The day-to-day management of the programme is overseen by a Programme Director, David Stephens, who has overall responsibility for implementation. The Programme Director is supported by a Programme Management Office. He chairs a 2-Star Programme Board.

The Defence Acquisition Change Programmes vision is to Deliver Better Solutions for Defence, ensuring the front line is supported with battle winning equipment and services through:

- A high performing acquisition core of skilled professionals
- Decisions that are taken on the basis of through life considerations and looking across all Defence Lines of Development
- Sound, commercially astute and closer working relationships with industry
- Predictable and realistic delivery of programmes and their support
- Agile acquisition the norm
- Battle-winning technologies fully exploited

A Benefits Realisation Strategy has been developed to identify and capture the programme benefits. A dedicated benefits team is in place to make sure we deliver all the benefits. The ultimate outcomes of the Defence Acquisition Change Programme are better capability for our Armed Forces and improved value for money for the tax-payer. A number of benefits have been identified that help achieve the main outcomes. These include:

- Resources better aligned to priority requirements
- New equipment able to incorporate more recent technology
- Capability delivered more quickly
- Capability integrated across the Defence Lines of Development
- Capability sustained over time
- Better and more consistent achievement of Performance, Time & Cost parameters
- Whole Life Costs understood and managed
- Internal DE&S efficiencies
- Reduced industry overheads

At the start of the programme, each Workstream had an individual mandate for change, effectively setting out their delivery objectives. From this and a series of cross-programme design events, the programme office, with support from the workstreams, developed a High Level Design (a Blueprint). The High Level Design describes how acquisition activities will be undertaken by the MoD Unified Customer envisaged in the Enabling Acquisition Change report.

It explores how Through Life Capability Management will be transacted at each stage of the acquisition process, from decisions about future capability requirements through project inception, to in-service support. The EAC report concluded that having one organisation that essentially buys equipment, and another that supports it, was not the best way of ensuring Through Life Capability Management which led to the creation of DE&S, led by a 4-Star Chief of Defence Materiel.

The introduction of Through Life Capability Management means we consider a much wider range of options for meeting new capability needs across all the Defence Lines of Development with a new Capability Planning Group (CPG) regime in operation that uses consistent processes and structures. Each group will bring together key stakeholders who will collectively ensure the delivery of enduring military capability that represents a better solution for Defence.

The Defence Acquisition Change Programme has introduced a series of changes across the planning process, the headline changes are:

- Alignment of the different planning horizons of the Equipment Plan and Short Term Plan so that equipment support resources will be programmed in detail over 10 years.
- Responsibility for programming support costs transfers to the Sponsor (ECC) for all equipment yet to enter service, and for in-service equipment over years 5-10
- Front Line TLBs have responsibility for programming support costs for in-service equipment over years 1-4 of the planning period.
- The creation of a 10-year view of the Defence Programme

A revised approvals process has progressively been applied to projects since April 2007. Under the proposed changes the DMB has taken more responsibility for approving the most significant investment decisions, with Category A (the most expensive) projects being subject to independent technical advice and an independent cost estimate. Also, a process of 'due diligence' is being piloted which will examine the 'deliverability' of the proposed commercial deal. Additionally Category C projects, previously approved at 2-Star level in the Centre, will mostly now be approved at the Top Level Budget level. IPTs have earlier contact with the scrutiny team appointed to the particular project, with a view to agreeing as quickly as possible what portfolio of evidence will need to be provided in order to secure approval. Scrutiny team leaders are progressively being appointed, and they will be responsible for coordinating inputs to a single brief that will be submitted to the approving authority.

The aim of the next and last stage of DACP will be to exploit the changes that have already been made to structure, organisation and process in order to achieve the step change improvement in acquisition performance that the DIS called for, in particular through adding agility to through life capability management. To maintain focus and momentum, the Programme will be reshaped around a small number of bold objectives for 2009 [see below]. These are far more interdependent than the recommendations of the EAC Report and the Programme will need to be more tightly managed - and driven - as a single programme, with fewer workstreams, more cross-working and a stronger central lead.

Specific objectives for 2009

Objective	Requiring/allowing/driving
Equipment & support plan that is more stable, affordable & realistic whilst allowing greater agility	• Better costing & forecasting; more focus on in-service support costs • Less disruption and delay to programme • More responsiveness to operational needs & changing requirements • More systematic application of TLCM • Willingness to take difficult decisions
Significantly (50%) shorter acquisition cycle time –reducing time from "decision to effect"	• Applying lessons from UORs • Alternative, more incremental approaches to acquisition • Greater emphasis on open system architecture, technology insertion • Process streamlining; applying AOF disciplines
Reduced cost of doing business – for both MoD and Industry	• Stronger focus on value of time • Reduced cycle time • Reduction in MOD and industry overheads
More effective delivery	• Further transformation of DE&S • Greater empowerment and accountability • Better use of staff; higher skills levels • Changing culture and behaviours – 'Team Defence' • Partnering best practice; more effective commercial arrangements
Industrial transformation	• Industrial capacity that meets current and futures needs of Defence • DIS sector transformational milestones • Greater Defence Industry efficiency

DIS DEFENCE ACQUISITION CHANGE PROGRAMME

Defence Acquisition Change Programme

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To this end there will be four main "vertical" workstreams:

- Planning and through life capability management, led by DCDS(EC), which will continue the work of developing and embedding through life capability management. DCDS(EC) also has lead responsibility for delivering a more stable, balanced, affordable equipment & support programme;

- Alternative acquisition approaches, led by the Programme Director, which will develop, test and roll out a suite of acquisition approaches (including the associated commercial and R&D elements) to support incremental and more agile acquisition. This workstream will have lead responsibility for developing a strategy to reduce cycle times;

- DE&S PACE programme, led by CDM, which will seek to exploit the integration of procurement and support to achieve faster, more effective delivery to the front line and reduction in the cost of doing business for MOD and industry; and

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- Commercial transformation, led by DCD, which will develop an integrated, agile and consistent commercial framework for acquisition and reshape the commercial function to implement it. DCD has lead responsibility for delivering the broader industrial transformation agenda from DIS 2005.

These will be supported by two "horizontal" or cross-cutting workstreams covering:

- People, skills and behaviours, led by 2nd PUS, which will focus on the skills, HR tools and flexibilities and changes in leadership and behaviour necessary for more agile and effective acquisition; and

- Knowledge management, led by the Programme Director, with a remit to ensure all parts of the acquisition system have access to the information they need, to develop robust metrics for managing acquisition performance, and to put in place arrangements for more systematic capture of lessons learned, examples of best practice and case study material.

The central DACP team will manage the Programme as a whole and have lead responsibility for the further development of the Department's overarching business model for acquisition. Key delivery mechanisms in this next stage will be PR08 and directed capability and delivery investigations in the 2008/09 review year. There will be increasing emphasis over the coming year on pilots, pioneers and working with and through those who are already doing business in the new way on the ground.

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ANNEX B: DE&S

DE&S was formally established in April 2007 following the Enabling Acquisition Change (EAC) report which recommended the merging of the DLO and DPA to bring about the following benefits:

- The establishment of a unified approach to procurement of equipment and through-life support;
- Providing a single point of contact with industry and the MoD Sponsor and User community;
- A reduction in the number of internal boundaries across the acquisition system, complementing the recommended changes to the planning process and the customer community;
- Encouraging the defence industry to bring together project and in-service support, thereby facilitating TLCM and reducing cost; and
- Reducing overheads.

The establishment of a new organisation was a key component of the wider changes being undertaken within the DACP to simplify an often complex Departmental acquisition process making it easier to understand and execute. As the organisation progresses through Phase 4 of the merger plan to optimise the organisation over its first year and beyond these new developments will take time to develop and embed. However, we have seen an unprecedented period of change.

Drawing on the EAC report DE&S objectives are to:

- Develop and sustain a highly professional workforce with a track record of success;
- Excel in managing a portfolio of complex projects related to new and existing equipment assets in a way that demonstrates Commercial best practice;
- Develop a strong and enduring relationship with industry that can unlock the potential of the industrial supply chain to optimise the provision of through-life capability for defence
- Support and sustain material assets throughout the operational planning cycle with the agility and responsiveness required by the Front Line Commands and PJHQ, exploiting the benefits of an end-to-end approach; and
- Embed a culture of continuous improvement of effectiveness and efficiency across acquisition and logistics support, working on the basis of mutual understanding and trust with the Sponsor, User, suppliers and other stakeholders.

The new organisation will need to excel at certain core functions to fulfil its purpose. Clarity on what these are will inform a view on whether there are elements that might more appropriately be managed elsewhere or outsourced. We believe that core functions include:

- Workforce management (including skills identification, development and retention, people performance management and staff deployment);
- The Commercially astute and cost effective management of a portfolio of complex projects and the associated support chain, on a through-life basis;

- The ability to obtain realistic estimates of cost, both of initial acquisition and in-service operation;
- The timely and reliable provision of operational logistics support;
- Management of the Commercial interface with the defence industrial supply chain, end-to-end;
- Financial management and assurance; and
- Safety, environment and technical assurance.

This list will provide the basis for developing the organisation's key processes with a view to their being defined within its component of a new Acquisition Operating Framework.

The new organisation has been given a clear focus on three primary issues: managing its key relationships with the Sponsor and User, including the delivery of logistic support to operations; delivering the equipment-based component of through-life capability; and managing its internal business functions. Our chosen business model has therefore been structured around these three key activities. This comprises:

- A strong, customer-facing 'delivery' element, charged with working with Sponsor and User to identify the right solutions for defence. This is led by Chiefs of Material (CofMs), to provide a clear understanding of capability needs identified by the Sponsor and to translate this into the operational readiness and sustainability needs of the Front Line Commands and PJHQ, ensuring an ethos of delivery to the front line.

- A strong 'production' element, driving IPT performance and, through them, that of the industrial supply chain. This element will also maintain strong links to the research programme to ensure rapid pull through of technology for insertion into both new and current assets. It is headed by the Chief Operating Officer (COO), supported by operations directors managing through-life IPT clusters. The composition of these clusters will ensure an appropriate management span while providing system and business coherence across capabilities and delivering against DIS sector strategies.

- A 'business management' element, managing essential corporate functions. The Chief of Corporate Services is supported by teams with responsibility for key central functions that drive the delivery of professional skills in Commercial management, project management, safety and disciplines. They also ensure key processes are optimised and manage the strategic development of relationships with head office.

CDM commissioned Future Options work to examine a range of operating models for DE&S to deliver and achieve the targets set out in the Business Strategy, while identifying opportunities to make cost reductions in running the business. That work, highlighted the need to bring together DE&S change efforts to ensure that the resource committed to business transformation is focussed and clearly directed to deliver: Effectiveness through Performance, Agility, Confidence and Efficiency (PACE). PACE will create a more effective business through improved deployment of resource, more efficient and effective processes and greater optimisation of the relationships with customers and suppliers. This should be realised as improved output performance.

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ANNEX C: SUPPLIER ON MOD PERFORMANCE REVIEW MATURITY MODEL

Criteria	(0-2) Beginning	(3- 4) Developing	(5) Performing - Satisfactory	(6-7) Highly Performing	(8-10) Excelling
Core Questions					
1. Approach to Project Management *(Consider whether project management is consistent, effective and applied to ensure delivery.)*	Non disclosure of issues until they impact on project delivery. Little or no evidence of effective Project Management processes. Does not seek stakeholder involvement.	Disclosure of issues but too late to completely mitigate impact. Some evidence of formalised Project Management processes.	Seeks resolution of problems when they arise and offers some solutions. Evidence of Project Management processes in place and being applied to deliver. Considers the needs of the end customer and supplier.	Open, honest and proactive with issues, offering viable solutions. Robust and effective Project Management processes in place and being applied to deliver. Considers the needs of the supplier and seeks their views.	Anticipates issues before they arise and mitigates accordingly. Effective and consistent application of accredited Project Management processes. Project Management philosophy embedded through-out organisation.
2. Responsiveness *(Consider the provision of timely, accurate and fit for purpose material in response to a specific request)*	Poor or no response to specific requests. Chasing up is required for response to be received. The organisation does not buy-in to the request for a response effectively.	Requests are often accepted, but the response is not necessarily in a timely or accurate manner, nor is the solution necessarily fit for purpose or fully considered. There is inadequate buy-in from organisation.	Responds within agreed timescales. Responds to stated requirements. Sometimes the response does not necessarily match the full expectations of the requester.	Generally anticipates & reacts to changing requirements & expectations. Requests are generally accepted willingly and clarified. The organisation usually buys-in to providing effective, timely and appropriate responses.	Response is fully considered, is always delivered in a timely manner, and is fully fit for purpose. It receives the right level of attention within the organisation. Both parties keep each other informed on progress throughout the process.
3. Information Exchange *(Consider the routine passing of appropriate, timely, accurate and targeted information in order that both parties can do their day-to-day jobs, arriving at decisions more effectively and with increased confidence)*	An absence, either unwittingly or intentionally, of the regular exchange of information. When provided info is often late, inaccurate or lacks substance. No attempt made to ensure it reaches right audience or is understood. Limited trust of each other. Secrecy prevails.	It is sometimes late. Wrong medium of communication is sometimes used. Little attempt is made to ensure that the information is seen by right person or is understood. Level of information exchanged is not necessarily agreed. Trust difficult to achieve, limited sharing.	Information is exchanged as per requirements, but insufficient cognisance is taken as to whether it has been directed to the right audience or that it is understood. Trust limited to contractual obligations but some openness apparent.	Accurate information is exchanged regularly and in a timely manner. The sender checks to ensure that the receiver has understood the information sent. Trust exceeds contractual obligations, sharing is encouraged.	It is done in a focussed & proactive manner, ensuring it is targeted at the right audience and its message is understood and followed up. Proactive management of procedural/legal barriers. Actively works to ensure optimum level of two way information exchange.
4. Management of Stakeholders **(Consider whether stakeholders are actively engaged with the team and motivated to support)**	Little awareness of identity, role and impact of stakeholders.	Aware of main stakeholders but insufficient engagement to achieve full buy-in.	Consult sufficiently with main stakeholders to deliver project/service. Main stakeholders identified and involved at critical points.	Regular engagement with most stakeholders allowing proactive action on requirements.	All stakeholders identified and engaged regularly. Full awareness of stakeholders' needs and full buy-in to achieve goals.
5. Management of Risk *(Consider whether the whole risk process managed effectively and transparently – includes approach to technical readiness and system maturity)*	Risk and impact not considered. No evidence of Risk Management processes in place.	Risks identified, impact considered but not addressed. Identification and analysis, including costings not shared. Organisation tries to transfer risk, irrespective of who is best placed to manage it.	Risks identified and impact considered. Risk register shared. Mitigation plans prepared. Adequate willingness to take on risk.	Mitigation plans in place and implemented if/as required. Some degree of joint analysis. Risk process well embedded in culture of organisation.	Risks managed and mitigation jointly considered and implemented. Full understanding by both parties on who is best placed to take on risk.

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Criteria	(0-2) Beginning	(3-4) Developing	(5) Performing - Satisfactory	(6-7) Highly Performing	(8-10) Excelling
Core Questions					
6. Management of People *(Consider whether the number of staff and skills mix is appropriate and deployed at right level to deliver.)*	Staff skills and numbers not sufficient to deliver project. No visibility of training or recruitment process. Little evidence of motivated staff. No recognised accreditation, eg IiP.	Staff shortages recognised but not addressed. Little visibility of training or recruitment process. Working towards accreditation, eg IiP.	Staff sufficient to deliver against requirements.	Right mix of skills planned in advance to deliver. Awareness of succession requirements but little evidence/ visibility of implementation. Staff aware of their own and other team members' contribution.	Project staffed with right people and skills mix to deliver through life of the project. Succession planning in place. Staff motivated and enthusiastic to achieve a shared goal. Accreditations held.
7. Quality of Output (inc. Issue of GFA) *(Consider quality & timeliness of outputs – to include technical outputs, reports of all types, issue of GFA, training, services)*	Outputs fall short of requirements & fail to meet the user need in terms of quality and timeliness. Excessive effort is required to extract outputs from the organisation.	Some outputs fail to meet requirements and user needs. Undue effort required to extract suitable outputs from the organisation.	Outputs (all types) sufficient to meet requirements and/or user needs (in terms of both quality and timeliness).	Outputs often exceed expectations/require-ments – quality and timeliness. Little effort is required to extract outputs from the organisation and there is a willingness to resolve issues if they arise.	Outputs always exceed expectations– quality and timeliness. There is complete confidence in the QA and configuration management processes.
8. Commercial Management *(Consider whether all parties have an understanding of each others' business drivers, the proposed/resultant contract, and that appropriate 'commercial tools' are used effectively to optimise delivery)*	Focus is solely on cost and price, not value for money (VFM). Relationship is adversarial and breaks down under pressure. Commercial staff have no relationship with the Project Team. No delegated powers to deliver requirements of contract. Project work is compartmentalised and inward looking.	Concept of VFM is recognised but not always pursued. Basic working relationship in existence. Commercial staff only involved on an as-and-when basis. Little buy-in to the project needs. Delegated powers insufficient. Understanding and awareness of the totality of the deal inc. business drivers is limited.	VFM is sought. Options for improvement are jointly discussed and assessed. Commercial staff are integrated with the Project staff, but not involved in all project aspects. Staff are empowered to undertake required actions. All parties have understanding of the contract and business drivers that are taken into account in decision-making.	Shared values and ways of working are being developed. 'Added Value' is sought and measured. Relationship improvement activities planned/underway. Joint goals agreed between Commercial and Project staff. Delegated powers match requirements of project. Good understanding of the contract and business drivers.	Shared values and ways of working are embedded. 'Added value' is employed and measured. Improvement targets are established: progress is monitored and celebrated. All stakeholders have a full understanding of the contract/business drivers. Future changes in the business/operating environments are anticipated and are managed effectively.
9. Innovation *(Consider demon-stration of innovative thinking: research and technology, product, process, organisation or business model. Willingness to bring through solutions from supply chain and to expand the original request boundaries)*	Introducing something new to something already established is rarely successful and rarely done. Lack of willingness to introduce innovation.	Introducing something new is not always successful, some creativity demonstrated but with limitations, the problems encountered during the process not always overcome.	The process of making changes by introducing something new is generally successful, using creativity, and is valued by customers/users: within scope and lifetime of the contract/requirement.	Introducing something new is usually done successfully through sound delivery mechanisms. Solutions are creative, well focused, and are highly valued by customers/users.	Introducing something new is done very successfully, in a way which is creative and inspirational, recognised as such by customers/users. Leadership provides vision and motivation. An optimum balance is achieved between innovative change and stability.
10. Quality of Relationship *(Consider whether the relationship is open, honest and appropriate to deliver requirements)*	No trust, secrecy prevails. Deliberately kept at arms length. No attempt to build a working relationship. Only contact made when absolutely necessary.	Trust difficult to achieve or maintain. Contact only made during conflict or when issues arise. Unwilling to acknowledge others' points of view.	Trust limited to contractual obligations but some openness apparent. Relationship sufficient to meet day-to-day requirements of project. Willing to acknowledge others' points of view.	Trust exceeds contractual obligations. Will strive to improve relationship for mutual benefit. Regular contact for good and bad situations. Both parties acknowledge and respect others' points of view.	Open, frank debate encouraged on all issues. Understands needs of all parties and works to ensure optimum interaction. Both parties aware of need to invest resource/time to maintain relationship.
11. Flexibility *(Consider the ability to assess and react effectively to changes in the business/operating environment)*	Demonstrates little evidence and/or unwilling to consider flexibility.	Is prepared to show some flexibility but only when challenged.	Willing to consider and effect variations to standard approaches for specific activities, due to changes in the business or operating environment.	Is proactive in showing a flexible approach to most issues / situations	Continuously reviewing standard approaches for improvement opportunities.

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Please direct any queries or comments on this report to the:

DSR-Sec@mod.uk or DSR-Grad@mod.uk
Directorate of Supplier Relations
Ash 1 #3103
MoD Abbey Wood
Bristol
BS34 8JH

Tel: 0117 91 35311 or 0117 9135594