



House of Commons
Defence Committee

The Strategic Defence and Security Review

First Report of Session 2010–11

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written evidence*

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Conclusions and recommendations

The National Security Council

1. We welcome the establishment of the National Security Council and look forward to assessing its role with regard to defence over the course of this Parliament. (Paragraph 4)

The Strategic Defence and Security Review

2. The SDSR is likely to lead to crucial decisions about national defence and the role of the UK's Armed Forces. In view of the speed with which the SDSR is being conducted, we feel compelled to report to the House as soon as possible. This Report sets out, albeit only in summary, our understanding of the process and our anxieties about that process, and about the relationship between the SDSR and the CSR. (Paragraph 7)

Policy context

3. We support the Review being broadened in scope, in order to set the country's defence needs in a stronger foreign and security policy context—as our predecessor Committee recommended. Inclusion of broadly defined security concerns within the Review does, however, risk the dilution of the defence contribution. Immediate or short-term security issues and threats might dominate the Review to the exclusion of the medium to long-term defence assessments made by the MoD. Medium to long-term threats, and those capabilities needed to meet them, are as important to this Review as those the country faces, and requires, in the shorter term. We hope the NSC will recognise this. (Paragraph 8)
4. It would be short-sighted to allow current operations overly to determine the nature of future capabilities, manpower levels or training needs. (Paragraph 9)
5. We understand the Government's need to tackle the deficit and ensure financial soundness. One of the most important capabilities a country can possess in relation to its defence is a strong economic base. Yet we are concerned at the possible consequences of the MoD's budget not being ring-fenced for the future, unlike those of DFID and the Department of Health. The capacity of the country even to sustain current in-use capabilities and therefore current operations could well be put at risk by the proposed cuts of between 10% and 20%. (Paragraph 11)
6. The SDSR is running in parallel to the Comprehensive Spending Review. The Government should reassure us that this symbiosis will have the positive result that the outcomes of the SDSR will be fully funded, even when translated into more detailed programmes, including the issue of Trident, by the departments involved. (Paragraph 12)

Timetable

7. The rapidity with which the SDSR process is being undertaken is quite startling. A process which was not tried and tested is being expected to deliver radical outcomes within a highly concentrated time-frame. We conclude that mistakes will be made and some of them may be serious. (Paragraph 14)

The National Security Strategy and MoD studies

8. We believe that the original intention of Government was for the Strategy to be published before the summer, which would have helped establish a degree of discussion and public engagement that is otherwise lacking. We regret that the Strategy is still not a public document. (Paragraph 15)
9. We appreciate that holding the Review after the CSR would have been unsatisfactory, but the brevity of the SDSR as a result of its running in parallel with the CSR means that it will not be as comprehensive and considered a Review as would otherwise have been the case. (Paragraph 17)
10. It seems increasingly likely that the MoD will have to shoulder more than the running costs of the successor programme to Trident. The implications of this for the MoD's budget would be very significant. In practice, this decision seems to put the issue of Trident renewal into the SDSR without making this explicit, which unhelpfully reduces the transparency of the process. (Paragraph 20)

Costing and industry involvement

11. We are concerned that the MoD costings for the studies used in the Review have been established before there has been an opportunity fully to explore the possible extent of financial benefits from procurement or acquisition reform. The importance of the costing of these studies being rigorous cannot be underestimated. (Paragraph 22)
12. We request the views of the Government on the regularity with which it intends to undertake such Reviews in the future. We support the proposal contained in Bernard Gray's report of ten year budgets for the MoD, but ask the Government to explain how longer term funding would work in practice. We also consider that it should involve greater flexibility in transferring money between budgetary years and that the existing limited degree of flexibility should be devolved further within the Ministry. (Paragraph 23)
13. An SDSR that takes no account of what the defence industries can provide in this country, in terms of skills and capacity, and which does not explore fully what sovereign industrial capabilities are required, would be a folly. (Paragraph 24)
14. We have serious concerns that the defence industry has only been formally consulted in very few areas. There is a very real danger that the examination of which capabilities are required for the UK's security and defence needs is disconnected from the examination of how, when and at what cost those capabilities can be provided and sustained, and the vital skills base retained. Treating defence industrial

capacity and capability as an after-thought risks reducing the robustness of what the SDSR will propose. (Paragraph 24)

Manpower costs and the Reserve Forces

15. We welcome the Secretary of State's radical intent and attention to the number of senior officers in the Armed Forces, an issue which has required action for some time. We hope that the Review will consider other radical ideas relating to how the burden of accommodation, medical and education costs can be born more equitably across relevant Government departments. (Paragraph 25)
16. We are disappointed that there has been no specific work-stream within the MoD on developing the role of the Reserve Forces, especially considering the radical intent behind the SDSR. We were assured that some of the MoD studies cover the use of Reservists, but it seems odd that there has been no discrete study dedicated to exploring this issue. We requested information concerning the relative costs of reservist and regular units—for example a Multiple Launch Rocket System (MLRS) regiment—but the MoD failed to provide comparative costings. This is unsatisfactory, and reveals MoD's failure to address seriously the option of placing capabilities into the Reserve Forces at much lower cost, as the Americans have done. We recommend that the increased use of Reservists should be properly covered by the NSC in its discussions. (Paragraph 26)

Cost-cutting and reform

17. We acknowledge that the MoD has already undertaken significant reductions in Main Building and other personnel while managing operations at a level over and above what the Defence Planning Assumptions provided for within the 1998 Review. But early decisions on cuts before the outcome of the SDSR is known—and before the more detailed work that will follow fleshing out the high level proposals from the SDSR—may hinder the Department in carrying out the changes required by the Review and may impede its subsequent performance. (Paragraph 27)
18. The Secretary of State has also announced his intention radically to reform the structure of the Department, proposing its division into 'three pillars'—strategy and policy, the armed forces, and procurement and estates. We are concerned that the MoD is beginning a process of structural change, to make the Department more capable of carrying out what it is tasked to do, before it learns exactly what it will be tasked to do in future. (Paragraph 28)
19. We can understand that there is an urgency to the SDSR process, both in terms of alignment with a CSR intended seriously to address the deficit, and in terms of the pressing need for a defence review a decade since the last was undertaken. However, the Department could end up with only short-term priorities, misaligned resources, a barely reformed acquisition process and a structure short of manpower to deliver good performance and improperly configured for its tasks. (Paragraph 29)
20. We welcome the Secretary of State's determination that this should be a real review rather than just a cost-cutting exercise. However we are not convinced that the combination of a budgetary straight-jacket, the short timescale, and the apparent

unwillingness by the Ministry to think outside existing structures, will deliver that end. (Paragraph 29)

Consultation and the public

21. There has been limited consultation this time. We acknowledge that this is not entirely the fault of the Government since the timetable of the House's own nomination processes and the summer recess were factors in this. It is nonetheless regrettable. The chance to look in more detail at the processes and inputs before the SDSR will be published would have been very useful. (Paragraph 30)
22. We are concerned, given general public opposition to the war in Iraq, and questionable support amongst the electorate for current operations in Afghanistan (notwithstanding general support for Armed Forces personnel), that the lack of general consultation may create a greater sense of disconnection between the decisions of Government and the understanding of the people at large on defence issues. (Paragraph 31)
23. We do not know exactly how high level the SDSR will be, or how clear the implications for the MoD and the Armed Forces will be from the White Paper. It is important that publication of the Review is accompanied at the time of its release or as soon as possible thereafter with material that will at least allow a greater insight into what the Review means for defence manpower, capabilities and equipment. We consider that the SDSR represents a missed opportunity to reconnect the people of the country with defence issues. It will be essential whenever the successor review is conducted that this matter is addressed head on, and that in the intervening period the MoD communicates the outcome of the SDSR effectively to the wider public. (Paragraph 32)

Other issues

24. We would welcome improved financial burden-sharing that reflects the MoD's contribution to the aims and objectives of other Government departments. (Paragraph 33)
25. We understand the value of departments with related research and technology budgets pooling resources so that defence and security priorities across Government can be better and more flexibly funded. In the light of our predecessor Committee's dismay at recent reductions in defence research and technology, we would be most concerned if Government support in this field were to be cut still further. (Paragraph 34)
26. We hope that the studies relating to estates within the SDSR process have given more focus and depth to the context within which decisions as to the size and use of the MoD estate will be made later in the year. It is unsatisfactory that the MoD has given insufficient attention to estates issues over recent years. We look to the MoD in its response to this Report, and within the SDSR, to give full and proper weight to how it might better understand and exploit its estate. (Paragraph 35)

27. We seek assurances that the NSC has received inputs from other Government departments, such as DWP and DCLG, about the possible implications of the closure of bases or garrisons for the Exchequer and for local economies. (Paragraph 36)
28. We do not know whether the current discussions between the MoD and the Treasury in the context of both the CSR and the SDSR will cover the future use of the Reserve. We wish to be informed whether, alongside the CSR settlement for the MoD and the SDSR's exploration of how operations might be funded in future, there may be some development or indeed restriction placed upon access to the Reserve. We will watch this aspect of the relationship between the Treasury and the MoD with close attention. (Paragraph 37)
29. We hope that the SDSR will make clear not only how it will be implemented, and by whom, but what the relevant timetables are and who will be asked to monitor or assure compliance. We expect the NSC will consider implementation not as an afterthought to the Review but as an integral part of it. (Paragraph 38)
30. We are concerned that there will be significant changes to the most senior levels of personnel as the SDSR process ends, which means that key members of the new defence team will be implementing the results of a process which they did not lead. (Paragraph 38)
31. We expect our scrutiny of the SDSR to be a high priority for us following our proposed inquiry into current operations in Afghanistan. We will wish not only to examine the implementation of the Review but also where necessary to challenge its conclusions. (Paragraph 39)

The Strategic Defence and Security Review

Background

1. On 7 July 2009, the Ministry of Defence (MoD) announced its plan for a Strategic Defence Review (SDR) to follow the 2010 General Election. This Review was to be led by the MoD but would involve other Government departments as appropriate. To start the Review process, a Green Paper would set out the key issues on defence and the questions which the Review would need to answer, combined with a broad consultation with the academic, industrial and political communities in and around defence, as well as the Armed Forces: the then Secretary of State for Defence, the Rt Hon Bob Ainsworth MP, was assisted by a specially appointed Defence Advisory Forum with a membership reflecting the breadth of this consultation.

2. The Green Paper, *Adaptability and Partnership: Issues for the Strategic Defence Review*, was published on 3 February 2010.¹ Alongside this, the MoD published three additional papers—*The Future Character of Conflict*, *Global Strategic Trends—Out to 2040*, and *The Defence Strategy for Acquisition Reform*. The first two were produced by the Development, Concepts and Doctrine Centre (DCDC) within the MoD and the last was the initial response by the then Government to the Gray Report on procurement reform.² These papers were intended to provide additional material in support of the SDR process.

3. Our predecessor Committee reported its views on the proposed SDR in Chapter 3 of its Fourth Report of Session 2009–10, *Readiness and recuperation of the Armed Forces: looking towards the Strategic Defence Review*, published on 10 February 2010.³ It recommended that the SDR be set “in the context of a coherent UK Strategy, reflecting long-term strategic interests, encompassing UK foreign policy and the National Security Strategy”. It also warned against financial constraints over-riding defence and security imperatives:

“It is easy to lose sight of the fact that one of the core businesses of Government is the defence of the country and of national interests, and that is every bit as true during difficult financial times as during more settled ones...The defence of our country must be maintained whatever the circumstances.”⁴

The Government response to this Report, published on 8 April, noted that:

“The Strategic Defence Review must be based on the global role we wish to play, the relative role of the Armed Forces and the resources we are willing to dedicate to them. The wider financial context means resources will be constrained. The future Strategic Defence Review must set priorities which are affordable. The Review—

1 Ministry of Defence, *Adaptability and Partnership: Issues for the Strategic Defence Review*, February 2010, Cm 7794

2 Ministry of Defence, *The Defence Strategy for Acquisition Reform*, February 2010, Cm 7796

3 Defence Committee, Fourth Report of Session 2009–10, *Readiness and recuperation of the Armed Forces: looking towards the Strategic Defence Review*, HC 53

4 HC (2009–10) 53, para 63

which will run in parallel with the Spending Review—provides the opportunity for a comprehensive reassessment of the Armed Forces' role and structure.”⁵

Before the Election our predecessor Committee also specified some areas that if felt needed to be prioritised within the SDR, with regard to national security, helicopter capability, the defence equipment, the implementation of the Comprehensive Approach and ISTAR capability.⁶

The National Security Council

4. Following the 2010 General Election, the new Government moved quickly to establish a National Security Council (NSC), based within the Cabinet Office, and to appoint a National Security Adviser, in the person of Sir Peter Ricketts, former Permanent Secretary at the Foreign and Commonwealth Office (FCO). The NSC met for the first time on 12 May 2010; its membership includes the Prime Minister, the Deputy Prime Minister, the Chancellor of the Exchequer, the Defence, Foreign, and Home Secretaries, the Secretary of State for International Development, and the Security Minister. Other Cabinet Ministers, the Chief of the Defence Staff, Heads of Intelligence Agencies and other senior officials attend as required. At that first meeting, the NSC decided to broaden the SDR into a Strategic Defence and Security Review, incorporating broader security concerns in its remit. This review would be led by the NSC, and supported by a team within its secretariat. The team—like the broader NSC secretariat—would comprise personnel from all relevant Departments. **We welcome the establishment of the National Security Council and look forward to assessing its role with regard to defence over the course of this Parliament.**

The Strategic Defence and Security Review

5. The Queen's Speech of 26 May 2010 set out the Government's commitment to conducting the SDSR alongside the Comprehensive Spending Review (CSR) with the strong involvement of the Treasury. The NSC would also develop a new National Security Strategy (NSS). The Review would be founded upon a foreign policy baseline and upon assessments of what comprised UK interests and the principal security threats against the UK and its interests.

6. We met as a Committee for the first time on Tuesday 13 July. This followed a debate on the Floor of the House on the SDSR on 21 June and a number of ministerial speeches, articles and written answers to Parliamentary Questions relating to the Review.⁷ In April 2010, our predecessor Committee had asked the MoD to provide the new Committee with a memorandum on the SDSR for its first meeting. We are grateful to the MoD for supplying us with this memorandum, which is appended to the Report. In addition, we received a private briefing on the SDSR context and process from Sir Bill Jeffrey, Permanent Secretary at the MoD, and Tom McKane, Director General Strategy and head

5 Defence Committee, Fifth Special Report of Session 2009–10, *Readiness and recuperation of the Armed Forces: looking towards the Strategic Defence Review: Government response to the Committee's Fourth Report of Session 2009–10*, HC 536, response to recommendation 14

6 See Defence Committee Reports on these subjects: HC (2008–09) 121, HC (2009–10) 149, HC (2008–09) 434, HC (2009–10) 99, HC (2009–10) 224, and HC (2009–10) 225

7 See HC Deb, 21 June 2010, from col 52 onwards

of the team within the MoD dealing with the Review. The SDSR was also the focus of our first evidence session with the Secretary of State for Defence, the Rt Hon Liam Fox MP, held on Wednesday 21 June.

7. The SDSR comes after many years of military activity, when the Armed Forces have been required to operate way beyond the level to which they had been configured and routinely resourced. The SDSR is being conducted some 12 years after publication of the last defence review, at a time of severe strain with regard to the nation's finances. **The SDSR is likely to lead to crucial decisions about national defence and the role of the UK's Armed Forces. In view of the speed with which the SDSR is being conducted, we feel compelled to report to the House as soon as possible. This Report sets out, albeit only in summary, our understanding of the process and our anxieties about that process, and about the relationship between the SDSR and the CSR.**

Policy context

8. **We support the Review being broadened in scope, in order to set the country's defence needs in a stronger foreign and security policy context—as our predecessor Committee recommended.** While we support the setting up of a National Security Council to oversee the Review, we do have some concerns for how effective Parliamentary scrutiny of that body will be carried out. **Inclusion of broadly defined security concerns within the Review does, however, risk the dilution of the defence contribution. Immediate or short-term security issues and threats might dominate the Review to the exclusion of the medium to long-term defence assessments made by the MoD.** Defence operates on a different time-scale to many other areas of Government, in terms of its development of capabilities and related equipment, and in its assessment of defence threats. Once defence capabilities are lost it takes considerable effort, in terms of both time and money, to create them again. **Medium to long-term threats, and those capabilities needed to meet them, are as important to this Review as those the country faces, and requires, in the shorter term. We hope the NSC will recognise this.**

9. Likewise, even before the SDR as extended into the SDSR, there were concerns that capabilities needed for current military operations might predominate to the detriment of capabilities needed in other theatres or over the medium—to long-term. The work and output of the MoD's Development, Concepts and Doctrine Centre suggests that there is a continuing likelihood of the UK's Armed Forces being involved in operations similar to those in which it is currently engaged in Afghanistan. It also points to the uncertainties of the future global security situation. **It would be short-sighted to allow current operations overly to determine the nature of future capabilities, manpower levels or training needs.**

10. These two concerns would stand regardless of the current financial and economic context. This context introduces its own anxiety about how the SDSR is configured and what its outcomes might be. As we have already noted, our predecessor Committee concluded that the defence of the country needed to be assured “during difficult financial times as well as during more settled ones”.⁸ The current state of the deficit and of

8 HC (2009–10) 53, para 63

government finances more particularly require savings to be made. The MoD's budget is not one of those ring-fenced beyond this Financial Year by the current administration. The presumption has to be that the MoD will need to make cuts of one sort or another and that the SDSR will presumably have to take account of that need.

11. In discussing budgets with the Treasury, the MoD is disadvantaged by long-running procurement delay and overspend and by poor financial management which recent reports have revealed only too clearly. **We understand the Government's need to tackle the deficit and ensure financial soundness. One of the most important capabilities a country can possess in relation to its defence is a strong economic base. Yet we are concerned at the possible consequences of the MoD's budget not being ring-fenced for the future, unlike those of DFID and the Department of Health.** We note that while expenditure on those departments, and several other government departments, has greatly expanded as a percentage of GDP, defence has continued to decline and is now down to 2.7% of GDP, compared with a mid-1980 peak of over 5% a generation ago. The Cold War is over but the pace of operations is heavier now. Setting aside what the SDSR might determine, the level of cuts demanded by the Treasury from the MoD is not as great as that demanded from other Government departments. Nonetheless, although the Reserve has funded military operations, their longevity (and concurrency, while significant forces were still deployed in Iraq) has had an attritional effect on the MoD and the Armed Forces with inevitable consequences for the core budget of the Department. In addition, there is the impact of the recent civilian manpower cuts and previous reductions in Armed Forces personnel. Thus **the capacity of the country even to sustain current in-use capabilities and therefore current operations could well be put at risk by the proposed cuts of between 10% and 20%.** In addition, the MoD is beginning this Financial Year with a deficit inherited from previous years, in addition to the massive funding gap in its equipment programme which our predecessor Committee—and others—reported on recently.⁹

12. The memorandum from the MoD states explicitly that the SDSR is led by the Treasury and the Cabinet Office (within which sits the secretariat of the National Security Council):

“[T]he Review is being led from the centre of Government, the Cabinet Office working with the Treasury. Defence capabilities and resources are accordingly being considered alongside all other security capabilities in order to measure the relative cost effectiveness of each.”¹⁰

Our predecessor Committee was worried that the new financial settlements might precede and therefore appear to prejudice the outcome of the planned SDR. However, **the SDSR is running in parallel to the Comprehensive Spending Review.** The Treasury is monitoring and guiding the processes of the SDSR to ensure that it properly reflects not only the foreign policy and national security baselines established by the NSC but also the Treasury's thinking as to the likely financial constraints within which most departments involved will have to operate. **The Government should reassure us that this symbiosis will have the positive result that the outcomes of the SDSR will be fully funded, even**

9 Defence Committee, Sixth Report of Session 2009–10, *Defence Equipment 2010*, HC 99, paras 54–8

10 Ev 13, para 2

when translated into more detailed programmes, including the issue of Trident, by the departments involved.

Timetable

13. These positive outcomes will of course necessarily depend on the decisions made by the NSC. The processes and timetable leading up to their decisions about the final form of the SDSR are still not clear to us, nor is the relationship between the Treasury's internal timetable for the CSR and the NSC's timetable for the SDSR. This is the first time that a Review of this sort has followed this particular path through Government in parallel with the CSR. Clearly, many of the Departments involved in the SDSR had some participation in the work leading up to the Green Paper in February 2010 and were possibly involved in strands of work which followed on from that. The MoD clearly had a particular head-start as the Review was originally expected to be run by that Department with cooperation from others.

14. The NSC is a new body: it was only set up on 12 May 2010, its Secretariat, and SDSR team within it, formed afterwards from military personnel and civil servants drafted in from the MoD, FCO, DFID, the Treasury and the security and intelligence services: from a standing start only so much can be expected in such a short time. Given this novelty, and the inevitable complexities of the Review's pan-Departmental nature, and its coincidence in time with the CSR, **the rapidity with which the SDSR process is being undertaken is quite startling. A process which was not tried and tested is being expected to deliver radical outcomes within a highly concentrated time-frame. We conclude that mistakes will be made and some of them may be serious.**

The National Security Strategy and MoD studies

15. From the briefings we received from the MoD's Permanent Secretary, it is clear that the new National Security Strategy already exists in substantial outline. **We believe that the original intention of Government was for the Strategy to be published before the summer, which would have helped establish a degree of discussion and public engagement that is otherwise lacking. We regret that the Strategy is still not a public document.** This outline is informing the work of relevant Departments. These Departments have also been given indicative financial envelopes by the Treasury in which to carry out their separate studies to feed into the NSC secretariat and its SDSR team.¹¹

16. The MoD has just completed approximately 40 individual studies (the deadline was 16 July) which have been tailored to three scenarios—of zero real growth and of cuts of 10% and 20% real respectively. These studies are described in the MoD memorandum appended to this Report.¹² The Director General Strategy in the MoD, who is the Programme Director for the SDSR under oversight from the Defence Strategy Group (chaired by the Secretary of State for Defence), is now considering these studies. The scope of these studies, which are intended for the NSC's SDSR team, was agreed between the MoD and the National Security Adviser, acting as head of the NSC secretariat.

11 Q 16

12 Ev 16-17, para 17

17. Clearly some of the work included in these studies may have been developed prior to the establishment of the NSC, or may have drawn on previous work. However, the period between the approval of these studies (and the application to them of the Treasury's requirements for possible cuts) and their deadline cannot have been more than two months. Whether this has allowed sufficient time for the work included in these studies to be thoroughly assessed and checked prior to deadline, and for the costings—an area where the MoD has not shown great capability in the past—to be made robust and accurate has to be doubted. Further parts of the time-line leading to decisions on these studies and the final outcome for defence in the SDSR may likewise be very constrained in time. **We appreciate that holding the Review after the CSR would have been unsatisfactory, but the brevity of the SDSR as a result of its running in parallel with the CSR means that it will not be as comprehensive and considered a Review as would otherwise have been the case.**

18. We have no clear sense of how the coherence of the MoD studies has been assured, as they were developed largely in isolation from each other. Clearly, by the July deadline the studies would need to have been pulled together. The short timescale permitted for this process presumably allowed little leeway for any internal dissonance to be resolved. We understand from the Secretary of State that these studies will be used to inform a 'posture' to be determined by the NSC:¹³ this 'posture' will then in turn determine further work on taking forward these studies and on MoD decision-making in the next stage, preparatory to final submission to the NSC (and presumably to the CSR). It appeared from the Secretary of State's evidence that this work to determine the posture would occur by the end of July. Further MoD work would follow in August and decisions would be made for the final stages of the relevant processes in September.

19. When the NSC has considered which 'posture' to adopt, and the MoD has responded by further defining its work, a process of force-testing will be carried out within the MoD. This will involve the use of Military Judgement Panels and a Senior Judgement Panel (the latter comprising 4-Star, 3-Star and 2-Star officers) to test different force packages under a range of scenarios. This process is intended to assess the robustness of the capabilities newly configured within the financial envelopes set down by the Treasury.¹⁴

20. One aspect of the SDSR timetable and process which also concerns us relates to the Strategic Deterrent. It is not yet clear when the value for money study of the Trident successor programme (completed by the end of July) will be made public—although the Secretary of State suggested there may be an announcement in September. Press reports also suggest that there is continuing disagreement between the MoD and the Treasury about how the new programme should be funded. The successor programme itself does not form part of the SDSR although associated capabilities necessary for effective use of deterrent presumably do.¹⁵ **It seems increasingly likely that the MoD will have to shoulder more than the running costs of the successor programme to Trident. The implications of this for the MoD's budget would be very significant. In practice, this**

13 Q 12

14 Ev 16, para 16

15 Qq 23–5

decision seems to put the issue of Trident renewal into the SDSR without making this explicit, which unhelpfully reduces the transparency of the process.

21. The speed and intensity of the Review means that other vital areas of MoD reform will need to follow rather than accompany it. We were advised that the process of defence acquisition reform—beyond the programme proposed by Lord Drayson, the then Minister of State for Strategic Defence Acquisition Reform, and subsequently endorsed by the new Government—will halt until the Review is completed.¹⁶ While the SDSR will have to deal in some respects with industrial issues and procurement reform more generally, and may signal greater certainty for the defence industry about which capabilities are to be maintained or developed, it will not say where these capabilities should be produced or supported. Current expectations are for a Green Paper on a new Defence Industrial Strategy to be produced by the end of 2010 for consultation, leading to a White Paper and new Industrial Strategy in Spring 2011.

Costing and industry involvement

22. **We are concerned that the MoD costings for the studies used in the Review have been established before there has been an opportunity fully to explore the possible extent of financial benefits from procurement or acquisition reform.** Assumptions are being made about the cost of acquiring or maintaining and supporting capabilities which may later prove to be far from robust. The danger exists that capabilities within the SDSR may be reduced more than they need to be or dropped altogether on the grounds of perceived excessive cost. There is also the danger that the MoD underestimates the cost of capabilities and the opposite occurs. **The importance of the costing of these studies being rigorous cannot be underestimated.**

23. There is a proposal for the equipment programme to move towards ‘a ten-year planning horizon’ for the purposes of funding. This horizon is an attempt to give greater transparency to equipment costs, to enable greater control, to prevent the concealment of moving of programmes ‘to the right’ (i.e. being deferred in time), and also to provide industry with some certainty as to funding timescales. It is not clear how well this would fit in with the more short-term CSR process, or with the possibility that SDSRs or similar defence reviews might recur every four or five years. Both the CSR and possible SDSR timetables in future might undermine the very sense of predictability the planning horizon is intended to provide. **In this context we request the views of the Government on the regularity with which it intends to undertake such Reviews in the future. We support the proposal contained in Bernard Gray’s report of ten year budgets for the MoD, but ask the Government to explain how longer term funding would work in practice. We also consider that it should involve greater flexibility in transferring money between budgetary years and that the existing limited degree of flexibility should be devolved further within the Ministry.**

24. **An SDSR that takes no account of what the defence industries can provide in this country, in terms of skills and capacity, and which does not explore fully what sovereign industrial capabilities are required, would be a folly.** However, engagement with

industry during the SDSR process so far appears to have been limited. Those running individual MoD studies have been permitted to engage with whomsoever they choose. However, **we have serious concerns that the defence industry has only been formally consulted in very few areas. There is a very real danger that the examination of which capabilities are required for the UK's security and defence needs is disconnected from the examination of how, when and at what cost those capabilities can be provided and sustained, and the vital skills base retained. Treating defence industrial capacity and capability as an after-thought risks reducing the robustness of what the SDSR will propose.**

Manpower costs and the Reserve Forces

25. A major component of the MoD's budget is the cost of military pay, allowances and pensions which comprises some 27% of its total funding, without adding in additional related costs, such as accommodation. Cuts in this area will no doubt be seen as desirable and perhaps easier to accomplish than, for example, within the equipment programme. The Secretary of State told us in evidence that attention was being paid in particular to the number of senior officers and that MoD's work for the SDSR in this area was "radical".¹⁷ **We welcome the Secretary of State's radical intent and attention to the number of senior officers in the Armed Forces, an issue which has required action for some time. We hope that the Review will consider other radical ideas relating to how the burden of accommodation, medical and education costs can be born more equitably across relevant Government departments.**

26. The relative costs of maintaining current capabilities within the Reserve Forces rather than the Regular Forces needs to be identified by the NSC. Cost equivalency has not been adequately measured in the past but there has to be a case for considering that the UK could in some way move closer to the US or Canadian model, where a greater proportion of capabilities and manpower sits within the Reserve Forces. **We are disappointed that there has been no specific work-stream within the MoD on developing the role of the Reserve Forces, especially considering the radical intent behind the SDSR. We were assured that some of the MoD studies cover the use of Reservists, but it seems odd that there has been no discrete study dedicated to exploring this issue. We requested information concerning the relative costs of reservist and regular units—for example a Multiple Launch Rocket System (MLRS) regiment—but the MoD failed to provide comparative costings. This is unsatisfactory, and reveals MoD's failure to address seriously the option of placing capabilities into the Reserve Forces at much lower cost, as the Americans have done. We recommend that the increased use of Reservists should be properly covered by the NSC in its discussions.**

Cost-cutting and reform

27. Running alongside delivering capability to the front line in Afghanistan, feeding into the SDSR and CSR, is a programme to cut 25% from the running costs of the MoD. Details of this programme are very limited, and no clear definition has yet been given of "running costs" which in the context of the MoD could cover a very wide range of areas. **We**

acknowledge that the MoD has already undertaken significant reductions in Main Building and other personnel while managing operations at a level over and above what the Defence Planning Assumptions provided for within the 1998 Review. Running cost reductions typically bear heavily on salaries and wages. Reference was made in the evidence session with the Secretary of State to a review of the numbers of senior officers in the Armed Forces:¹⁸ a reduction in their numbers would no doubt contribute to a reduction in running costs. **But early decisions on cuts before the outcome of the SDSR is known—and before the more detailed work that will follow fleshing out the high level proposals from the SDSR—may hinder the Department in carrying out the changes required by the Review and may impede its subsequent performance.**

28. If all of this activity were not already enough, **the Secretary of State has also announced his intention radically to reform the structure of the Department, proposing its division into 'three pillars'—strategy and policy, the armed forces, and procurement and estates.** The Defence Reform Unit (which has been formed especially to manage this process and, which we understand, will report by September 2011) will examine proposals for change which can only be provisional upon outcomes from the SDSR. **We are concerned that the MoD is beginning a process of structural change, to make the Department more capable of carrying out what it is tasked to do, before it learns exactly what it will be tasked to do in future.**

29. The overall sense we derive from the SDSR and associated processes is that the MoD is having to do too much too quickly. **We can understand that there is an urgency to the SDSR process, both in terms of alignment with a CSR intended seriously to address the deficit, and in terms of the pressing need for a defence review a decade since the last was undertaken.** However, the Department could end up with only short-term priorities, misaligned resources, a barely reformed acquisition process and a structure short of manpower to deliver good performance and improperly configured for its tasks. The quality of the inputs into the SDSR and the quality of judgement exercised by the members of the NSC will determine whether such fears are realised. **We welcome the Secretary of State's determination that this should be a real review rather than just a cost-cutting exercise.** However we are not convinced that the combination of a budgetary straight-jacket, the short timescale, and the apparent unwillingness by the Ministry to think outside existing structures, will deliver that end.

Consultation and the public

30. One of the positive features of the work done in preparation for the February 2010 Green Paper was the process of consultation in which the Department engaged with its own personnel, with the Armed Forces community, with Parliament, with the defence industry and with defence academia. Not only was sufficient time allowed for such consultation but there was also a determination from the then Secretary of State for Defence, the Rt Hon Bob Ainsworth MP, to seek a broad range of views to input into departmental thinking. Central to this community of consultation was the Defence Advisory Forum which embraced experts including senior Opposition parliamentarians. **There has been limited consultation this time**—notwithstanding the continuing interest

in the Review within the defence academic world during the hiatus created by the General Election. Engagement with Parliament has been slight, likewise engagement with this Committee. **We acknowledge that this is not entirely the fault of the Government since the timetable of the House's own nomination processes and the summer recess were factors in this. It is nonetheless regrettable. The chance to look in more detail at the processes and inputs before the SDSR will be published would have been very useful.**

31. **We are concerned, given general public opposition to the war in Iraq, and questionable support amongst the electorate for current operations in Afghanistan (notwithstanding general support for Armed Forces personnel), that the lack of general consultation may create a greater sense of disconnection between the decisions of Government and the understanding of the people at large on defence issues.** Outcomes from the SDSR, especially if they result in a notable reduction of numbers of Armed Forces personnel, may seem to strike at that part of defence policy—the welfare of those serving in the defence of our country—that is most important to those who vote. This will not assist the Department in implementing its plans to reconfigure the MoD and the Armed Forces or to engage popular support in its continuing work of defence.

32. The memorandum from the MoD, and the private briefing from the Permanent Secretary that we had prior to the 21 July evidence session with the Secretary of State, made clear that the SDSR will be a high level document that will inform more detailed departmental programmes. **We do not know exactly how high level the SDSR will be, or how clear the implications for the MoD and the Armed Forces will be from the White Paper. It is important that publication of the Review is accompanied at the time of its release or as soon as possible thereafter with material that will at least allow a greater insight into what the Review means for defence manpower, capabilities and equipment. We consider that the SDSR represents a missed opportunity to reconnect the people of the country with defence issues. It will be essential whenever the successor review is conducted that this matter is addressed head on, and that in the intervening period the MoD communicates the outcome of the SDSR effectively to the wider public.**

Other issues

33. The MoD's written memorandum, our private briefing and the oral evidence session with the Secretary of State all suggest that there may in future be greater flexibility within the budgets of those departments involved in defence and security. Already some pooled budgets exist for development work undertaken with Afghanistan, such as the tri-Departmental Conflict Prevention Pool shared amongst the FCO, DFID and the MoD.¹⁹ The work of the Armed Forces in Afghanistan has a direct connection with reconstruction and stabilisation activity. The MoD often does not receive back the full cost of this activity, not just there but elsewhere (for example in some of the work of the Royal Navy in disaster relief). It seems unjust for the MoD to have its own budget cut when it bears the cost of important work carried out on behalf of other departments or helps create the context in which such work can be done. **We would welcome improved financial burden-sharing that reflects the MoD's contribution to the aims and objectives of other Government departments.**

19 See, for example Qq 35–7

34. More effective departmental burden-sharing could also be extended to other areas of defence and national security, to provide flexibility and better to reflect the cost of policy decisions which span several agencies of Government. As the Secretary of State acknowledged in evidence to us, defence research and technology is often considered an easy victim for cuts, but the health of that budget is vital for what might prove to be essential future capabilities.²⁰ **We understand the value of departments with related research and technology budgets pooling resources so that defence and security priorities across Government can be better and more flexibly funded. In the light of our predecessor Committee's dismay at recent reductions in defence research and technology, we would be most concerned if Government support in this field were to be cut still further.**

35. The MoD has a large diverse estate valued at nearly £20 billion with some 4,000 sites including airfields, naval bases and barracks. An estimated £2.9 billion per year is spent on running the estate. It is crucial that the MoD has the right systems and information in place to determine the right size of estate to meet its operational needs. It has reduced the estate by over four per cent in the ten years between 1998 and 2008 generating £3.4 billion in sale receipts. On 9 July 2010, the National Audit Office (NAO) reported that the MoD has inadequate central data and systems to assess its needs and the scope for rationalisation. The NAO study was based on plans and data held in the centre of the MoD, to inform its thinking ahead of the Strategic Defence and Security Review, and in light of the fiscal challenges ahead. The NAO said:

“In the context of the Strategic Defence and Security Review, the Department needs to consider what minimum estate will be required to meet the future needs of the reshaped Armed Forces. This requires a much more rigorous appraisal of operational needs, and associated estate costs and utilisation. The Department collectively needs a change in mindset so it gives due emphasis to reducing costs as well as meeting operational requirements.”²¹

We note the NAO's implicit criticism of the work that the MoD had done on estates issues prior to the SDSR. **We hope that the studies relating to estates within the SDSR process have given more focus and depth to the context within which decisions as to the size and use of the MoD estate will be made later in the year. It is unsatisfactory that the MoD has given insufficient attention to estates issues over recent years. We look to the MoD in its response to this Report, and within the SDSR, to give full and proper weight to how it might better understand and exploit its estate.**

36. It is very likely that the SDSR will result in a reduction of MoD and Armed Forces establishments around the country. This would be driven as much by the rationalisation of fleets as by any cuts in the overall number of MoD and military personnel. **We seek assurances that the NSC has received inputs from other Government departments, such as DWP and DCLG, about the possible implications of the closure of bases or garrisons for the Exchequer and for local economies.**

20 Q 44

21 National Audit Office, *A defence estate of the right size to meet operational needs*, 9 July 2010, para 11

37. One last area of concern, which was not covered by the MoD memorandum or in evidence with the Secretary of State, is the use of the Treasury Reserve to cover the cost of operations, and in particular to purchase new equipment and/or new capabilities by means of the Urgent Operational Requirement (UOR) process. **We do not know whether the current discussions between the MoD and the Treasury in the context of both the CSR and the SDSR will cover the future use of the Reserve.** There can be no doubt that the Reserve was used to fund the overwhelming majority of operational costs. However, the determination of the balance of costs for some UORs and also for elements of the recuperation programme following withdrawal from Iraq affected the MoD core budget. **We wish to be informed whether, alongside the CSR settlement for the MoD and the SDSR's exploration of how operations might be funded in future, there may be some development or indeed restriction placed upon access to the Reserve. We will watch this aspect of the relationship between the Treasury and the MoD with close attention.**

38. **We hope that the SDSR will make clear not only how it will be implemented, and by whom, but what the relevant timetables are and who will be asked to monitor or assure compliance.** Presumably smaller and more detailed levels of monitoring implementation will be undertaken by the individual departments concerned. **We expect the NSC will consider implementation not as an afterthought to the Review but as an integral part of it.** Experience has shown that a programme which establishes its own timetable for implementation and its own processes for monitoring stands a better chance of successful implementation than one for which such things are afterthoughts. In this respect **we are concerned that there will be significant changes to the most senior levels of personnel as the SDSR process ends, which means that key members of the new defence team will be implementing the results of a process which they did not lead.**

39. Until the SDSR is published and we have sight of the more detailed MoD programmes that will accompany or follow it, we cannot plan our own role in the scrutiny of the Review and its implications for the MoD and the Armed Forces. However, **we expect our scrutiny of the SDSR to be a high priority for us following our proposed inquiry into current operations in Afghanistan. We will wish not only to examine the implementation of the Review but also where necessary to challenge its conclusions.**

Formal Minutes

Tuesday 7 September 2010

Members present:

Mr James Arbuthnot, in the Chair

Mr Julian Brazier

John Glen

Mr David Hamilton

Mr Mike Hancock

Mr Adam Holloway

Mrs Madeleine Moon

Alison Seabeck

Bob Stewart

Ms Gisela Stuart

John Woodcock

Draft Report (*The Strategic Defence and Security Review*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 39 read and agreed to.

Resolved, That the Report be the First Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Wednesday 8 September at 2.00 pm

Witnesses

Wednesday 21 July 2010

Page

Rt Hon Liam Fox MP, Secretary of State for Defence, **Mr Tom McKane**, Director General for Strategy, **Mr Peter Watkins**, Director, Operational Policy, and **Air Vice Marshal Andy Pulford CBE**, Assistant Chief of Defence Staff (Operations), Ministry of Defence

Ev 1

List of written evidence

1 Ministry of Defence

Ev 13,19

List of Reports from the Committee during the current Parliament

Session 2010–11

First Special Report	The Comprehensive Approach: the point of war is not just to win but to make a better peace: Government response to the Committee's Seventh Report of Session 2009–10	HC 347
Second Special Report	The contribution of ISTAR to operations: Government response to the Committee's Eighth Report of Session 2009–10	HC 346
Third Special Report	Ministry of Defence Annual Report and Accounts 2008–09: Government response to the Committee's Fifth Report of Session 2009–10	HC 353

Oral evidence

Taken before the Defence Committee

on Wednesday 21 July 2010

Members present

Mr James Arbuthnot, in the Chair

Mr Julian Brazier
Mr Jeffrey M. Donaldson
John Glen
Mr Mike Hancock

Alison Seabeck
Bob Stewart
Ms Gisela Stuart
John Woodcock

Witnesses: **Rt Hon Liam Fox MP**, Secretary of State for Defence, **Mr Tom McKane**, Director General for Strategy, **Mr Peter Watkins**, Director, Operational Policy, and **Air Vice Marshal Andy Pulford CBE**, Assistant Chief of Defence Staff (Operations), Ministry of Defence gave evidence.

Q1 Chair: Secretary of State, welcome. It seems to be standing room only. As Mike Hancock says, you have pulled a crowd! Welcome to the Defence Committee and to your first appearance in front of us. Can I begin by asking you to introduce your team, please.

Dr Fox: Peter Watkins, who is our star of strategy, Tom McKane, who does money, and Andy Pulford who does, as you can see from the way he is dressed, our military side.

Q2 Chair: Well, you are most welcome and, this being your first appearance in front of us, we wondered whether you might, unusually, like to set out where you see your Department going, what you regard your role as and to give us, say, five minutes at the beginning of your time as Secretary of State.

Dr Fox: Well, thank you, Chairman. First of all, it is an enormous honour to have the post of Secretary of State for Defence. Not only do I get to work with some of the best of the Civil Service, but I get to work alongside the military, which is a great honour for any politician, and let me begin, if I may, by paying tribute to our Armed Forces and all that they do on our behalf. Getting to see them close-up, as I do, I think is a privilege, which I would like more Members of Parliament to get a chance to actually do. When it comes to the priorities for the Department, I would begin with the big three: Afghanistan obviously, and we are continuing to make progress there and our contribution to the international coalition which is part of our obligations, not only as a member of NATO, but as an active member of the United Nations, which I think should be remembered; secondly, the Strategic Defence and Security Review under the National Security Council takes up a very large proportion of our working day at the present time and, by the time we get to September, I imagine it will take up almost seven days a week; and our third big priority is reform of the Department itself, and I believe that, if we are to be able to deliver on the SDSR, we have to have an efficient Department that is reformed, able to be better capable of delivering any of the projects which may come out of the SDSR on time and on budget and, to that end, acquisition reform will be a

major part of that. Beyond that, we will be publishing later in the year what will form the next part of the Defence Industrial Strategy (DIS), so there will be a Green Paper later on in the year and that Green Paper will, particularly, look at sovereign capability, what we, in the United Kingdom, must be able to do for ourselves, what we would like to do for ourselves if we had lots of money and what we do not really have to do at all. It will also need to look at the role of the SMEs in the defence industry. I am very keen that, as the country emerges from its current economic difficulties, we give as much help as possible to the cutting edge of technology and innovation which is in many of our SMEs, and I would like to ensure that they have got the fiscal and regulatory frameworks and also the relationship with the research budgets to maximise their potential. On top of that, were it not a full enough agenda, the Government has committed to a full programme, and this will form part of the SDSR, of military diplomacy which will ensure, as part of what we do to the defence industry, that we are able to support it by maximising British exports. We think that a combination of political and military presence in many of the places of the world where we could be having a stronger relationship is to the benefit of the United Kingdom strategically and to the benefit of United Kingdom industry; in particular, the more defence exports we are able to have, the better protected the defence industry is from the vagaries of the UK economic cycle and, by providing, effectively, a shock absorber to the defence industry, we are better able to support them in good times and bad domestically. That is what we have as our starting agenda, Chairman.

Q3 Chair: Well, thank you very much. It sounds as though you are going to be reasonably busy. The focus of today's meeting will be mostly on the Strategic Defence and Security Review. We will try at about 4.30, because you have to go at five, as I understand it, to move on to the operations in Afghanistan. Because you have postponed the Defence Industrial Strategy and the defence acquisition reform issues until after the outcome of

the Strategic Defence and Security Review, we will not concentrate much on that, although there will be some questions on it.

Dr Fox: If I could just clarify that point, the process by which we will carry out MoD reform itself, including acquisition reform, will not wait until the end of the SDSR to begin, but of course it will not report at the same time, so we will be looking at the processes, including the setting up of the Defence Reform Unit to advise the Department in how restructuring can take place, including how acquisition reform can take place, to begin before the end of the SDSR.

Q4 Chair: So you will look at setting up the Defence Reform Unit?

Dr Fox: No, we intend to set up the Defence Reform Unit. I hope to announce the membership of that within the next two weeks and that will then set in train a number of pieces of work which will lead to the reform of the MoD probably over a rolling one-year period, although we have not finally agreed terms of reference with those who are likely to be carrying out that project on our behalf.

Q5 Chair: Now, can I make a plea to you and to all of our witnesses for the lifetime of this Parliament. Ministry of Defence, not MoD, acronyms are a bane in the world and, if they could be kept to a minimum and if you could ensure that anyone who uses them is duly shot at the end of an evidence session, it would be most helpful!

Dr Fox: Having been criticised, Chairman, for using 'MI' for 'myocardial infarction' at a meeting and being told that doctors always talk in jargon, there are very few more popular requests you could ask of me!

Q6 Chair: I will ask now a compendium question about the Strategic Defence and Security Review, and we will go into taking it apart a bit during the questions that follow. My own impression of the Strategic Defence and Security Review so far is that, whilst before the election we were promised a foreign policy-led review, what seems to have emerged is a review that is dictated by the timetable of the Comprehensive Spending Review, which is being dealt with so quickly that there is no time to look at the defence acquisition reform that could potentially fund much of the capabilities that we need, that it is being conducted over the course of a summer when most of parliamentary scrutiny will be muted, to say the least, that industry has been involved to a fairly limited extent and others to an even smaller extent, that it is being carried out by a group of senior officers and civil servants at the top of the Ministry of Defence who are all leaving within a space of three weeks, so it will be implemented by other people. In other words, it seems to be being done at a bit of a rush. Would you agree with that?

Dr Fox: Well, there are a number of points and, as you say, Chairman, that is a compendium question. The first is that I regard myself as having two jobs, as Secretary of State. The first is the wider governmental responsibility to reduce the deficit,

and one of the lessons that we learned from the Cold War was that we could manage military resilience only when we had the economic strength to underpin it and, therefore, it is essential that we deal with the deficit and, as someone who accepts collective responsibility inside the Government, I am very aware of the need to bring budgetary control as a central part of government policy. I accept that, with the size of the deficit running up an additional £3 billion of debt a week to the United Kingdom and with the interest on the debt liable to be around one and a half times the entire defence budget next year, we cannot continue like this, so an essential role, and I make this point very explicitly at the outset, is my role in helping to get that debt down and accepting the Department's role in that. Secondly, I also have the responsibility to ensure that in the decisions we make we have the capabilities to protect the United Kingdom, its interests and its people, from any likely threat that we can determine as we go through the Review itself. There are a number of differences with this review, if I may say at the outset. The first is that it falls within the remit of the National Security Council, so this is much more widely cross-departmental in the discussions we have had at each level than perhaps previous reviews where it is a defence and security review, albeit defence makes up the bigger part of that. It is inevitable, given our economic problems that we have inherited as a government, that budgetary pressures will play a very large part in what we do, and it would be utterly naïve and unrealistic to believe anything else. What we have to do is to ensure that, whatever financial envelope we ultimately negotiate, and I should say at the outset that none has so far been agreed, whatever that envelope is, we have maximised the UK's defence capabilities, taking into account what we need to have and perhaps what we no longer need to have and also what we need to have in the future that we do not have now. It inevitably is, as you say correctly, a fairly rapid timetable, but I would suggest there are a couple of mitigating factors. Number one, everybody has known this Review has been coming; it is 12 years since the previous one. We have had the Green Paper which had large cross-party support and which involved a great deal of work in its preparation, so there was some work already done before the election even took place. Secondly, there has been a prolonged period of uncertainty and that uncertainty is not good in terms of military planning and it is not good in terms of industrial planning, and one of the things that I want to bring in post-review is to bring, if not stability, let me call it, 'better management on predictability' for the sake of manpower and investment planning because we do need to get some better sense of consistency in how policy is made. As for the advisers that we have, well, clearly in the Ministry of Defence we have a large number of external advisers on all the different strands, but we also have within the National Security Council representatives from other departments, and those ministerial representatives have themselves a range of advice from DFID to the Foreign Office and so on, so there is a wide range of advice going in. Would I like to

have had more time to do the Review? Yes, that would have been helpful, but whether, had we had twice the time, we would have been twice as wise is a subject that the Committee might want to consider.

Q7 Mr Hancock: Secretary of State, first of all, it is nice to see you here and that you are in the job. You were one of the lucky ones in the sense that you shadowed this Department for quite a period of time before you took office, so you had a clear understanding of some of the things you could expect to find. When it came to doing this Review, were you shocked by what you actually found when you got there?

Dr Fox: I was, if not shocked, less than pleasantly surprised that it was just as bad as I anticipated it might be. In opposition, I think, we had developed a pretty harsh view of what the financial environment might look like by the time we had gone through the Review and so on, and a whole number of different commentators had come to similar conclusions about the state of the problem that we faced. However, it had an upside in that at least, having had that period in opposition to develop some concept of where we believed we were, we were not going in blind. I can understand now, and perhaps only now, the full effect that it would have had on both individuals and the Department to have had four secretaries of state in four years, and I think that would have been extraordinarily difficult, so, on balance, I think it was a benefit, but some of the difficulties we have, deep institutional difficulties, I think, will take some fairly radical measures, perhaps more radical than I thought from the other side of the House of Commons.

Q8 John Woodcock: Just briefly, Secretary of State, if it were the case that, when you came in, you found that it was every bit as bad as you had anticipated it to be, why, through your period in opposition, did you continue to call for a larger Army and have now dropped that call?

Dr Fox: I think that, if anyone looks at what we said, it was that we felt that the Army was too small for what it was being asked to do, particularly when it was being asked concurrently to do Iraq and Afghanistan and was subject to consistent overstretch. What I regularly said in opposition and what I stick by now, and what will certainly be a driving force behind the policy that comes out of the SDSR, is that we have to match our resources and our commitments. We either have to limit what we are actually going to ask our Armed Forces to do on a concurrent basis and a long-term basis, or we have to increase the funding accordingly. Well, I think it is very clear that there is not, in the very short term at least, going to be increased funding available. I would like things to be other than they are, but government is about what we have and what we have inherited. We might like to have inherited a rosier picture, but not what is there.

Q9 Ms Stuart: If we agree that we want to avoid a situation where the Opposition comes in and becomes the Government and then is shocked at

what it finds, does it mean we need to strengthen select committees so that we can tease it out of departments, or is it a question that the departments have to be more open with oppositions?

Dr Fox: If I may be so bold as to say, that is a very, very key question. One of the things I am quite keen to investigate with the Committee, and I am sure the Department would help, is where we come in terms of international comparisons with the data that we do make available. Given that in the United Kingdom defence is probably a more bipartisan issue than almost any other, than any other, then I think it is probably worth exploring whether making greater information available (a) publicly and (b) perhaps privately to the Committee would help in the ability of the Committee to hold the Department to account in a way that actually helps decisions being made in real time rather than conducting post mortems on what has gone wrong. Through you, Chairman, if I may, I think it would be worth our exploring how we can take that work on and how we can see just what information is made available in other comparable democratic systems and whether we are ahead or behind or the average in that because I think there is no reason not to make more information available. I sometimes do wonder whether the Department, if given an opportunity, would smack "For UK eyes only" on a lunch menu, and I do think that greater openness, if possible, might be helpful.

Q10 Chair: Well, that might be work which you might like us to do, or it might be work which we might like you to do, and we will work that out in due course.

Dr Fox: That sounds like a coincidence of interest.

Q11 John Glen: I would just like to focus in on the process that is happening over the next few months. Obviously, as we have discussed, it is a rapid process, leading to a conclusion in October. Could you perhaps clarify for us the aspect of the dialogue between the Treasury and the National Security Council and how that iterative process of conversation and dialogue is going on, and what you see as some of the challenges in that. I think the impression from the outside is that the Treasury say, "Right, Secretary of State, a 10/20% envelope—make it work", and what we are interested in is to understand where there are real conflicts and dangers that, under some of those scenarios, there will be capabilities missing that we will need as per the National Security Council framework that you have been given.

Dr Fox: Well, we were fortunate in that in the first year of the current Government we have a ring-fenced budget, which enables us, with at least a bit of stability, to get through the SDSR. Thereafter, the Treasury has asked us to look at a range of options and we have had discussions with them about where we think we are in the process and what we think outcomes may look like. I have had discussions with both the Chancellor and the Chief Secretary to try to give them an update on where we think problems may be arising, where we think we may have funding

difficulties in the short versus medium versus long term, and what the next step will be is that the National Security Council, having had a number of discussions cross-departmentally, will determine the sort of posture we want to have, as a nation: do we want to be on the prevention side of the continuum, do we want to be on the stabilisation end of the continuum, do we want to have greater intervention and deterrence, or do we want to have greater intervention and stabilisation? That is a very active debate about what the overall posture should be. From that, we will look at the options we have within a number of the preset, if you like, positions for that. We have, naturally, had to go ahead with that process somewhat to get the work streams under way to give us the options to produce anything like the results on the sort of timescale that the Chairman refers to. It might be helpful if I just say how we have gone about some of that in that we have, therefore, looked at what we do in the entirety in defence, and we have broken it down into particular capabilities and we have said, "How, historically, did we arrive at this particular capability, how much is it costing us to maintain this particularly capability, what is the real-world threat that we can foresee that this capability might protect us from or not be necessary for, and then what equipment programmes are giving effect to that particular capability?" and it is obvious immediately that there are a number of different options available to us right across all the programmes. When we have a clear idea from the NSC about the posture, then we will be able to get down to more detailed work and we will produce then for the NSC, within the posture that they set us, a number of options, they will be considered later in the autumn and, ultimately, it will be for Cabinet to decide whether the NSC—

Q12 Chair: Do you have a series of deadlines that need to be adhered to before 20 October reporting date?

Dr Fox: Yes, we have. The NSC decision posture, it falls this month and this Saturday we have a full away-day of the full defence team to bring us all up-to-date. Again, if it might be helpful to say that the meetings that we have in terms of the departmental work is done by the Defence Strategy Group, which includes all ministers, the Permanent Secretary, the Chief of Defence Staff, the Vice Chief of Defence Staff, the defence chiefs, the single service chiefs, and our key players. It is quite a big committee and we have maintained quite a big committee. There were two different pieces of advice to me. One was, "Keep it very tight and nothing will leak", and the other was, "Involve everybody and nothing will leak". So far, we have taken the second choice and we have been fine, but we have worked on the basis that all effective stakeholders are involved in all parts of this. This week, we will be getting an indication again from the discussions we have had at NSC and, hopefully, by the end of this week the NSC will have given us an idea of the posture, and we will take the departmental work this week to the point where we ask the Department for clear options which, by the time the NSC has set for us the posture, clearly there

will be some elements that we are not going to look at and, therefore, we can concentrate the work strands on those real options that we are likely to have to take in September.

Q13 Chair: So you will make decisions in September?

Dr Fox: Make decisions in September.

Q14 Mr Hancock: Somebody on the outside looking at this happening would, I think, have a rather confused view that this is being overseen by the National Security Council and then you have got the Strategic Defence and Security Review and you have got the Comprehensive Spending Review. Which of those two has primacy because you made it quite clear, Secretary of State, that you have two roles, one being your responsibility as a member of the Cabinet and then your responsibility for this, so where do you see that the primacy in what we are going through as actually being orchestrated from?

Dr Fox: The NSC is in charge of the Defence and Security Review and the Treasury is in charge of the Spending Review. We have to work together, not to provide the Treasury with a sort of 'take it or leave it' ultimatum at the end of the Defence Review but, rather, to integrate our work as we go through to ensure that we are as in step as possible. It is not possible to choose between budgetary discipline and the Defence Review; we have to have both.

Q15 Mr Hancock: Would you say then that you have got a clear picture in your own mind of what our foreign policy is going to be over the lifetime of this Defence Review because a lot of your judgments are going to be based on something that, so far, has not been published?

Dr Fox: Well, the Foreign Secretary on a number of occasions has set out, within his basic concept of no strategic shrinkage, where he believes our national interests do lie. Broadly, in a very interdependent and sensitive globalised economy, our interests are more threatened by more actors in more places than before and we require to be able to use more levers than before. That means using our alliances, I think, in a very constructive way, not only the alliances that exist at the present time in NATO or through the European Union or through the Commonwealth, our P5 membership or G8 and so on, but the Foreign Secretary has talked about the concept of elevated bilateral relations, looking at countries where we have a very strong, strategic interest, and countries like Turkey would come to mind, Saudi Arabia, where I shall be visiting next week, Norway would be another one, to look to see whether we can deepen those relationships. For example, we have just set up a new sub-group in NATO, a working group inside NATO, an Anglo-Nordic-Baltic group, so that we can try to bring some of the smaller countries together to see whether we can provide them with an economy of scale. It is setting out a very large number of levers because I think that the bipolarity of the Cold War will turn out, in retrospect, to be the exception, not the rule, and we are moving to a much

more multi-polar world where Britain's interests need to be managed with very many more levers than perhaps we have had in the past.

Q16 Mr Hancock: I think most of this Committee would agree entirely with what you have just said. We were told last week that you had to supply your first tranche of savings to the Treasury by close of play on Friday of this week, and you will have been in that process. Now, there comes a time when the 10% you have been asked for, and possibly the 20% they asked you to consider seriously, will be put before both you and the National Security Council and they both fall short of what the Treasury are expecting you to deliver up. Where is the final decision going to come? Who will make the crunch choices?

Dr Fox: Well, we will sit down with our Defence Strategy Group, as I suggested, and work through. What has been interesting in the process has been the realisation, as we have gone on, that this is not a spending review, this is a full-scale strategic review with an absolutely horrible spending review on its back, and it is a very difficult position for us all to be in. What, I hope, we will be able to continue is the process that we have had so far where the group, as a whole, has recognised that tough decisions will need to be taken across all the Services and across all the areas of defence spending for this reason: that, if we continue to want to have the next generation of everything we have already got, then we will simply go in straight lines and we will never be able to reshape for the sort of investment we require in order to be at the cutting edge of technology to give ourselves the lead in terms of the different elements that will threaten our national security. We also, I think, need to be very clear in this Review that there need to be, what the Department call, 'up arrows'. I said at the outset, and I have said regularly in opposition, that what a review would have to do would not be to salami-slice. One of the earliest indications I was given was of lots of little down arrows which, in my view, is salami-slicing because there need to be up arrows. We need to be investing more in some areas than we are doing at the present time and, given that we have got a constrained budget, that inevitably means spending less in others, and it is getting, I think, the balance there to be understood. I am very grateful to the Committee for understanding and taking on board at an early stage one, perhaps very difficult and possibly even unpleasant, untruth about this particular Review, and that is that we have always regarded our defence assets as something that we can review, review the fleet, look at our tanks, look at the aircraft we have and so on, but increasingly the battle space is going to be about access to our own capability. In cyberspace, for example, there is quite a lot of investment going on by our potential competitors to be able to deny us access to our own capabilities and, therefore, we must invest in some things that we cannot see, and getting the Armed Forces, in particular, given their traditions and their history, to understand that this is necessarily the case, I think, has been quite an achievement so far.

Chair: Secretary of State, you have mentioned the 41 work strands in relation to the Strategic Defence and Security Review.

Q17 Bob Stewart: These 41 work strands, Secretary of State: how can they be effective when we do not really know the shape of the NSC quite yet? I think you have hinted already that they are sort of looking at what we might be able to do with what we have got. Is that the way they are approaching their work?
Dr Fox: There are identifiable capabilities that we will need to have. We are looking at the moment, in the way I described and set out against the history and cost, at how we might continue or not with those and, if we do continue with them, how we might achieve them.

Q18 Bob Stewart: And looking at how you might change?

Dr Fox: And how we might change. In particular, we have been looking, for example, at why we have apparently so many different fleets for any one capability that we have, and how we might be able to reduce the costs associated with multiple fleets without diminishing the capabilities we have; how, over a longer timeframe, we might get down to smaller numbers which means less different forms of training.

Q19 Chair: When you say "fleets" you mean land, sea and air, presumably?

Dr Fox: Yes. For example, to make it a real debate, chairman, if we are talking about lift capacity do we really need to have C17s, A400Ms and C130s, and what would be the correct balance going forward for us? So that is the sort of work that we have. That type of work going forward, as you would expect us to do, will look at a number of different factors. A lot of the choices we will make will be dependent, as the Chairman says, on not only what the spending envelope is but the shape of that spending envelope over time and how we are asked to bring budgetary constraint to bear, and over what timescale will potentially fundamentally alter the choices we make.

Q20 Bob Stewart: So helicopter mix—is that part of it?

Dr Fox: Of course.

Q21 Bob Stewart: The Army has a lot of helicopters; some say it has got more aircraft than the Royal Air Force. How we actually operate our helicopter fleet across all three services—

Dr Fox: UAVs would be another very obvious example.

Q22 Chair: What is a UAV?

Dr Fox: Unmanned Aerial Vehicle. I am very sorry, Chairman. That is the first fine in the bank—from the least likely sinner, I have to say!

Q23 John Woodcock: The Trident value-for-money review—would it be fair to call that the 42nd strand of work? If not, why not?

Dr Fox: On the value for money? That is a very discrete programme; it is not looking at options in the way that the other work strands are looking. It is looking simply at the programme as it is and how we might be able to deliver the same programme at lesser cost.

Q24 John Woodcock: Are you still on track to finish it by the end of this month, and will you be publishing it ahead of the review?

Dr Fox: I am hoping that we will be able to finish it as soon as possible. I had hoped that we would be able to be finished, in that I would be able to report to Parliament, before recess, but the recess date keeps crawling backwards, and it is not possible just to keep pulling all the work forward. I hope the Committee understands the huge amount of work that is falling on this Parliament as a consequence. It is unlikely, therefore, we would be able to publish it, but I will consider whether in September, when the House comes back, we may want to see something then, and be able to say something then.

Q25 John Woodcock: Just very briefly, if it was solely on the changing dates—you are talking about two days of Parliamentary time—you could publish it in September, as was your original intention. If not, why has that intention changed?

Dr Fox: A slight complication, Chairman, is that it will go to the NSC for consideration when we get the value-for-money report. That timetable is not entirely within my gift at the present time, and it may well be that the value for money, therefore, in terms of being able to report to Parliament, slips until the SDSR, given the summer recess that we have.

Q26 Mr Brazier: Secretary of State, back to the 41 work strands. None of them explicitly mentions the Reserve Forces. Two questions, really: are you looking specifically at the possibility of whether a particular capability could be held in the Reserve Forces as a cheaper option, in some cases? Where do the Reserve Forces fit into it?

Dr Fox: Thank you very much for that question because it is a very key question what we do with the Reserves, and it also gives me the opportunity to put on record again just how grateful we are for the work of the Reserves, and our current campaign in Afghanistan really would not have been sustainable without the tremendous input from the Reserves. There are a number of options, frankly, that are available to us, and we are at an early stage in considering what they might be, for reasons that might become obvious: we could continue with a generalist Reserve, effectively, as we have at the present time, giving support to operations as required; we could move to a model where we regarded the Reserves as having a more specialist function, if we were effectively mothballing some capabilities because we thought that we might need them in the future but do not necessarily need them now; we could ask the TA, for example, to look after some of those skills for us and they could have a niche role. We would still have to provide, however, some of the civilian capabilities which the military

would not reasonably be expected to have, especially in medicine. However, there is a whole other area in the SDSR about civil contingency. So there are a number of different roles for the Reserves to play. We will not really be able to get to specific options, I would not think, until we are well past the posture options point, and once we have started to look at that I think we might have quite a number of different potential roles for the TA. I think it goes beyond just the MoD; I think this is something that, generally and genuinely, falls under the National Security Council, but it is something that is being looked at at the present time. I have not seen any work strand brought to me yet from the broad options even, although I have given some direction for it to be undertaken.

Q27 Mr Brazier: Thank you, Secretary of State. Could I address the second question to Mr McKane? The National Audit Office have criticised the MoD for not having robust costings of Reserves. Would it be possible to ask if you could let us have a couple of worked examples of comparative costs of regular and reserve units? Could I suggest one of them might be (I am avoiding acronyms, Chairman) the Multiple Launch Rocket System, as it was designed and built for the National Guard—and in America nearly all MLRS units are National Guard? If you could give us a comparative cost base for a (perhaps I can use “MLRS” a second time) regiment in the regular Army and how much a full sized one (there is only one small one in the TA)—what their relative costings are? The second area we might be interested to see a comparison on is something as basic as the infantry; 60% of the American infantry is in their reserve forces and, again, it would be very interesting to see a direct cost comparison. Could we ask for that?

Mr McKane: I cannot give you the Multiple Launch Rocket System example off the top of my head. What I can say is that if you look at what are called the capitation costs of a regular member of the Armed Forces versus a reserve, it depends on the individual service but the ratio is about four or five to one of the average capitation cost of a reservist versus a regular. However, that only tells you part of the story because you also have to take into account the different level of contribution that you will get from a regular soldier versus a reservist in the course of a year. So it is not a straightforward comparison; you really need to examine the precise role that you are talking about in the round, and then consider whether it is a role that would be better done, from a value-for-money point of view, by the regular soldiers.

Q28 Mr Brazier: A quick supplementary: could I ask if it would be possible for us to have a couple of written examples, say? MLRS would provide a particularly interesting one as it is a piece of equipment that was designed for use by volunteer reservists. Thank you very much.

Mr McKane: Sure.

Q29 Chair: You will do that? How quickly could you get us that, Mr McKane?

Mr McKane: Can I come back to your Clerk today or tomorrow morning to tell you how quickly we can do this.

Dr Fox: Just to amplify the point, to give the examples in terms of costs, the average cost of a regular member is about £50,000 for the Navy and the RAF, £40,000 for the Army and about £10,000 each for the reserves in each service.

Q30 Chair: Tangentially to this, is one of the areas at which you are looking the number of senior officers compared with the number of forces that they have to command?

Dr Fox: In general, in the Armed Forces?

Q31 Chair: Yes.

Dr Fox: Yes. Budgetary restraint has to be exercised at all levels of the military.

Q32 Chair: The level of senior officers we have is completely out of kilter with what it used to be in earlier decades. Is it not?

Dr Fox: The shape of the Armed Forces—

Q33 Chair: I am saying nothing about Air Vice Marshal Pulford!

Dr Fox: I am acutely aware of where I am sitting, Chairman! We do have to look at the right structure, as part of the overall cost as well as effectiveness of the Armed Forces. Yes, that will be looked at.

Q34 Chair: You have referred to this review as radical. Will it be radical on that issue as well?

Dr Fox: It will be radical overall, Chairman.

Q35 Alison Sebeck: We have heard about the relationship with the Foreign Office and your shared objectives. Can we come on now to how DFID fits into all this? Are you expecting some of DFID's ring-fenced budget to be available to fund stabilisation and reconstruction work which is currently undertaken by the MoD?

Dr Fox: DFID already contributes to the conflict pool, which is tri-departmental, so they already have a role in some of that area of work. I think it is very important for us to accept that conflict resolution is one of the ways in which we can eliminate one of the most enduring and basic causes of poverty around the globe. We do have a problem in dealing with reconstruction in a hostile environment, and I think we need to think more creatively about how we do that in the future and how we share the burden financially across government departments. Perhaps I can ask Peter just to say a word about how the interdepartmental work on this is moving ahead.

Mr Watkins: As the Committee is aware, we have the conflict pool, which is tri-departmental. It is run by the MoD (sorry—Ministry of Defence), the Foreign and Commonwealth Office and DFID together. We have about £180 million this year to spend on what we call discretionary activities, and that is a range of activities contributing to, for example, security sector reform and improving the

performance and conduct of militaries around the world so that they do not themselves become a contributor to instability and conflict. We have a number of MoD-led teams doing that work. For example, in the Czech Republic we run a training team which trains other countries in peace-keeping and other activities. We also have a team in South Africa, for example. So that work is continuing, and we are obviously looking, as part of the SDSR, at how we can build on it.

Q36 Alison Sebeck: We have heard about the role in terms of conflict and areas of conflict, and you mentioned work cross-departmentally within government in response to the first question. Might other government departments be expected to chip in, take over functions currently carried out by the MoD within the UK—education, housing? If we are looking at something like housing and housing management, what work has gone on to consider outsourcing some of that—not necessarily to a government department? Are there any international comparators that you have been looking at, particularly in relation to housing? Perhaps Mr McKane should answer that question.

Dr Fox: I will ask Tom to say something in a moment, but, yes, we are looking at how we get better cross-departmental working, particularly when it comes to things like the Military Covenant, when we are looking at how we treat our Armed Forces personnel: elements such as the pupil premium—how do we help local authorities with large numbers of service children where there may be a very high turnover? That is something that we have been discussing with our colleagues in education. We are looking, at the moment, cross-departmentally, at how we deal with mental health issues. How can the NHS/MoD interface be made to work better, for example? So there are a whole range of issues. From my own personal experience when I worked as a doctor with the Armed Forces, it dawned on me then the disconnect that existed between the military apparatus, on one side, and social services, education and health care on the other, and we are trying very hard to put together departmental ways in which we can try to deal with the snags. It is not always about money; very often it is just having thought about the problems and trying to find practical and easy ways of dealing with them. An obvious example would be waiting lists for health authorities, moving round the country; unless it has been thought about and the mechanisms put in place it is easy to move from one base to the other but drop to the bottom of a new NHS waiting list. So it is trying to get there. We are looking, as we move towards the later part of the year, to see how we might formalise such a structure in government to make sure that it is given a greater prominence, and that all departments think about service personnel when they are passing legislation or changing regulations. In terms of what is happening with international comparisons or other areas, Tom?

Mr McKane: I think the point I was going to bring out for the Committee was that where the Ministry of Defence is undertaking activity on behalf of other

government departments there is already a well-established regime for charging for that. As to housing, which you mentioned, most of, certainly, the family housing that has been built in recent years has been built under Private Finance Initiative arrangements, so it is built by others with others' funds. As part of the review, one of the strands of work is looking at how the employment model—the complete package—that is available for service personnel should develop as we move into the future. One of the aspects of that is, indeed, the question of housing and the extent to which it is easy or difficult for service personnel to acquire their own accommodation and their own houses, for instance. There are already long-service advance-of-pay schemes in existence, but we do intend to look at this question in the round and see whether there are other ways in which it can be improved.

Q37 Ms Stuart: I am delighted to hear the Secretary of State for Defence comment on the working of the NHS, not least because I hope I am forgiven a wry smile for remembering the flack I used to get from him as the Health Minister when we moved Haslar out into the Centre for Defence Medicine up to Birmingham! However, can I come back to DFID? Working with education, working with health—all those things are internal organisation structures. With DFID there is an additional problem, and that is the statutory remit of poverty relief. I was interested to hear the statement today by the Foreign Secretary about how DFID was rebuilding police stations, which I thought was getting quite interesting in terms of being poverty relief. Are there any discussions as to redefining DFID's remit to allow a greater contribution to the work of the MoD and other departments?

Dr Fox: I have not been involved in any discussions about altering the statutory remit, and I know that the Secretary of State for International Development is acutely aware of the limitations within which we operate. Whether there have been any discussions inside DFID about that I would not be in a position to answer.

Q38 Ms Stuart: Are you making a suggestion that they might want to look at that?

Dr Fox: I am having discussions with them on the basis of the current statutory remit and how we might be able to operate within that.

Q39 Ms Stuart: In, for example, discussions with the German military in Afghanistan, they found that their NGOs—their equivalent of DFID, albeit not within the government structure—are refusing to work with the military. Are we experiencing similar problems or is there something they could learn from us?

Dr Fox: I think that we are working very well, and I think we are setting a very good example for what can be achieved with cross-governmental co-operation.

Air Vice Marshal Pulford: I think we will always have tensions between the military and the NGOs. My experience goes all the way back to 1991 when

we were feeding the Kurds in Northern Iraq/Southern Turkey, and even there, where the situation was pretty dire, they were only *in extremis* willing to get on our helicopters to go up to the camps. That was the limit of it. I do not think it is one of trust; it is the very nature of their work, and their sponsors—the people that donate—do not expect to see them “cosying-up” to the military, if I can use that term. I think we have to understand that, and when you have got an organisation such as DFID that can act as that honest broker between the two, then it is important therefore that we understand the relationships: not only that growing relationship between DFID, the MoD and the military, but also to ensure that DFID maintain and retain those credentials to allow them to go out to the other side and, in this case, NGOs.

Q40 Chair: Mr McKane, can I come back to one thing you said about housing being a matter of mostly PFIs, for family housing? Service personnel are the only people in the country whose housing budget has to compete with the budget for bullets. I hope that further thought can be given to that tension within the review, Secretary of State.

Dr Fox: It is an issue. To be fair, the previous Government was also grappling with how it dealt with the housing stock and how to improve the lot of service families. It is something that we are looking at; we are trying to find constructive ways. It is part of a number of welfare issues: education for service children, access to health care, housing, and so on. If I am perfectly frank with the Committee—

Q41 Chair: Which we would like you to be.

Dr Fox: —which I know you fully encourage, I would say that if there has to be a priority my priority would be with the mental health issues because the level of suicides that we are seeing represents a human tragedy on an utterly unacceptable scale and which, while it might sound trite, does not actually compare with substandard housing conditions. The impact on families that the high suicide rate has is, I think, a blight on a civilised society and something that we need to be doing an awful lot more to tackle.

Chair: Moving on to research.

Q42 John Woodcock: Can I ask one brief supplementary on that before I ask a question on research? You talked overall about the Military Covenant and then mentioned a number of aspects of it. In opposition you spoke a number of times about how the previous Government, effectively, were breaking the Military Covenant. They strongly disputed that, but can you give an assurance that that Covenant will be demonstrably stronger under your Government despite the obvious increased pressures that you are facing?

Dr Fox: I think it will be strengthened over time, and I think that one of the duties that we have is to remind people that the Military Covenant is not just between the Government and the Armed Forces, it is between the country and the Armed Forces and that, therefore, there is a responsibility not just to central

Government to play their part but other organs in government in local government and so on, and the public themselves. When we come to discuss the Military Covenant later on in the year in greater detail and proposals to legislate for it I hope that we can broaden the debate out to ask the country, rather as the Royal British Legion have done as “What can you do?”, this should not be seen as simply a relationship between the Government and military; it is between the whole country and the military.

Q43 Chair: If this review were not being conducted at such a rush you could be doing that now. Could you not?

Dr Fox: Yes, Chairman, had we not been left with a consolidated public debt of over £900 billion we might have had the luxury of a little more time.

Q44 John Woodcock: You have talked about some up-arrows. Can you say that research and technology will be an up-arrow in the review, or at least a horizontal arrow? Are you going to protect spending on research and technology?

Dr Fox: Not a down-arrow? It is always and has always been an easy target that the science and technology budget could be reduced when there was budgetary pressure. I think that if we are to take the Defence Industrial Strategy seriously then, as I mentioned already, in terms of the SMEs, in particular, and how we keep our technological advantage, how we keep our intellectual property in this country and make best use of it, how we look at the regulatory environment and how we frame the fiscal environment, two other things become unavoidable: one is its relationship with research budgets (and I think there is a subsequent question to look across government at research budgets and how we use them—and I am very glad to have Peter Luff in my team, who looked at that as a Select Committee Chairman, I understand), and the other thing is skills base. We have to ensure that the skills base is also coming through to help feed the technological and technical needs of the country. These are elements that I want to look at. What will happen in this financial year I cannot say, in terms of the budget, but I am personally of the view that we need to understand the long-term importance of that budget if we are to retain technological advantage. It is very easy to cut today’s budget at the cost of tomorrow’s edge in our defence capabilities. I think that we need to think very carefully about that. So when it comes to DIS I would like that to be a very central part of the debate.

Q45 Chair: That is an encouraging indication, even if you may be in a difficult place at the moment. I do hope that you will be able, over your period as Secretary of State, to stick to that and to give teeth to it.

Dr Fox: When I spoke yesterday to the defence industry I made very clear that we could not continue and we should not continue to maintain capabilities that we cannot justify in terms of real threat if the cost of doing so is our inability to invest in the technology of the future. I gave a number of

examples of why that is so. It does require us being willing to sacrifice some of the things we can see for some of the things that we cannot see which may be of crucial importance to tomorrow.

Q46 Chair: The outcome of the review—who will monitor its implementation? Who will implement the review?

Dr Fox: It is, of course, the property, effectively, of the National Security Council, and they will be the body that will monitor it. In terms of implementation in the Ministry of Defence that will fall cross-departmentally and, ultimately, fall within my remit and that of my immediate management team.

Q47 Chair: Which will be completely different?

Dr Fox: Well, the personalities may change, Chairman, but the aims and the policies will be fairly set by that point.

Q48 Chair: Does it not help to have someone who is in charge of taking through a review also in charge of implementing it?

Dr Fox: There are advantages and disadvantages to timings on any policy, but in the particular point that you may have in mind, Chairman, of the CDS—

Q49 Chair: The Chief of Defence Staff, the Permanent Under-Secretary, the Chief of Defence Materiel and the Second Permanent Under-Secretary all going within a period of three years of each other is a worry. Suboptimal, some might describe it.

Dr Fox: I am afraid that I inherited the personnel profiles that I inherited. Will we carry on with a great deal of the expertise? Yes, the current Chief of the General Staff will become Chief of the Defence Staff and will have been part of the entire process in its entirety at all the meetings all the way through. The other defence chiefs will still be in place; hopefully, I will still be in place but, given history, Chairman, Defence Secretaries revolve rather quickly—

Q50 Chair: It is to be hoped that that is a habit that can be broken.

Dr Fox: However, a large proportion of the expertise that is there, including the team that you see in front of you today, will still be there and still be pushing through the review.

Q51 Mr Hancock: Can I ask about how you want people to be involved in this review? A number of Parliamentary Questions have been asked by myself and other Members, both in our House and in the House of Lords, about who is actually taking part in this review and how are you getting people to give you their views on this? You talked about a website being set up so Service personnel and their families can get involved. Is that in place?

Dr Fox: It is in place and we have had several thousand of what I might describe as “internal responses”—that is, from those who work in the wider MoD family or the Armed Forces. I had some discussions yesterday with the industry about how

they can further do that; I met with the National Defence Industrial Council last week, again, about how they could be giving us greater input. If I may, through the Committee, just say that one group that has not been terribly forthcoming are Members of Parliament, despite making an offer on the floor of the House not only to take seriously any written submissions but, also, that Defence Ministers are happy to see any Members of the House of Commons or, indeed, the House of Lords who want to talk to us about specific interests they have or constituency cases. A greater input from the Houses of Parliament would be welcome.

Q52 Mr Hancock: I had an interesting correspondence who is a constituent who is actually working as a civilian in the Ministry of Defence in Germany. Their question was how seriously is the Government taking the prospect of bringing our Armed Forces back from Germany, and is somebody also working on the costs involved of re-establishing, in educational terms alone (this person is a teacher)—the consequences for education within wherever they are pulled back to in the United Kingdom that would materialise, and how is that going to be funded in the future. Is one of the 42 studies one that is exercising both whether or not to bring the whole of our Armed Forces back from Germany but, also, the consequences to the civilian community in the United Kingdom of such a large influx of families and children into a particular area?

Dr Fox: We have a work strand that looks at overseas basing, in generally, which obviously includes Germany. As the Committee will know, there were already plans in place to bring back over a much longer timeframe our Forces from Germany. Whether that could be accelerated, whether that would be in tandem with changes in capability that we have or the potential mothballing of capability are arguments that need to be considered, as would its implications for overcrowding or where we would put people in the United Kingdom and what the infrastructure costs may be and what the impact would be on training, for example. So how does it fit with plans for Defence Training Review? So a lot of these strands are very intertwined. I do not know if Mr McKane would like to say something about the overseas basing study?

Mr McKane: I think the Secretary of State has really covered it; it is a study—

Mr Hancock: He has just touched on it, Mr McKane; you tell us what the real consequences are.

Q53 Chair: At not too great length.

Mr McKane: It is a study that is looking at basing in a number of areas around the world. As the Secretary of State said, in relation to Germany it has always been for some time the department's intention that over time there would be a return to the United Kingdom, but it has been measured in decades because, principally, of the high cost of re-providing accommodation and other facilities in Britain. We are looking again at whether, in the light of this review, anything has changed.

Q54 Mr Holloway: Mr McKane, do you have any idea of the rough financial value for the defence estate in Germany?

Mr McKane: It will have a value but not a value to us, because the estate is on land which would return to the Germans. Obviously, it has running costs and maintenance costs that we bear, and there will be a differential between the costs—

Q55 Mr Hancock: Does that include all of the housing?

Mr McKane: I am not an expert on the detail but I believe that what would happen is that the land would go back to Germany. There would be a negotiation over the value of buildings which had been put on to the land with British taxpayers' money, but just how much one would recoup, I think, is a moot point.

Chair: If the land did go back to the German Government, then they might be quite keen to compensate us for leaving. You never know.

Q56 Bob Stewart: They want us to stay, do they not?

Dr Fox: Each of the bases, it is reckoned, puts about £100 million, or so, a year into the German local economy, and there would be some resistance in economics to us leaving from the Germans, because of that very point.

Q57 Mr Donaldson: Secretary of State, how are you going to ensure that the defence voice within the SDSR is heard, in terms of our long-term capability?

Dr Fox: We have within the SDSR a great deal of cross-departmental dialogue. Particularly, I think, of value is that there is probably closer working between the Foreign and Commonwealth Office and the Ministry of Defence, at the present time than there has been for a long time. In opposition we set out some very common views and we are working very closely in ensuring that when we have issues coming to the National Security Council that we have discussed them in advance, and that we have a cross-departmental understanding of where we are, issue-by-issue. I do not want to make it sound like a piecemeal operation here because the document that will come to the National Security Council on posture, for example, has been cross-departmental. We have had discussions on it inside the MoD with representatives of other departments at our discussions, with our representatives at their discussions, and it is gradually being refined by the NSC itself to a final paper being brought to us. So we start off, if you like, with some of the wider issues and narrow them down so that any main differences there may be between departments is minimised by the time we get to the NSC itself.

Q58 Mr Donaldson: How can you ensure that the review is not dominated by current operations and threats and that, in terms of more conventional warfare, that we retain our capacity to engage in that type of warfare in the event that it develops somewhere around the globe and we will need to intervene?

Dr Fox: I am extremely grateful for that question because it gives me a chance to say what I say almost every single day in the Ministry of Defence, which is that we have a very poor record in predicting where conflict will occur and what that conflict will look like. What we certainly cannot do is to extrapolate from where we are today and say that the wars that we will fight tomorrow will look like the wars that we have now. No one would have predicted 15 or 20 years ago that we would be, as the United Kingdom, having our Armed Forces in a war in Afghanistan. What we do need to do and what has to be one of the main instructions of the review itself is to maintain generic and flexible Armed Forces capable of adapting to any challenges we may face, and not trying to extrapolate from where we are today and put our forces too heavily into one particular shape.

Q59 Mr Donaldson: As I heard you say earlier to my colleague, you see the Reserves playing a very important role in that flexibility and that adaptability.

Dr Fox: I see them playing an important role. Exactly which of several roles that might be is yet to be determined, and very much has to come in the wake of some of the other decisions made in the review, but there is no doubt that this country owes a very great deal to our Reserves and we need to take very seriously their prestige and the role that they will continue to play in our national security.

Chair: A very few questions (I want to move on) about the Defence Acquisition Review and the Defence Industrial Strategy. We have only another 25 minutes or so and we still have not covered Afghanistan. I was going to ask about the Gray Report but I shall not.

Q60 Alison Seabeck: We know that the MoD are continuing to work on acquisition and supply reform. That was started by Lord Drayson before the last election and some pilots are ongoing, including one at the DSDA (Defence Supply and Distribution Agency in Plymouth). Given there are other pressures in the MoD, is the MoD able to keep to that programme's timetable and fully assess those pilots? How will you, as Secretary of State, make sure that strategy for acquisition reform aligns with the SDSR and links to the Defence Reform Unit that you mentioned in your opening statement?

Dr Fox: It is very important to us that that impetus for acquisition reform continues. The reason that we are undertaking reform in the direction that we are is as follows: that it seems to us that a reasonable management flow would be foreign policy then defence strategy, then portfolio management, then capability gap identification, then equipment programmes and fiscal procurement. Therefore, it would make sense to arrange the department into policy and strategy as a pillar, Armed Forces as a pillar and procurement and estates as a pillar, to allow us to have a logical flow across. We will be appointing a new Chief of Defence Materiel and within the Defence Reform Unit we will be seeking to bring people in who do understand fully how

acquisition reform could take place. I am not going to say who those people might be, but some of them might be well-known to the Committee.

Q61 Ms Stuart: I hope you already do have some people on your staff who understand acquisition reform. Can I just turn quickly to the Defence Equipment Programme? As I understand it, there is a funding gap. Can you give us some idea of how big that gap is, how you intend to narrow it and when you think the National Audit Office will report on it?

Mr McKane: The assessment of the size of any gap between the projected costs of the programme and the size of the budget will depend on the outcome of the review when we know what sort of budget we have got, so there is a close relationship between the two. The Committee will have read the various estimates that have been put into the public domain, and they vary because they vary in the assumptions that they make about the size of budget that we will have, and it is really not possible to say much more than that—other than what the Secretary of State has said in speeches, that they number billions over the first four or five years and much more over the 10 years.

Q62 Ms Stuart: In the light of this new sense of openness where we are all going to be terribly open, frank and transparent with each other, of that entire envelope of estimates which ones are the ones you would use as your top working assumption?

Mr McKane: As I say, it really does depend on what assumptions you make about the budget. I do not think I can go much beyond that.

Dr Fox: What we need to do is to stop the “delay to spend” mentality that has afflicted the department, because simply pushing programmes off to the right only increases the cost to the taxpayer and delays the point at which we are able to access the utility of any one programme. That needs to change. There are two, I think, big changes: one is moving to a 10-year current spending horizon. That makes a good deal more sense for defence. This is different from most departments; our acquisition programmes tend to be much longer lines and a 10-year budget would help us. The other thing goes back to the point I was making about departmental reform, because something that I have discussed with Secretary Gates is this point: that the military will need to understand that getting 80% of what they want when they need it is preferable to having 100% of what they want when they no longer require it. We do need to get some changes in the understanding that the last part of overspending in any programme becomes disproportionately expensive, and there need to be some cultural changes if we are to achieve what Ms Stuart says.

Q63 Chair: Yesterday you said in Farnborough that the Defence Equipment Programme was wholly unaffordable. Did you have a figure in mind?

Dr Fox: No, but I had a second half of the sentence, which was “it is entirely unaffordable if we try to do everything we want to do in the future and everything we currently do and have done in the past.”

Chair: A fair point.

Q64 John Glen: Just a supplementary to that, in terms of, clearly, an admirable aspiration to change the mindset towards what you acquire and the basis on which it is acquired. You talk about cultural change. How do you practically see that as being achievable? You are talking about a fundamentally different mindset across the Forces in terms of their attitude to how they procure things and how they view the acquisition of things. How does that form in your mind?

Dr Fox: I think in many government departments, when faced with adversity, including fiscal adversity (which is how I would characterise the current environment), their first instinct is to centralise. In fact, in MoD, if we are to have better acquisition we need to do the opposite; we need to have a lean and efficient centre but we have to have proper budgetary responsibility with proper accountability. One of the ways in which we will have to change is to have a culture which trusts our people, gives them more responsibility but makes them accountable for the decisions they make.

Q65 John Glen: That does not exist at the moment?

Dr Fox: I do not think it exists sufficiently. I think there is a long way to go in that, and I think that one of the common things from Bernard Gray or Lord Drayson was that we must have a much more commercial approach to acquisition than we do at the present time, and that means quite a cultural shift from the position in which I think we currently are.

Q66 Chair: We have heard from the Minister that the Defence Industry Strategy is going to be looked at by a series of consultations and Green and White Papers. You said, at the beginning: “There has been a prolonged period of uncertainty which is not good for military planning or industrial planning”, yet you are producing a Defence Industry Strategy many months—possibly a year—after the Strategic Defence and Security Review, which is surely not good for industrial planning. Why is this?

Dr Fox: We have such a huge amount of work being undertaken that it is difficult for us to see how Ministers can take on, actually, more at the present time and do it with the sort of time we would want. We would happily look at it in terms of when we can bring things to Parliament, but Parliament will not be coming back till, effectively, mid-October. We want to publish and discuss that Green Paper between then in October and Christmas to give Parliament the chance to discuss it, and then we will bring forward a White Paper. We do have some Parliamentary time constraints as well.

Q67 Mr Hancock: Do you intend to bring in some of the people who have advised you in the past in the MoD? Bernard Gray is a good example. Do you intend to bring any of those sorts of experts into play in what you are intending to do in the future?

Dr Fox: At the risk of not being entirely open with the Committee, we do have a number of conversations ongoing about those who have a high level of external involvement with the department but a very high level of understanding of how the department operates. I hope that as we move forward with our defence reform that I will be able to make those names public—as soon as we have their complete agreement and their agreement to do so. However, I will not be ruling anything out.

Chair: I think we ought to move on to Afghanistan.

Written evidence

Memorandum from the Ministry of Defence

1. The Government's primary responsibility is to ensure national security. The Coalition Partnership Agreement and the Queen's Speech set out the Government's commitment to holding a full Strategic Defence and Security Review (SDSR) alongside the Spending Review, with strong involvement of the Treasury. It is overseen by the National Security Council (NSC) alongside development of a wide ranging National Security Strategy (NSS). The combination of the SDSR and NSS will provide a coherent approach to security across Government and ensure the right balance of resources to meet our commitments. It is a fundamental objective to ensure that our Armed Forces have what they need to do what is asked of them.

2. The approach being taken by the NSC involves analysis of national security policy and capability across all relevant Government Departments and agencies. For this reason the Review is being led from the centre of Government, the Cabinet Office working with the Treasury. Defence capabilities and resources are accordingly being considered alongside all other security capabilities in order to measure the relative cost effectiveness of each. Cost effectiveness of capabilities will be measured by what they offer and how effective they are at addressing the defence and security challenges of the 21st Century. This will enable Ministers to consider relative priorities across all national security capabilities in an integrated way. Depending on the outcome of the SDSR, some national security capabilities may be reduced to enhance others if that provides the most effective means of protecting the UK's national security interests. The Review will conclude in the autumn in parallel with the Government's Spending Review. Its conclusions will be published in a pan-departmental White Paper.

3. The Government is committed to playing a leading role in making the world safe from the dangers of nuclear weapons and nuclear proliferation. The recent Nuclear Non-Proliferation Treaty Review Conference was an important milestone in the long-term vision of a world without nuclear weapons, providing a map to help us move forward. In May the Foreign Secretary announced that we would review the circumstances in which the UK might use nuclear weapons and made public for the first time the maximum number of nuclear warheads we hold in our stockpile to assist in building a climate of trust between nuclear and non-nuclear weapons states. This goes further and is more transparent than any previous Government. The Government does not, however, judge that this is the right time for the UK to give up its minimum nuclear deterrent. Within the framework of the SDSR the MoD is scrutinising the renewal of our Trident-based nuclear deterrent. This is a value-for-money study reviewing existing plans. It is not a review of all the possible alternative ways to provide nuclear deterrence. MoD work on this should be completed by the end of July for subsequent consideration by the NSC, and its conclusions will inform the SDSR and the Spending Review, the conclusions of which will be published in the Autumn.

THE NATIONAL SECURITY COUNCIL

4. The new NSC provides high-level strategic guidance to Departments, co-ordinates responses to the dangers we face, and identifies priorities. It is chaired by the Prime Minister and meets roughly weekly. Other members are the Deputy Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Foreign and Commonwealth Affairs, the Home Secretary, the Secretary of State for Defence, the Secretary of State for International Development and the Security Minister in the Cabinet Office. Other Cabinet Ministers, the Chief of the Defence Staff, Heads of Intelligence Agencies and other Senior Officials attend as required. The work of the NSC is co-ordinated by the National Security Advisor, Sir Peter Ricketts (formerly Permanent Secretary at the Foreign and Commonwealth Office), who chairs a weekly Permanent Secretary-level official group, the NSC(O), in advance of NSC meetings, and is supported by the National Security Secretariat, based in the Cabinet Office.

5. In addition, specifically to oversee the work of the SDSR, the National Security Adviser chairs a Strategic Reviews Steering Board, also at Permanent Secretary level. This is supported by a lower-level pan Departmental SDSR Coordination Group that meets as necessary to deal with issues that do not need to come to the Strategic Reviews Steering Board or the full NSC. Within the National Security Secretariat a division of about 30 people has been established to lead the SDSR, including military personnel, and civil servants from the MoD, the Foreign Office, DfID, the security and intelligence agencies and the Treasury, seconded for the duration of the Review. It comprises six teams covering:

- project management, responsible for overall planning and coordination;
- defence, headed by an Air Commodore; responsible for liaison with the MoD and the delivery of defence inputs to the National Security Strategy and SDSR;
- nuclear and arms control issues including:
 - counter proliferation, arms control and chemical/biological/radiological/nuclear response,
 - nuclear security,
 - deterrent value for money,

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- security issues, coordinating input on cross-cutting security issues including:
 - terrorism,
 - fragile/failing states,
 - civil emergencies,
 - energy and climate security,
 - cyber security,
 - serious organised crime,
 - border security,
 - overseas networks,
 - stabilisation force,
 - key policy choices, responsible for defining key pan-Government policy choices and trade-offs including:
 - strategic sovereignty,
 - multinational cooperation,
 - defence diplomacy,
 - conventional deterrence and coercion,
 - conventional threat,
 - military assistance to the civil authority,
 - overseas basing,
 - legal and social constraints,
 - resources, responsible for liaison with HM Treasury to ensure alignment with the Spending Review, analysis of budget positions and options, and development of the resource framework (including options for reserve and pooled budgets).

MOD PREPARATORY WORK

6. The MoD started preparing for a Defence Review in late 2009 following the commitment by all three main political parties to a review following the General Election. Preliminary work focused on setting out the strategic context in which the Review would take place and establishing some of the strategic questions it would need to answer. These were set out in the Green Paper (*Adaptability and Partnership*) published in February 2010 under the last Government with cross-party support. It set out several key principles:

- That the Government will continue to need to act abroad to tackle threats at their source, and to intervene to protect the UK's interests overseas.
- The need to strengthen a comprehensive and effective approach across Government, with stronger co-operation between military, stabilisation, development and diplomacy efforts across Government to apply civilian and military effect together.
- The need to strengthen partnerships to enable us to work together more quickly and more effectively with a more diverse group of allies, including in Europe.

7. Between publication of the Green Paper in February 2010 and the General Election in May the Department followed a twin-track approach. The first comprised a range of preparatory studies of issues, flowing in the main from the Green Paper. Given their preparatory nature they did not seek to address key questions or reach conclusions on Defence outputs, force structures or capabilities but sought rather to compile baseline data for the Review and explore the case for further work. The main areas examined were:

- Personnel, training and welfare (including Service personnel policy, the independent review of defence civilian personnel conducted by Mr Gerry Grimstone, individual training and education, and medical services).
- Infrastructure and support arrangements (including the scope for estates disposals, and estate management arrangements).
- Key force generation factors underpinning overall personnel numbers and equipment holdings relative to the forces we are able to deploy.
- Organisation and management (including preliminary work on defence administration costs and on the single Service command structures).
- Security policy (including on the defence contribution to influence and strategic communication and to arms control and counter-proliferation, military assistance to the civil authority, horizon scanning, and the UK's contribution to NATO, the EU and the UN).
- A limited number of studies into specific capabilities (including cyber, space, and missile defence).

In parallel, the Department maintained its engagement with the wider Defence academic and specialist community to ensure that we continued to draw on that external expertise and encourage participation in the debate.

8. The Department also worked on developing modelling and costing techniques, reviewed its strategic planning process and methodology to put in place a streamlined system to support the Review and its implementation, and conducted studies to understand the financial and industrial consequences of making changes, particularly to the equipment programme.

DEFENCE WITHIN THE SDSR

9. The Secretary of State for Defence, Dr Liam Fox, set work in hand on the Defence contribution to the SDSR immediately on taking office on 12 May. He has stated that the UK's defence must be based on a clear definition of our strategic interests, an assessment of our role in NATO and other partnerships, the threats we face, the military capabilities we need to protect our interests, and the programmes we need to deliver those capabilities. This should take into account the many things the Armed Forces can do to promote the national interest and support Government policy more widely. The primary function of the Armed Forces, which can be provided by no-one else, is in the last resort to fight and kill in defence of the UK should that be needed. As a result of that capability they are also able to dissuade aggression by deploying military force to deter and contain threats, and the SDSR will take a fresh look at how we might do this better.

10. Reflecting these parameters, three core principles underpin the work being taken forward in the Review:

- **Relevance:** Defence posture and capabilities must be relevant to the world we live in. The SDSR represents the opportunity to dispense with much of the legacy of the Cold War.
- **Realism:** resources are tight for the country as a whole and Defence is no exception. We cannot insure against every imaginable risk so we will need to decide which risks we are willing to meet and which risks we are willing to take.
- **Responsibility:** the nation has a duty to support the members of the Armed Forces in return for their service on our behalf. In recognition of the demands that the country places on them, the Government is determined to ensure that they have what they need to do what we ask of them, and that they and their families are looked after properly during and after service. In particular it is committed to improve the package of welfare and health care, particularly in the area of mental health, and to make improvements to accommodation wherever possible within budgetary constraints.

11. Defence is not immune from the economic realities the country faces. In every aspect of Defence, and particularly in the support area, the Government will bear down on costs, seeking improved value for money and greater efficiency wherever possible. This will include following through on its commitment to reduce the MoD's running costs by at least 25%. But the current programme is unaffordable, with a deficit of many billions of pounds over the life of this Parliament, and more over the next decade. A number of structural pressures exacerbate the situation including the trend of above inflation pay increases and the increasing cost of successive generations of equipment. Moreover, contractual and structural commitments on personnel and equipment mean that the current Defence budget is heavily committed for several years, severely limiting the Department's room for manoeuvre. In this context, no matter how hard we bear down on the costs of administration and drive up efficiency, these alone cannot bridge the gap; the problem is structural and will require a structural response.

12. The Government is determined to bring Defence policy, plans, commitments and resources into balance, and produce over time a transformative change to the UK's Defence. Restoring Defence to a stable financial footing in the SDSR and Spending Review will therefore require radical thinking and reform. In the context of the SDSR the Government will review all that the MoD currently does, including the organisation and structure of the Department, each of the Services and the support area. At the heart of this work is a thorough examination of the force structure, looking at the overall shape, size and role of Armed Forces personnel, including the Reserve Forces, and MoD Civil Servants. This will ensure that Defence resources match the UK's Defence policy requirements, and that the Defence budget is spent as efficiently, effectively and economically as possible. This will require tough decisions that will impact on many areas of the Department and the Armed Forces. There will inevitably be reductions in some areas in order to enhance others and provide the most effective range of capabilities to defend the UK's interests.

13. It is essential that the Armed Forces are re-configured to meet the needs of the evolving security environment and the UK's foreign policy goals. Within the overall framework provided by the NSC the Department is taking forward a range of detailed studies on specific capabilities and force structures (paragraphs 16–17). Early thinking, building on the work of the Green Paper, suggests that the Armed Forces are likely to need to be more agile and adaptable and potentially less focused on specialist scenarios; more mobile both strategically and tactically; and more fully integrated across land, air and sea with improved access to Intelligence, Surveillance, Target Acquisition and Reconnaissance capabilities. On the other hand, they are likely to have a smaller requirement for non-precision firepower, be less focused on scale when contributing to multinational operations with the emphasis moving to quality, and bearing down on

those capabilities held in large numbers by NATO allies. The Government will begin to reach conclusions only as our strategic posture becomes clearer and we can test our work against the agreed policy baseline to produce a synthesised force structure and risk assessment. Emerging conclusions will begin to be considered by the NSC from late July and August onwards

GOVERNANCE AND PROCESS WITHIN THE MINISTRY OF DEFENCE

14. The Secretary of State has established the Defence Strategy Group (DSG) to provide top level oversight of the programme of Defence work in support of the SDSR. It is chaired by the Secretary of State, and includes other Defence Ministers; the Chief of the Defence Staff; the Permanent Secretary; the Chiefs of the Naval, General and Air Staffs; the Vice Chief of the Defence Staff; the Second Permanent Secretary; and the Directors General for Strategy, Finance and Security Policy.

15. Beneath the Secretary of State and the DSG the Director General Strategy, Mr Tom McKane, is the Programme Director for the SDSR within the MoD, responsible to the Permanent Secretary for delivering the MoD input into the SDSR as directed by the Secretary of State. He is supported in this by the SDSR Programme Board, which he chairs, The Programme Board meets weekly to review the management of the programme and its risks, provide guidance, and consider emerging papers and work. It comprises the Directors General for Finance, Security Policy, Human Resources & Corporate Services, and Defence Commercial; the Deputy Chiefs of the Defence Staff for Capability and for Personnel; the Assistant Chiefs of the Naval, General and Air Staffs; the Director(Strategy and Resources); and the Assistant Chief of the Defence Staff(Strategy and Plans). Day to day management of the SDSR process within the MoD is carried out by the Strategy Unit reporting to the Strategy Director.

16. The MoD programme of work under the SDSR has six overlapping phases:

- Phase 1—Policy Baseline comprises the MoD contribution to the NSC’s work to develop the NSS, setting out the Government’s foreign and security policy priorities, the national interests, the threats we face, and the broad implications for Defence, to inform the consideration of military capabilities and force structures.
- Phase 2—Detailed Policy and Capability Studies comprise a set of detailed studies of current and projected capabilities, structures and processes against the emerging security baseline (paragraph 17), creating a menu of options for investment or disinvestment for Ministerial consideration.
- Phase 3—Force Testing comprises work to look at the effectiveness of possible future force structures against a range of scenarios. A series of Military Judgment Panels are meeting over the summer, drawing on high level operational analysis. Their conclusions will then be developed through further force structure modelling and analysis conducted by DSTL, with the subsequent conclusions subjected to structured senior review, overseen by the Vice Chief of the Defence Staff. This will generate top level military judgment on the robustness of force structure options which might emerge from the Review.
- Phase 4—Synthesis and Costing will reconcile and synthesise the outcome of the previous phases, balancing requirements against cost envelopes and assessing overall affordability, to produce a synthesised force structure and risk assessment against the policy baseline in the early autumn, taking into account the financial context set in the Emergency Budget and wider SDSR and Spending Review processes.
- Phase 5—Decisions and Presentation will consist of final decisions in the autumn by the NSC, in coordination with the Government’s decisions in the Spending Review. We expect the results of the SDSR to be published through a White Paper; on which the National Security Adviser will lead.
- Phase 6—Implementation. All decisions made as part of the SDSR will require a clear, resourced implementation plan. Implementation planning will begin in the autumn and continue into 2011. A key element of implementation will be the new Defence Strategic Direction document, which will translate SDSR outcomes into detailed direction for the Department, and the range of supporting sub-strategies.

17. Studies. The MoD is currently engaged in some 40 individual policy and capability studies. Each is led by a named senior officer or official with overall responsibility for delivery of the study. Arrangements are also in place to gather together emerging recommendations or proposals on functional lines (such as estates, military personnel, and civilian personnel). All of these studies are contributing to the pan-Departmental work led by the Cabinet Office. The majority are grouped under the 10 broad themes below:

- Military Training And Personnel:
 - Service Personnel Employment Model.
 - Government commitments on the military covenant.
 - Individual Training, Education and Skills.

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- Civilian Personnel And Training:
 - Personnel Review.
 - Review of civilian allowances.
 - Organisation Of Defence:
 - Rationalisation of warfare centres.
 - Rationalisation of service administration (such as manning, legal, chaplaincy etc).
 - Unified Information Exploitation organisation.
 - Support.
 - Review of the Organisation and Management of Defence (paragraph 21).
 - Military Assistance to the Civil Authority.
 - Technology And Industry:
 - Size and priorities of the Science and Technology budget.
 - Strategic Sovereignty.
 - International Partnership And Basing:
 - Multinational Cooperation.
 - Requirement for Overseas Basing.
 - Defence Diplomacy.
 - Legal and Societal Constraints.
 - Conventional Deterrence, Coercion, Containment and Prevention.
 - Infrastructure And Logistics:
 - Rationalisation and Development of Future Estates.
 - Management of Defence Infrastructure.
 - Defence Medical.
 - Force Generation, Adaptability And Deployability:
 - Tour Lengths and Harmony.
 - Multi-Roling.
 - Running Costs:
 - Reduction in Running Costs (paragraph 18).
 - Media and Communications Running Costs Savings.
 - Capabilities:
 - Force and Platform Protection.
 - Simulation, Training and Evaluation.
 - Underwater Environment.
 - Airlift.
 - Helicopters.
 - Command, Control, Communications and Computers/Intelligence, Surveillance, Target Acquisition and Reconnaissance.
 - Force Structure And Capabilities:
 - Maritime Environment Force Structure and Capabilities.
 - Land Environment Force Structure and Capabilities.
 - Air Environment Force Structure and Capabilities.

We are also conducting studies into Special Forces, and cyber warfare, which do not fit within this overall structure, to provide Defence input into Cabinet Office-led work. Separately, but within the framework of the SDSR, we are conducting a value for money review of existing plans to renew the Trident-based nuclear deterrent (paragraph 3).

SPENDING REVIEW

18. The SDSR is running in parallel with the Government's Spending Review to set Departmental budgets and objectives for the next four years. Work on both of these is being taken forward in a coordinated fashion to ensure that the Spending Review is informed by emerging conclusions from the SDSR and that the SDSR work is informed by the progress of the Spending Review. In the Spending Review all Government Departments are expected to reduce administrative spending by at least one third, drive down the cost of

operational delivery and promote greater responsibility by shifting power, funding and accountability into the hands of individuals and front line professionals who are often better placed to allocate limited resources. Several of the detailed MoD SDSR studies are also contributing to this. In particular, the Reduction in Running Costs study will aim to identify how we will achieve the running cost reductions required.

OTHER RELATED DEFENCE ACTIVITY

19. The Department is also taking forward a number of other major continuing reform programmes. These fall within the broad pan-Government context set by the SDSR and the Spending Review. But they are not part of those Reviews and will continue beyond their conclusion. This continuing work falls broadly into the categories of Acquisition and Organisational Reform.

20. Acquisition Reform. The Government intends to carry forward major reform of Defence procurement practices. The Secretary of State for Defence has indicated that the need to focus in the next few months on Afghanistan and on the SDSR may mean not focusing on acquisition until the turn of the year. In the meantime the Department is continuing to implement its Defence Acquisition Reform Programme.

21. Organisational Reform. The Government is committed to reducing the MoD's running costs by at least 25%, and in the Spending Review all Government Departments are expected to reduce administrative spending by at least one third (paragraph 18). The SDSR will impact on how defence is structured and organised. The Secretary of State for Defence has set out the need to reorganise the Department into three pillars (for strategy and policy, the Armed Forces, and procurement and estates) with a more efficient and leaner centre where everyone knows what they are responsible for and who they are accountable to, with clear deadlines and budgetary discipline. This is being taken forward by a dedicated Defence Reform Unit in the Head Office. This work will proceed on a separate track with a view to completion by next summer, though early high level findings may be woven into the SDSR. Implementation of a number of existing long-term organisational change programmes, such as the collocation of Defence Equipment and Support project management staff at Abbey Wood, and the consolidation of the Army's Headquarters at Andover, is also continuing.

INTERNAL ENGAGEMENT

22. We are providing the opportunity for all members of the Armed Forces and their families, and the Defence civilian workforce, to contribute to the Review during July. Recognising that the SDSR and Spending Review are a source of uncertainty for all our staff, military and civilian, we are working to provide as much information as possible to them as the Reviews progress. We are also engaging the Trades Unions, and will of course consult them formally on any provisional conclusions with significant implications for the civilian workforce.

EXTERNAL ENGAGEMENT

23. We are engaging widely through a number of different strands including:

- Parliament: the Secretary of State for Defence has stressed the importance he attaches to providing Parliament with information Members of Parliament need in order to make representations to the Review. The Government accordingly arranged a full day debate on 21 June to allow Members to set out their concerns and any particular constituency interests. Individual Members can make representations directly to the Secretary of State as a matter of course.
- Public: the MoD is planning to inform the public primarily through engagement in Parliament, with Defence academia, and through the general and specialist press. We are also receiving and responding to submissions directly from interested members of the public and organisations.
- Industry: the MoD is engaging with the Defence Industry primarily through the National Defence Industries Council.
- Allies and Partners: the National Security Adviser is coordinating consultation with key Allies and partners.
- Academia: the security and defence academic community have an important role in generating ideas and shaping the public debate, and the MoD continues to engage this group both directly and through participation in wider conferences, such as the series on the SDSR organised by the Royal United Services Institute.

Further memorandum from the Ministry of Defence

INTRODUCTION

1. The House of Commons Defence Committee's report on Defence Equipment,¹ published on 4 March 2010, asked for an update on the progress of the Defence Acquisition Reform Programme. This update to the successor committee is written by the new Government.

2. On 3 February 2010 the Ministry of Defence (MoD) published the Strategy for Acquisition Reform (SfAR). This major programme of change in significant part responds to issues raised in Bernard Gray's Review of Acquisition, published in October 2009. The Gray report's main findings were:

- Our long-term equipment plans are unaffordable and we need to make significant reductions to these plans;
- Delaying rather than cancelling projects, in order to meet short term affordability pressures, adds substantially to longer-term costs; and
- We could do more to improve the planning and delivery of individual projects.

MoD's overall response to the Gray report was two-fold: to use the Defence Review (now part of the Strategic Defence and Security Review, SDSR) to produce an affordable equipment and support programme; and through acquisition reform to ensure it remains strategically-aligned, affordable and achievable including by improving internal skills, management and decision-making.

3. The acquisition reform programme also addresses issues not covered in the Gray report including refreshing MoD's overall relationship with industry, and ensuring that acquisition supports other Defence priorities such as safety and sustainable development.

IMPLEMENTATION OF THE SFAR

4. Implementation of the Department's acquisition reform agenda remains on track. Following the change of Government, new Ministers have endorsed the programme of change in the SfAR, although they have also made clear that following the SDSR, they may wish to examine further, more fundamental reform of the acquisition process.

5. For the present, therefore, acquisition reform work remains focused on two priorities:

- In the short term, preparing for the difficult decisions that will need to be made in SDSR to bring the equipment and equipment support programme into better balance with available resources; and
- In the longer term, ensuring that, once this balance is achieved, the programme is managed so as to remain affordable.

Good progress is being made in both areas. The sections below explain the main developments since the SfAR was published. A brief summary of progress against individual elements of the reform programme is at Annex.

6. Implementation of the strategy continues to be overseen by a small central programme management team, reporting to the 2nd Permanent Secretary and to the new Minister for Defence Equipment, Support and Technology. The main risks are that over the coming months acquisition reform effort may be temporarily diverted by the pressing requirements of the SDSR and, in the longer term, that financial pressures may affect delivery of some elements of the programme.

Stronger top-level control

7. The Defence Board Sub-Committee on Equipment, which was created last year to oversee the strategic direction and affordability of the equipment and support programmes, is leading work to assemble better management information to inform decisions in the SDSR. The aim is to ensure that, in addition to high-level strategic analysis, Ministers have the best possible picture of financial, industrial and commercial aspects of the equipment programme. Work commissioned by the Committee to date includes a detailed analysis of the level of commitment in our larger projects, and the financial impact of cancellation, withdrawals or reductions.

8. The Committee is also leading work to define the management information structure needed to ensure effective management and control of the equipment and support programmes in the longer term. The Department has also mandated the use of independent costing in all projects costing over £100 million, and a more disciplined framework for the conduct of acquisition business (see below).

¹ (Sixth Report of Session 2009–10—HC 99)

Improved acquisition skills

9. We remain on course to enhance key acquisition skills, notably in cost assurance, finance, technical assurance and programme and project management, including through establishing partnering arrangements with private sector suppliers. Plans to invest a further £45 million for this purpose over the next four years are on-track. Bids have been sought from potential private sector partners for the cost assurance and estimating function which is fundamental to improving the Department's overall acquisition performance. Defence Equipment and Support (DE&S) are also developing an initial package of work to identify how best to further improve programme and project management skills; develop an engineering skills strategy; and strengthen financial skills. Work is also in hand to improve acquisition skills among military personnel working in this field.

Increased transparency

10. An innovation in the SfAR was the commitment to publish an assessment of the costs and affordability of the equipment programme, together with an independent audit from the NAO of the affordability assessment. We have agreed with the NAO much of the framework by which their audit will be conducted, and NAO staff are building up their understanding of MoD process by observing relevant aspects of MoD's current Planning Round.

Greater control over the Equipment Programme

11. In March stronger controls were established on the entry of projects into the equipment programme. A formal Project Start Up and Foundation Milestone process has been agreed that will ensure that projects are more closely scrutinised from the outset, for requirement, technical viability, risk, affordability, deliverability and other factors. These criteria need to be met before a project is formally accepted into the equipment programme. And there will be a foundation process undertaken by DE&S to ensure all the issues around practical project delivery are taken into account at the outset.

Improving internal relationships

12. To improve internal business discipline, an internal Terms of Business Agreement (TOBA) was launched on 26 April that sets out the roles and responsibilities of, and business rules to govern the relationship between Head Office, DE&S and the Front Line Commands. Senior champions have been established in the key business areas to oversee its implementation and to ensure that it is underpinned by improved ways of working and behaviours. We will be reviewing the effectiveness of the TOBA in the autumn.

Improved management of technology and innovation

13. The MoD has reformed its in-house Science & Technology capability with the formation of the new Programme Office within the Defence Science and Technology Laboratory (Dstl) earlier this year to deliver greater efficiency and coherence. It is developing an "S&T Portal" that embeds Dstl technical expertise within DE&S delivery teams to provide informed access to the wider supply chain. A pilot is under development and is due to start in September 2010 and report in March 2011. The MoD also produced new, practical guidance to acquisition staff on systems architecture, and are working with industry to explore how the Department can ensure enduring access to the required information, processes and expertise to enable this approach to succeed.

Improved risk management

14. We are developing ways to improve our handling of risk within projects and across the equipment and support portfolio as a whole. A Risk Working Group has been established with representation from across planning and delivery communities to ensure a consistent, professional approach to risk. A common tool has been mandated for pan-acquisition risk management.

Transparency of full cost of delivery

15. Pilots have started in DE&S to ensure staff and other internal delivery costs are properly identified and linked to the overall costs of capability programmes.

Ministry of Defence

5 July 2010

DEFENCE ACQUISITION REFORM PROGRAMME ACTION PLAN UPDATE

<i>Ser.</i>	<i>Action</i>	<i>Update</i>
1.	Legislate for Strategic Defence Reviews (SDRs) in every Parliament.	Agreement in principle reached. This may be taken forward through the Armed Forces Bill 2011, but Ministers may wish to wait until after the SDSR concludes before reaching a decision on the legislative vehicle in order to reach a more detailed view on the format of future Reviews.
2.	Publish audited assessments of affordability.	On track. We are developing the Terms of Reference with the NAO and they are engaged in Planning Round activity.
3.	Strengthen top-level oversight of the Equipment Programme.	On track. The Defence Board Sub Committee on Equipment is overseeing the strategic direction and affordability of the equipment programme.
4.	Control more closely what projects go in and out of the equipment programme.	Project Start Up mechanism now in force for all projects above the value of £100 million entering the programme.
5.	Improve costing and management of risk.	On track. A common tool has been mandated for pan acquisition risk management. To ensure a consistent pan-MoD approach is taken, a Risk Working Group has been established within DE&S, with representation from across the planning and delivery communities.
6.	Put aside sensible levels of funding to deal with cost growth.	This will be considered as part of the SDSR and Planning Round work. As part of this, we are looking at improving risk management at the portfolio level.
7.	Examine the scope for managing technology and innovation better.	On track. We have reformed our internal Science and Technology capability, achieving greater efficiency and coherence.
8.	Ensure we remove as much unnecessary cost as we sensibly can from our equipment support plans, including through a Defence Support Review.	On track—also being taken forward through the SDSR.
9.	Improve Skills.	<p>On track. Plan to invest £45 million in improving skills in key areas.</p> <p><i>Cost estimating:</i> We have mandated the use of the independent costing for all DE&S projects worth more than £100 million. Recruitment action is in hand for additional 55 cost estimating and evaluating staff in the financial year 2010–11. The contracting process is underway for partnering with industry to improve costing skills.</p> <p><i>Programme & Project Management:</i> DE&S are assembling a package of work to improve PPM skills.</p> <p><i>Systems Engineering:</i> DE&S has developed an outline Engineering Strategy. Engagement with industry is planned for July.</p> <p><i>Finance:</i> Recruitment action is underway for four additional SCS finance posts for deployment in key business areas.</p> <p><i>Capability Sponsor:</i> Skills audit complete. Plan and recommendations under consideration.</p>
10.	Explore how we can continue to raise the profile and status of acquisition as a career route for military personnel.	On track, through the Military Acquisition Stream project. This is scheduled to complete tasks by 31 March 2011.
11.	Improve the management information available to our decision makers.	Way ahead agreed. This includes a new governance structure to ensure better oversight and coordination of management information activities.

<i>Ser.</i>	<i>Action</i>	<i>Update</i>
12.	Within the Defence Equipment and Support Organisation (DE&S) continue to get the best effect from our workforce and skills through better prioritisation of workload and more flexible tasking.	Flexible Resourcing is rolling out across DE&S to enable more agile response to changes of customer priorities. Initial operating capability was achieved in November and a number of DE&S Operating Centres are now at Full Operating Capability. DE&S Board has re-prioritised resources towards those areas providing direct support to Afghanistan.
13.	Sharpen the business relationship between Head Office, DE&S and the Front Line Commands.	A Terms of Business Agreement (TOBA) was launched on 26 April with a number of 3* Champions nominated across the Department.
14.	Fund the costs of the DE&S staff involved in delivering equipment and services to the front line as part of the cost of what they buy.	On track. Pilots are underway.
15.	Look at the governance and management of acquisition, including the recommendations made in the Gray report.	This will be included in broader work on size and structure of Defence, to be completed following the SDSR.
16.	Continue to embed the Capability Management approach.	On track. Business Plan for Through Life Capability Management Programme Approach implementation 2010–11 endorsed by senior Governance Board.
17.	Continue with the DIS and then produce a new strategy on the same basis reflecting the outcome of the SDR.	We plan that a Defence Industrial Strategy will be published and prepared after the SDSR is published.
18.	Examine whether we are maximising the benefits of our relationship with industry, particularly in non-competitive sectors, and through long-term partnering arrangements.	Work with industry underway to identify additional approaches for improving Value for Money, incentivisation, and the way suppliers' costs/profits are calculated in non-competitive programmes by 2012. This will be part of the new Defence Industrial Strategy, which will follow on from the SDSR.
19.	Improve our ability to understand what the costs of goods should be.	On track—training to be completed by end September 2010.
20.	Assess the potential for export at the outset of a project's development.	Exportability considerations are now routinely considered as part of a project's "start-up" criteria (see serial 4) and we are examining how we can factor exportability into future procurement plans. We are including exportability in wider SDSR work.
21.	Support improved safety management.	On track. A new MoD-wide safety strategy has now been introduced, and extensive work is in hand to explore all the lessons from the Haddon-Cave report into the loss of Nimrod XV230. This includes work to clarify the optimum relationship between MoD and industry in relation to safety risks.
22.	Introduce stronger mechanisms to ensure sustainable development issues are reflected across the acquisition process.	On track. MoD Sustainable Procurement Strategy launched 26 March 2010. Work proceeding on capability planning, training and risk assessment. Work to develop additional guidance on assessing sustainability in investment appraisals due to start during summer.

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