

The Strategic Defence and Security Review and the National Security Strategy

Submission by Prospect to the Defence Committee

14 February 2011

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Latest revision of this document: [//library.prospect.org.uk/id/2011/00193](http://library.prospect.org.uk/id/2011/00193)
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Introduction

1. Prospect, the union for 16,000 professionals in the Ministry of Defence and the UK defence industry, has been concerned for some time about the misalignment of the defence budget and the nation's strategic defence needs. Over a number of years we have encouraged debate and discussion in a broad-based non-partisan fashion to make the case for a serious review of the UK's defence strategy and how this will be adequately resourced. In particular the Prospect publication, 'Punching above the Budget'¹ highlighted comments by Quentin Davies MP, then Minister for Defence Equipment and Support, that "the idea of a defence deficit of £15 bn or £10 bn or £20bn is fantasy." It has subsequently been shown, in Bernard Gray's independent report on defence acquisition,² that the cost overrun was even higher at £35 bn. So Prospect was fully aware of the serious gaps in the defence budget prior to the General Election and welcomed the last government's decision to launch a strategic defence review.
2. However, in our opinion a serious review of our strategic defence needs has not taken place. The publication of the Strategic Defence and Security Review (SDSR) and the associated National Security Strategy (NSS) has been rushed to meet a budgetary timetable set by the Comprehensive Spending Review (CSR). This inevitably will mean that skilled jobs and expertise will be lost without proper consideration of future strategic needs.
3. In particular the announced reduction of 25,000 civilian MOD staff, which the department has described as a 'political imperative', is not supported by any justification in the SDSR and will destabilise the MOD's skills base even further. In the absence of a proper realignment of UK defence capability, MOD is engaged in a further round of short-term cuts, which carries long-term risks. The civilian MOD has been frozen out from proper consultation about how to achieve efficiency savings, which is likely to mean that the wrong decisions will be made on which capabilities should be retained. In addition to a reduction in civilian posts, the MOD is also proposing to cut travel and subsistence expenses and other contractual allowances by £50 million. However it is refusing to release supporting information to enable unions to negotiate effectively.
4. The MOD Groups of PCS and Prospect have already written to the Defence Committee separately on the issue of 'SDSR - Civilians in Defence', outlining our concerns and suggesting that the Committee should undertake a proper analysis of the MOD's civilian workforce, its purpose, shape, budget and the appropriate balance of civilian and military personnel. We strongly urge the Committee to examine this issue further.³
5. In preparation for the Defence Review and the challenges facing the defence sector Prospect commissioned an independent analysis by Professor Trevor Taylor, research fellow at the Royal United Services Institute and Brigadier

¹ 'Punching above the budget, a Prospect seminar', July 2009, **Prospect**

² 'Review of Acquisition for the Secretary of State for Defence', October 2009, B. Gray

³ Letter to Defence Committee, 'SDSR - Civilians in Defence', 27 January 2011, MOD Groups of PCS and Prospect

(Retired) Jim Campbell, defence analyst.⁴ The report is a powerful assessment of the issues that confront MOD, industry and policy makers. Our evidence will be informed by the report, which has been sent to members of the Defence Committee. One of key conclusions emerging from the Taylor and Campbell report is that the SDSR does not include a risk assessment associated with the reduction of civilian MOD personnel.

6. The loss of thousands of vital and highly skilled engineering, scientific and research jobs in this area has already had grave effects on the UK defence skills base, and on the infrastructure of an industry that employs hundreds of thousands of people across the UK and earns billions of pounds every year for the UK economy. The cuts will also further denude MOD of the in-house skills and intelligent customer role it needs to extract – at minimum risk - best value from the defence industry. In turn, industry also needs these skills to supply MOD with the increasingly complex equipment the armed forces need to do their job.

How do the SDSR and NSS relate to each other

7. The prime driver in the SDSR is cost control; this inevitably means that the NSS and SDSR is not a coherent vision. A lot of media comment has lampooned the government's 'capability holiday' in particular in relation to the decisions to decommission Ark Royal, withdraw the Harrier fleet, halt the Nimrod programme and build two aircraft carriers and immediately mothball one to its base. There are other decisions which look half-baked such as the abandonment of the Defence Training Review (DTR) with no clear plans for an alternative. While some of these criticisms, particularly in relation to DTR are valid, as Taylor and Campbell show in their report, most defence analysts were able to make an educated guess about the outcome of defence review based on the likely reduction in the size of the MOD budget.

"Given the multi-year contractual commitments in place in MOD to people and the supply of equipment and services, the cuts to be made will significantly reflect those that can be made rather than those that would generate the most coherent defence posture."⁵

8. The areas where cuts could be made was limited therefore making the SDSR less about strategic choices and more about cutting costs. However, by not significantly reducing capabilities it was inevitable that a new budgetary black hole would emerge.⁶ In addition, the NSS identifies new capabilities – for instance in cyber security – without identifying how they might be developed, by whom, or at what cost. It remains to be seen how firm the strategic vision will look after the Defence Reform Review concludes in July 2011.
9. The framing of the SDSR by questions of affordability has meant that the National Security Council is at present a largely redundant organisation in setting out strategic choices. The Defence Planning Assumptions outline the

⁴ 'Challenges in the generation and support of front line forces', 2011, T.Taylor and J.Campbell, Prospect <http://library.prospect.org.uk/id/2011/00021>

⁵ **Ibid**, p.18 – 20. Annex A, 'An anticipation of the SDSR from September 2010'

⁶ 'UK military faces further £1bn in cuts', 19 January 2011, **Financial Times**

force reductions associated with the NSS and the transitional arrangements to put these in place. There is very little evidence, based on conflicts in the last decade, that the strategic framework set out in the SDSR is flexible or agile enough to meet future threats in 'an age of uncertainty'.

10. Some of the transitional measures may in time help reduce costs, such as deepening partnerships. However these are untested in combat situations at present and will therefore require time to mature.
11. Other risks associated with cost reductions look more reckless. We do not think a strategic policy can be reasonably based on an expectation of an ability to 'reconstitute our levels of military capability'. Military capabilities once lost will not be easy to restore and restoration if needed is likely to be expensive. A major problem will be the difficulty of maintaining the in-house skills and capability required so that the MOD are able to identify gaps in capabilities that need to be regenerated before they become critical. If military defence is like an insurance policy we need a policy that is fully comprehensive rather than 'third party, fire and theft'. There needs to be firmer contingencies in place to deal with the anticipated capability shortfall.

The Role of the Ministry of Defence, including the Defence Reform Unit

12. The decision in the SDSR to cut 25,000 civilian personnel has weakened the ability of the MOD to act as an intelligent customer in the future. There is no rational plan to justify the level of cuts and the department does not have the information it needs to decide what skills it should retain. Haddon-Cave highlighted the safety risks associated with cuts in civilian personnel in the acquisition process and the need to mature and promote engineering skills. There is little evidence that the principles underpinning the Haddon-Cave report of "leadership, independence, people and simplicity" have informed the defence reform project. In particular Haddon-Cave warned that poor procurement damages in-service support by delaying new equipment and leads to cost overruns that can put strain on other parts of the MOD in particular in-service support.⁷
13. There is a need for a commitment to a personnel strategy so that the MOD are able to identify the key skills and experience that are required to ensure that it is able to act as an 'intelligent customer' when dealing with industry and ensure that these are maintained and enhanced in-house. As Haddon-Cave points out the scale of 'outsourcing' has had a long-term corrosive effect on in-house abilities, which means that the MOD have become more reliant on industry for expertise. This means that the MOD does not retain sufficient personnel with the necessary professional judgement to ensure that equipment is safe and appropriate for conflict conditions.
14. The risks associated with reducing the MOD's in-house capabilities are highlighted by the case of nuclear expertise at Faslane submarine base. The number of MOD nuclear experts has been cut from 42 to 4 with staff responsible for safety transferring to the contractor. This caused a former MOD head of

⁷ 'The Nimrod Review', October 2009, C. Haddon-Cave QC, Chapter 26 – New Procurement Strategy, p.567

radiation protection to comment that "Faslane could be falling into "the same trap" as parts of the civil nuclear industry had in the past by not maintaining enough control over private contractors."⁸

15. Nor is the substitution of civilians with military staff an option (although there is much evidence that it is the preferred option of the Services). An important, but often overlooked, subtext of Bernard Gray's and Charles Haddon-Cave's reports was the negative role of military in acquisition – both in having the wrong knowledge and skills and in generating the conspiracy of optimism behind cost over-runs and delays in procurement. In addition to this, it must be remembered that military staff cost approximately twice as much than their civilian counterparts. Are the MOD's decisions on the balance of military and civilian being driven by the 'Daily Mail test', rather than a rational assessment of need and value for money?

What capability gaps will emerge?

16. In the lead up to the defence review a large number of job losses were announced by industry, some of these job losses anticipated the outcome of the SDSR.
17. The cut in the research budget by 23% since 2006 has led to 700 redundancies at QinetiQ. There were 400 jobs lost at the scientific research base in Malvern and an additional 325 in 'Managed Services' business primarily at Boscombe Down, Farnborough. Following the SDSR the decision to scrap the DTR led to a further 50 redundancies and the loss of the Nimrod programme has reduced the number of radar research scientists from 60 down to a dozen. We anticipate more to follow. By the nature of the work it is difficult to quantify the loss of capability as a result of these job losses in research and development. But there can be little doubt that scientific expertise has been lost which cannot be easily replaced or regenerated at a future date.
18. As a result of losing the FRES contract and continuing delays with the Warrior project 260 job were lost BAE Global Combat Systems and further 500 jobs were lost after the site closure at Leeds. It had also been announced that BAE's only vehicle-manufacturing site in the UK would now be based at Newcastle but if work was not forthcoming then manufacturing in the UK would cease altogether. As a result of these job losses the future capability to design Land vehicles in the UK has virtually disappeared. In addition BAE announced job losses at Military Air Solutions both before and after the SDSR as part of a restructuring exercise to align with MOD contracts.
19. Although the medium-term future of the naval dockyards and the carrier programme has been secured there is still considerable uncertainty over the long-term viability of naval bases with the current workload.
20. Cuts in the defence estates are taking place against a background of substantial changes to bases. The MOD will be more reliant on the private sector to facilitate changes to accommodate adaptations to the new force structure.

⁸ 'Is safety being compromised at Scotland's nuclear submarine base?' 6/2/2011, **Sunday Herald** www.robedwards.com

Alongside these cuts government pressure on facilities contracts in the defence sector will lead to job losses in recently outsourced private sector companies.

21. There will be a further erosion in the MOD's skills base especially in engineering skills. A further period of uncertainty surrounding the future of DE&S means that attempts to map out an engineering strategy are being hampered.
22. The demand for those with nuclear skills has been rising for a number of years. With the prospect of competition from the civil nuclear sector if the planned new build goes ahead there will be a shortfall of 8,000 nuclear specialists across all skilled roles by 2025.⁹ This will make the task of attracting new recruits into the defence sector very challenging. The decision to delay the announcement of Trident does not help the sector to plan for the future.
23. The proposed privatisation of the Defence Support Group (DSG) will mean that the MOD will not have the in-house capability to maintain and adapt existing equipment. Leaving aside the viability of a sale of an organisation split between air and land domains there is a huge question mark over the value for money case for the outsourcing of DSG. Even if DSG's Land Vehicles business is (quite wrongly) dismissed as a glorified garage operation, the fact is that its hourly rates – as currently charged to the MOD – are between 30 and 50% lower than commercial garages. Recent conflicts in Iraq and Afghanistan have highlighted the valuable role of DSG engineers in keeping equipment in service. In this role DSG is not constrained by its relations with the private sector in the way that a commercial organisation would be. The increased importance of design authority may complicate future service agreements making a single provider of maintenance for all platforms unlikely. Fragmentation of this service is likely to increase costs to the taxpayer. As Rob an Automatic Test Engineer at DSG explains;

“Because of the increasing complexity of technology and intellectual property rights, companies will find themselves in a monopoly situation and the taxpayer will pay through the nose...Low volume work will become unviable because contract set-up costs and the lack of interest from industry makes repairs untenable. In turn, this will lead to a loss of military capability, as equipment is declared obsolete.”¹⁰

There is no rational case for privatising DSG other than reducing the civil service headcount. But the consequence will be a serious loss of capability.

24. The overall effect of the SDSR will be to reduce the size of the UK industrial manufacturing base. Taylor and Campbell estimate that up to 15,000 jobs are under threat as a result of the SDSR.¹¹ However, the level of job losses could be higher if the government adopts a vigorous 'off-the-shelf' policy. The Defence Secretary has signalled his intention to drive value for money by buying from

⁹ 'Nuclear Skills a review', June 2009, [SouthWestNuclearWorkforce.pdf](http://library.prospect.org.uk/id/2011/00021)

¹⁰ Case Study of DSG in, 'Challenges in the generation and support of front line forces', January 2011, Prospect, p. 31 <http://library.prospect.org.uk/id/2011/00021>

¹¹ Ibid, (this estimate was made before the SDSR was published) p.13.

home or abroad¹² this approach has been confirmed in the Equipment Support and Technology Green Paper. The implications for future defence capabilities without a clear industrial strategy will be uncertain. A reduction in the size of the defence industry will mean that the pool of skilled labour is reduced and there will be less opportunities for people to move between the public sector and industry. As a result the MOD will find it more difficult to recruit the next generation of engineers with the skills needed to procure and maintain future equipment.

25. The strategy which results from the Green Paper on defence acquisition should not be a purely cost driven exercise. The recession has exposed imbalances in the economy between financial services and other sectors such as manufacturing. A decision to spend taxes on defence goods bought 'off the shelf' from abroad will inevitably mean a dilution of the UK's sovereign industrial base. The Defence Reform Review is an opportunity to promote the vitality of the UK defence sector. This is particularly important if defence jobs are going to make an increased contribution to UK manufacturing exports.

How will the success of the NSS and SDSR be measured?

26. The success of the SDSR and NSS will largely depend on events that are outside the control of the UK government. There are huge risks in cutting capabilities without a clear strategic plan. It is already clear that there is still a funding gap following the publication of the SDSR. As we write, the 2011 Planning Round (PR11) stumbles along in the MOD – with cuts being taken where they fall and inadequate attempts to ensure the coherence of plans from different parts of the department. Change projects are being approved simply because they exist and can promise cuts, irrespective of whether they align with the SDSR or, in fact, imply cost increases in the longer-term. And genuine savings measures are not being considered simply because they involve investment ('spend to save') or will not realise savings quickly enough. It is no wonder that there is speculation that the SDSR will have to be re-opened.
27. Some of the decisions in the SDSR have reduced military capabilities; any further cuts will increase the 'capability holiday' further and will undermine the UK's claim to retain "global responsibilities and global ambitions."¹³
28. In our view the SDSR has already failed because it has not been a considered review of strategic defence needs aligned with what the country can afford. Instead the decisions in the SDSR have been driven by cuts outlined by the CSR and a 'political imperative' to reduce MOD civilian personnel by 25,000. We are also concerned that the Defence Reform Process is driven by the same imperatives of cutting costs rather than improving defence acquisition. A measure of success should be improved staff morale and greater employee engagement in the process of acquisition. However there has been no attempt to manage change in a way that includes staff, creating unnecessary conflict, which will hamper the effectiveness of reforms. If efficiency savings are not 'smart' they are seen as punitive. There is no evidence that value for money of defence procurement will improve as a result.

¹² SSAFA industry dinner, 25 October 2010

¹³ Foreword, 'Securing Britain in an Age of Uncertainty: the SDSR', 2010, HMG