

Is Reform Enough? Assessing the Gap Between Challenges and Response in Defence Acquisition Reform

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Ted Bromund is Margaret Thatcher Senior Research Fellow at the Margaret Thatcher Center for Freedom, The Heritage Foundation, Washington. In this article, he sees similarities between acquisition reform in the US and UK, but shows that acquisition reform cannot play a significant role in reducing the gap between defence commitments and available resources. He says that two decades of underinvestment in defence in the UK, the Services' enthusiasm in both countries for 100% solutions, and the changes in the nature of warfare need more radical solutions.

The current enthusiasm for defence acquisition reform in the US and, especially, the UK cannot be understood outside the broader challenges facing the defence establishment in both nations. Indeed, while it is obviously important that the defence acquisition process be efficient, the hopes currently entertained for increased efficiency are out of proportion with the likely gains. In other words, there is a substantial gap between the broader challenges and the response in the realm of acquisition reform. The hopes persist because they promise to diminish the pain of the gap, and because they offer a way to justify strategic choices that would be less appealing if presented on their own terms.

In the UK, the publication of Bernard Gray's *Review of Acquisition* in October 2009 brought much data to a debate long dominated by anecdotal reports of equipment shortages and inadequacies. The Review's perspective was strongly critical: it argued that the UK's procurement programme was "overheated", unaffordable on any likely funding path, and inefficient to the tune of between £1Bn and £2.2Bn per year.¹ The Review drew on arguments already presented by US Secretary of Defense Robert Gates, who has made the case that the US procurement system suffers from the problem of seeking unaffordable 100% solutions to defence needs, and that the answer is a renewed emphasis on improved cost estimation and on using more mature technologies.²

The similarities between the US and the UK should not be overplayed. But the UK and the US are responding comparably to comparable problems, as well as borrowing justifications from one another. Both states accept that defence budgets will decline in the coming decade. Both states blame the size of today's defence budgets, in part, on the competitive extravagance of the Armed Services.

Finally, both argue that defence acquisition reform is vital because the nature of war has changed: failure to reform will therefore result in defeat as well as waste.

The Gains from Reform

Unfortunately, the gains from reform will be modest. The Gray Review estimates that total Equipment Procurement Plan (EPP) spending through 2038/39, under the unrealistic assumption that no new orders are placed in the interim, will be £235Bn, or an average of £8.1Bn per year.³ Even if the EPP spends £6Bn per year, a figure it has not reached in any of the past seven years, the MoD will have to wring all of the purported inefficiencies out of the system simply to close the gap. The fact that defence acquisition reform has been a priority for the past decade – the 1998 Strategic Defence Review, of which Gray was the lead author, supposedly adopted the 'smart procurement' strategy – strongly implies that the new reforms will come nowhere close to achieving this goal.⁴

Labour's failure to wring genuine efficiencies from government since 1997 only emphasises the inadequacy of the response. The Gershon programme, which was launched in 2004, sought to generate £20Bn in efficiencies by March 2008. The government announced it met the goal in late 2007, but an independent review by the National Audit Office (NAO) in early 2007 found that only 26% of the reported efficiencies were demonstrably real.⁵ The failure of 'smart procurement', and the broader difficulties the government has experienced in trying to do more with less, implies that the gap between challenge and response is too wide to be bridged by the expedient of defence acquisition reform.

On the pessimistic assumption that the inefficiencies in defence procurement are £1Bn, and that 25% of this sum represents genuinely realisable efficiencies, the savings amount to £250M per year. The optimistic case is that, if inefficiencies are £2.2Bn, and realisable efficiencies reach the NAO's 'best case' scenario for the Gershon programme of 75%, the savings will amount to £1.65Bn annually. The centre case, therefore, is a savings of £950M annually, with the caveat that this figure would only be reached in over a decade, after all the reforms had been implemented and had taken full effect.

If EPP spending remains flat in real terms at £6Bn annually, saving £950M annually would result in a shortfall against

the planned £235Bn of approximately £35Bn. On the still optimistic assumption that EPP spending declines by 2% in real terms, the shortfall would be of the order of £100Bn. Because the cost of new programmes contributes twice as much to increases in spending as the cost inflation of existing programmes, the shortfall may be as much as £300Bn.⁶ In short, while savings of £950M annually are clearly worth having, if they can be had, the UK is not even successfully treading water: no plausible level of efficiency gains can come close to closing the budgetary gap, especially in the particularly pressing context of the short term.

Two Decades of Underinvestment

The history of Labour's defence policy since 1998 reinforces this pessimistic conclusion. Gray's contention is that the "biggest single failure of control has been that the demands of those specifying new military equipment have not been adequately managed and related to available resources".⁷ In other words, for Gray, the problem is basically one of excessive military demands. But more important has been the problem of insufficient financial supply. From 1991 through 2004, even as Britain fought a series of wars, its defence budget declined as a share of GDP.⁸

Spending did increase in 2004/05 – by coincidence, a fiscal year that ended with the last general election – but no authority expects the British defence budget to increase faster than inflation in the years to come. Indeed, on the Government's own estimates, and if cuts are evenly imposed, defence spending can be expected to shrink by approximately 6% per year after 2010-11 and through the next Parliament.⁹ Britain's defences are now two decades into a spiral in which cuts now beget more cuts later: the delays imposed by spreading procurement over a longer term to reduce annual costs end up making programmes even more expensive.¹⁰

The procurement crunch in Britain today is thus the result of two decades of underinvestment. Gray acknowledges this with his admission that the "policies of successive governments, and a lack of political will to present to the electorate the unpleasant reality of the position, has been a significant force behind [the] double-think" on the inadequacy of Britain's defence budget.¹¹ But Gray also accepts that Britain will again respond to the gap between its commitments and capabilities by reducing its defined commitments. Indeed, this is the policy he advocates. Britain is setting itself up for a repeat of the scenario that unfolded after the 1998 Review, which was based on optimistic beliefs about 'big efficiency savings' in defence procurement.¹² The failure of those efficiencies to materialise is what led to the launch of the Gray Review. The efficiencies promised by the Review will suffer the same fate.

Needs and Spending

In this broader perspective, the Review's mix of overly optimistic reforms and reduced capabilities is not a break from the legacy of the past: it is a reassertion of that status

quo. A truly radical approach to defence spending would instead be based on a process in which needs drive spending – instead of allowing spending to covertly drive strategy and therefore needs – and which is then defended cogently to the British public.¹³ It is too easy to claim that the Services will always want more, and that no level of defence spending will meet all defence needs.¹⁴ Britain is not trying nearly as hard as Gray implies: defence spending today as a share of British GDP is the lowest it has been since 1933.¹⁵ A more pressing reality is that, absent the political will to make the case for it, any level of defence spending, even if it is well below historic norms and palpably inadequate for current needs, can be condemned as excessive.

The same is true of the criticism of the military's supposed enthusiasm for 100% solutions. Gray charges that the burdensome cost of weapons systems rests initially on "each of the single Services' rational desires to retain as much of the available funding as possible".¹⁶ But in a democracy, the oversight of the defence budget rests with the civilians. It may be tactful to blame the Services, but Gray's criticisms reflect the decade-long failure of Ministerial, Select Committee and Commons oversight. The argument that this failure can be remedied by the creation of a new committee ignores the real problem: the British system no longer treats defence as a serious issue.¹⁷

Moreover, the 80% solution poses problems of its own. Trading down on quality to sustain the quantity fielded offers advantages in the short run, but if the funds saved on lower-quality weapons are not spent on fielding larger forces that are upgraded as new technologies mature, the result will be a force that is both smaller and less well equipped. The 'upgrade later' strategy inherent in the 80% solution implies that money not spent now will be spent later. If it is not spent, problems will ensue: the Haddon-Cave Report on the crash of an RAF Nimrod over Afghanistan that killed 14 servicemen found that the MoD "in recent years had been sacrificing safety to cut costs", and that the failure to upgrade the Nimrod to remedy design flaws was a "crucial part" of the crash.¹⁸ The 80% solution will be appealing until lives are lost in combat as a result of it. As soon as that happens, the political pressure to revert immediately and at considerable cost to higher standards will be irresistible.

Change in the Nature of War

The broader argument behind reforms in both the US and Britain is that the nature of war has changed, that both states are too heavily invested in older ways of procuring for war, and that reform is therefore a strategic as well as a budgetary necessity. The Gray Report follows many other commentators in arguing that a "vestigial Cold War mindset" has resulted in a procurement plan that emphasises State-on-State conflict, instead of the asymmetric wars in which British forces have been engaged since 1997. While it might be desirable to have a balanced force at home in reserve, and an expeditionary force prepared to fight asymmetric conflicts, "the current level of UK defence resources does not permit us to sustain

indefinitely both of these laudable objectives.”¹⁹ Thus, the argument goes, it is time to make the bet that the future of war looks like Afghanistan, and to procure on that basis.

This is a dangerous argument. Efforts to predict the future nature of warfare that emphasise one recent event, or one supposedly revolutionary development, are invariably one-sided and incorrect. At times, as in the interwar years, they are driven by an obsessive focus on a novel technology; today, they are fundamentally the result of the need, as Gray implies, to find a strategic argument that justifies the continued cutting of the defence budget. But history offers no justification for the belief that analysts are smart enough to make accurate, broad predictions about the future of war. The wiser approach is to recognise this analytic fallibility, to sustain a balanced force as an insurance policy, to face up frankly to the budgetary implications of this, and to retain a two-track procurement system: a slower one for some systems, and one resembling Britain’s current UOR system for rapidly emerging threats.

The Gap Between Challenges and Response

The gap between the broad challenges of defence and the response in the realm of defence acquisition reforms is wide. On any realistic estimate, these reforms will come nowhere

close to closing this gap. That does not mean that no reforms are necessary. But it does imply that the enthusiasm for reform serves a purpose beyond the strictly budgetary one. That purpose is to provide a focus for blame, a logic for cuts, and a distraction from problems that, within the existing frame of reference, cannot be solved. It is to the credit of the Gray Review that it acknowledges both the scale of the problem and the fact that it is ultimately born of politics, not defence processes. But that only emphasises just how little defence acquisition reform can be expected to contribute to the solution. ■

NOTES

- ¹ UK MoD, Review of Acquisition for the Secretary of State for Defence: An Independent Report by Bernard Gray, October 2009, pages 6, 38 at <http://www.mod.uk/NR/rdonlyres/78821960-14A0-429E-A90A-FA2A8C292C84/0/ReviewAcquisitionGrayreport.pdf> (19 April 2010)
- ² Ibid, pages 219-220
- ³ Ibid, page 27



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