

The UK's Defence and Security sector is struggling to come to terms with reducing budgets in a time of austerity. The recent publication of a House of Commons report on the MOD's defence acquisition practices and the National Audit Office's assessment of the affordability of the 10 year Equipment Programme has given industry plenty to digest. This follows the reforms set in train by the 2010 SDSR. Retired Rear Admiral Rees Ward spoke to Nick Watts of Great North News Services for the Defence Viewpoints Interview in the light of these developments, based on his experience in the MOD and in industry.

"The bow wave would appear to have been eradicated" says Ward, referring to the unfunded equipment programmes which had existed for decades under previous governments. "The Equipment Programme is now potentially more stable with additional contingency embedded and financial headroom potentially available in the second half of the 10 year Plan. This approach should reduce substantially the damaging cost and time overruns which were prevalent under the previous regime and were caused in part by in year cash limits forcing programme deferrals with consequent cost increases." The 2 year delay for the CVF programme added a 20% cost increase for the same capability. Industry now has better visibility of the Equipment Programme. This sets out what the MOD thinks it needs to equip British forces over the next 10 years. This will enable better business planning. Most importantly it will better inform investment decisions.

Industry was concerned that the 2010 SDSR signalled a significant move towards an "Off the Shelf" approach to acquisition, with diminishing research and development funding, as a way of achieving Value for Money.

R & D funding had fallen from £2Bn to £1Bn over a 10 year period. The priority of the MOD was to equip troops in theatres such as Iraq and Afghanistan. "This short term approach was understandable given the imperatives of fighting in two major theatres which demanded equipment now rather than funding long development programmes delivering in five to ten years' time. In the longer term declining R&D budgets "undermines the ability of industry to produce cutting edge equipment. It also undermines confidence, especially in multi-national companies headquartered overseas, to invest in their UK subsidiaries where more certain opportunities lie elsewhere."

On the positive side, MOD did recognise that investment in Science and Technology was important to sustain long term capabilities and instituted a floor of 1.2% of the MOD budget, stopping the downward spiral which had seen MOD S&T funds reduced by half within the last

10 years.

"The value that defence industry brings to the UK in terms of jobs, technology, intellectual property generation, tax, reduction in benefit support needs to be factored into the wider Value for Money equation" says Ward. "The broader wealth creation aspect of our world leading sectors is now recognized by Government." Ward notes an opportunity for industry with the introduction of the Defence Growth Partnership, which was first mooted by the Prime Minister at the Farnborough Air Show last summer.

This initiative, modelled on a similar arrangement with the Aerospace sector, seeks to support sectors where the UK has a world class capability. "It is about supporting winners, not picking winners." It is an holistic approach which examines key technologies, skills and training, supply chain improvements and a range of other factors where Government and Industry can work together to deliver competitiveness and wealth creation in a highly competitive global market place. This in turn will underpin an indigenous capability to deliver the battle-winning capabilities which our Armed forces have enjoyed in the past and will need in the future. Led by Business Minister Michael Fallon and BIS, strongly supported by Defence Secretary Phillip Dunne and MOD with participation by other government departments, the DGP has the potential to be 'game changing' initiative." This process will take time to mature and bear fruit. If the Aerospace Growth Partnership is any indication, industry can expect to see substantial results in a year to 18 months.

The advent of stability and more clarity around the MOD plans for equipment and services will provide a better context for investment decisions. Inevitably in response to reducing budgets and the removal of the 'bow wave' there will be what Ward calls "some right-sizing" in industry but it can be planned to minimise the pain and build a sustainable Industry. Of course the goal is to increase exports and the DGP initiatives will be key in achieving that goal. Another major issue of the moment is the transformation of the Defence Equipment and Support Organisation. A huge amount of analysis has been undertaken on this very complex initiative. In simple terms, the DE&S need to improve its skills in commercial, financial and project/programme management.

To do this, the organisation needs the freedoms to recruit and grow staff in a competitive market place which, it is argued, it cannot do within its current construct. The current preferred model is a GoCo (Government Owned Contractor Operated) managed operation and decisions on the way ahead are expected in the next few months. The related decision to devolve the responsibility for definition of the capability requirement to service commanders is also "game changing". There are concerns that this combination of events could create a "hiatus for a year to 18 months, while the single services stand up their ability to manage their equipment needs

and DE&S restructures itself."