

The Conservative Prospect: Not an Easy Ride

by *Clark Vasey*

Clark Vasey is a defence policy analyst and a Director with Jefferson Communications. In our last issue he looked at the Labour view of defence. Now he considers how the Conservatives will manage defence if they win the election.

The 2010 General Election presents the Conservatives with their first real opportunity to regain power in more than a decade. Opinion polls continue to point to a Conservative victory, although David Cameron still faces a considerable electoral challenge if the Conservatives are to achieve a working majority. The election is now very much the Conservatives' to lose. Twelve months ago a Conservative victory over a Labour Party which seemed tired after 12 years in power seemed assured, but since then it has become clear that Mr Cameron still has a fight on his hands and few around him will be taking anything for granted. Falling short of a working majority would not give the Conservative Leader the kind of mandate he is seeking, and if no party gains an overall majority, political stagnation could follow as the Westminster village eyes a second General Election.

The MoD tops the list of problem departments awaiting an in-coming government

Despite the considerable electoral hurdle which needs to be overcome, the Conservatives recognise that it is after polling day when the real challenge will begin. As Prime Minister, David Cameron will inherit a deficit of £178Bn, an economic recovery which is slower than any other member of the G20, unemployment which continues to rise and a Government budget which simply cannot be sustained over the longer term. After building up a steady stream of unfunded commitments and continually failing to live within its means, the MoD tops the list of problem departments awaiting an in-coming government. The Conservative Defence Team, led by Dr Liam Fox, will inherit not only an ongoing operation in Afghanistan, but also one of the worst budgetary environments in the history of the department.

Going into this year's General Election, defence has been more of a potential electoral issue than it has for some time.

Since the launch of Operation Panther's Claw in the spring of 2009, when British Forces began taking heavier casualties in Afghanistan, the public focus on defence and the levels of support given to the troops on deployment has increased considerably. Labour strategists recognised that the Party was potentially vulnerable on this issue, which caused them at the end of 2009 to set out new funding priorities to support on-going operations, in the hope of putting the issue to rest before entering the final phase of the electoral cycle. The pre-Christmas announcement has done little to stem the focus on defence, however, and Labour have stuck closely to their retort that the Conservatives have not pledged to spend "one penny more".

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The operation in Afghanistan and the creation of a situation on the ground that would allow for a process of withdrawal to begin will of course be the number-one priority of any future Defence Secretary. However, it is the challenge of the over-stretched budget, the reported inefficiencies within the MoD and the problems within the equipment programme that will determine the success or failure of a Conservative MoD. The MoD is also likely to come under additional external budgetary pressure as departments across Whitehall are asked to deliver savings as the Treasury seeks to tackle the deficit. David Cameron has pledged to protect only the health and international development budgets, leaving the MoD to share the pain with other departments. Defence will not be an easy ride for Dr Fox and his team.

The Gray Report

Perhaps the best estimate of what a Conservative Government will inherit if they take up the reins of the MoD is provided by Bernard Gray, the former Special Adviser to Lord Robertson when he was at the MoD. Mr Gray was given unique access to

the department by the former Defence Secretary John Hutton. He found that the defence budget was 'out of balance', arguing that the estimated budgets go well beyond the funds being made available by the Treasury. With regard to the major equipment programme, Mr Gray found that it was some £35Bn over budget and some five years behind the initial estimates. Perhaps more worrying, as it points to the extent of the systemic problems within the department, is that despite all the initiatives to better utilise funds over the past decade or more, the MoD is still 'wasting' around £2.5Bn a year in inefficiencies. Mr Gray was also critical, as the National Audit Office has been, of the MoD tactic of delaying projects and pushing back funding within a programme's life cycle in order to delay spending shortfalls. The tactic does little to improve the delivery of a project and increases the overall project cost over its life cycle.

Little work has taken place to implement the recommendations of the Gray Review, largely because of the timing of its publication and the lack of commitment from senior ministers. The report has been used to inform the work by Lord Drayson on his strategy for acquisition reform and the pre-defence review Green Paper, but given that the strategy and the review came only months before the General Election, their impact on the department was always going to be limited and it was inevitable that they would be somewhat lost within the partisan jostling for position. However, the work already conducted by Bernard Gray, who now advises the Conservatives as part of George Osborne's Public Services Productivity Advisory Committee, and Lord Drayson's acquisition strategy will give a good basis on which a new team can build.

The New Defence Review

The Conservatives argue that the Government has failed to match commitments with resources and have consistently made the case that the Government failed to implement the recommendations of the 1998 Strategic Defence Review (SDR) and that the strategic environment is now dramatically different from what it was when Labour first came to power. The centrepiece of the Conservative approach for tackling the problems of the MoD is to update the 1998 SDR immediately upon taking office. Against the backdrop of a budget limited by internal and external pressures the review will examine all aspects of UK security and MoD activity to better match commitments with resources.

Commencing a defence review to examine the full range of UK interests, the strategic challenges facing them and the current and future requirements arising from them will be the opening act of a Conservative MoD. Beginning with an assessment of threats, the MoD will determine the capabilities needed to protect UK interests against these threats. From this the shape of the Armed Forces will be set and the equipment programme will be prioritised to deliver necessary capabilities. Interestingly, the budgetary constraints are listed as the final element of the defence review process. But with so many pressures on the MoD budget it is unlikely that the review will

be able to go much beyond the available budget, particularly given the power an Osborne Treasury is likely to have within a Cameron Government.

Defence reviews are always professed to be driven by strategic need and not to fit a particular budgetary constraint. Even if they do look for cost savings, those savings are justified by strategic requirements. A more benign strategic environment was the reason for reductions in the defence reviews of the early 1990s when the end of the Cold War offered a 'peace dividend' which politicians were all too eager to take. In the Nott Defence Review of 1981 cuts in one area were driven by a shift in resource to another to meet a particular strategic challenge. Strategic need will always determine what a Government does with the available resources, but the defence budget is the elephant in the room in any defence review.

Affordability

The 1998 SDR is now in dire need of an update, but when it was compiled it was widely regarded as one of the most comprehensive assessments of the UK's strategic requirement ever conducted by the MoD. The problem was that the SDR, which was led by Tony Blair's first Defence Secretary, Lord Robertson, went well beyond what Gordon Brown's Treasury was ever willing to commit. The cause of this mismatch of requirement and resource was that the SDR was never adequately funded, as the Chief of the Defence Staff at the time, Lord Guthrie, has stated for some time. In crucial areas such as surface ships, aircraft and numbers of battalions the UK's actual strength is well below the levels set out in the SDR, even though the commitments placed on our Armed Forces are much greater than those predicted in the SDR, as few could have predicted in 1998 how much the relatively benign environment would transform on 11 September 2001.

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An in-coming Government would do well to learn the lessons of the previous SDR. UK security would not be well served by the Treasury dictating the terms and Liam Fox, as one of the most independent-minded members of the Shadow Cabinet, would clearly not stand for such a move, but he must be willing to take the difficult decisions which will be required if the MoD is to better utilise its funds so that the Armed Forces no longer have to carry the operational risk of a mismatched defence budget.

Difficult Decisions

Without revealing any details or pre-empting the review, Dr Fox has been forthcoming in setting out that difficult decisions will need to be taken on existing programmes. In January, the Royal United Services Institute provided the first comprehensive assessment of how efforts to rein in cost might look in practice. The report projected that as a whole the Armed Forces could face cuts of some 30,000 personnel and that some 20% of aircraft and surface fleet may have to be sacrificed if the MoD is to meet the challenges posed by the current strategic reality.

Recognising that this will cause issues in the defence industry, Dr Fox has openly set out the basis on which future procurement projects will be judged, which should help set a more open relationship with industry going forward. These include: capability, interoperability, adaptability, affordability and exportability. Dr Fox's criteria indicates some of the assumptions of a future Conservative Government in that they expect to be predominantly serving alongside the Americans, that programme architecture needs to be flexible enough to adapt to changes in the strategic environment, that programmes do not always need to be procured at the top end of technological specifications (which adds to cost and risk) and that the MoD will better support defence exports.

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Defence exports are likely to be a means of supporting on-shore industrial capabilities. Re-establishing the Defence Exports Services Organisation was an early Conservative pledge, but as we have headed closer to the General Election the Conservatives have sought to find ways by which the Department for Business, Innovation and Skills (DBIS) and the MoD can work together to support defence exports. Shadow Equipment Minister, Gerald Howarth, and Shadow Business Minister, Mark Prisk, have led engagement on this issue with senior industrialists.

An Acquisition Policy

The Conservatives recognised that without access to the MoD's information banks and confidential documents they had to be careful about pre-empting the defence review, but recognised that procurement was an area where they could make significant progress in opposition. Dr Fox's team are going into the election with one of the most developed acquisition policies of any previous opposition. Generally, Dr Fox has done

much to gain a real understanding of defence industry during his time in the role. In the years following his appointment his opponents suggested he had an overly simplistic view of defence acquisition, arguing that he believed that savings could simply be achieved by buying off-the-shelf from the Americans. However, he has developed a nuanced approach to procurement which balances off-the-shelf purchasing, on-shore capabilities and collaboration when collaboration is appropriate. In the case of Europe, he has never supported the European Defence Agency and more generally he is one of the fiercest defenders of the primacy of NATO, but is open to industrial collaboration.

The one policy which will not be considered within the scope of the defence review is that of the Trident upgrade; however, the debate over the shape and scope of the deterrent is likely to continue with crucial programme decisions coming soon after the election.

Defence and the Treasury

The biggest challenge for the Conservatives will be the support it gets from the Treasury through the early years of the next Parliament. The efficiency savings and reductions to the civil service which the Conservatives are examining, particularly those which build upon the work conducted by Bernard Gray, along with changes to the equipment programme which emerge during the defence review, have the potential to produce considerable savings for the MoD and will make large amounts available to the front line. However, it must be recognised that in the first instance such cuts involve costs in the early years before the benefits of savings are felt. For instance wide-ranging staff reductions involve redundancy payments, while contract cancellations are likely to involve not insubstantial penalty clauses, some of which may be offset by contracts in other areas, but much of which will need to be paid in the early years. The upfront cost of such actions has contributed to Labour's decision to delay big decisions until after the 2010 election. Dr Fox and his colleagues will need to be bold in factoring these costs into achieving longer-term financial stability within the department.

The Critical State of the Defence Budget

As we have headed closer to the General Election, the Shadow Defence Team has become noticeably more serious as they face up to the challenges which could soon be their responsibility. Over Labour's nearly 13 years in office, there have been 7 Secretaries of State for Defence and numerous initiatives from Smart Acquisition to the Defence Industrial Strategy. However, the defence budget is now in a critical state and the problems within the department now account for billions lost through inefficiencies. Anything can happen during the course of an election campaign, so nothing can be taken for granted, but the Conservatives could soon find themselves with the responsibility of bringing the department into line. Whatever happens on polling day, one thing for sure is that whoever is in power will find the MoD one of the most challenging departments. ■