

By Rt Hon Dr Liam Fox MP, Secretary of State for Defence

I became Defence Secretary just over a year ago with great expectations about what we could achieve in Defence but with eyes wide open about what we would face and with growing realisation of the scale of the challenge.

Today I will set out what we have accomplished and what remains still to be done. Of all the problems inherited from the Blair-Brown government, Defence was always going to provide one of the greatest headaches. As George Osborne has said "of all the budgets I have seen, the defence budget was the one that was the most chaotic, the most disorganised, the most overcommitted".

For years successive Defence Secretaries failed to get a grip on the equipment programme and failed to hold the department and industry to account for delays and poor cost-estimation. Too often in the past, in order to get projects included in the programme, fantasy numbers have been accepted at the outset knowing that cost overruns could be recovered later. As Bernard Gray said in his 2009 report "(the MoD has) too many types of equipment being ordered for too large a range of tasks at too high a specification. This programme is unaffordable on any likely projection of future budgets". In their final year in office alone Labour presided over an increase of reported cost by a staggering £3.3 billion in just 2 programmes.

So it has been no easy task to match our aspirations with our resources, ...and it has also been essential to deal with the very structures which allowed the Ministry of Defence and its budget to become so dysfunctionall. We assessed that there was an unfunded liability of at least £38 billion up to 2020.

What we could not know was that the highly committed nature of the budget, especially in the early years, meant that there was little room to deal with the problem without taking some very difficult decisions. For example, with the budget in the first year already 90% contractually committed they were unavoidable constraints on the speed at which we could act to reduce the deficit.

Along with the reductions in the future programme already made, we need reform of the MoD and cost reduction, changes to the procurement practices and, as the Prime Minister has said, a year-on-year real terms increase in defence spending in the second half of the decade to meet Future Force 2020.

Now I have said repeatedly that tackling the crisis in the public finances is not just an issue of economics but an issue of national security too.

The lessons of history are clear. So realigning our Defence priorities with the economic realities was essential. Within days of entering office the Coalition Government launched the Strategic Defence and Security Review. This was the first fundamental review of defence in 12 years, and the first of its kind to span the whole of government. The new National Security Strategy set out the policy framework that was the force driver of the SDSR.

It recognised that we are both more secure and yet more vulnerable than in most of our history and that only by mobilising the whole of Government would our country's security interests be safeguarded. That meant defence, diplomacy and development, delivered through the National Security Council, all pulling in the same direction with UK's interest in mind.

This all-of-government approach is at the heart of the coalition approach to government. The SDSR was a coherent outcome that ensured that we have an overarching 'adaptive posture' to deal with the threats of today and begin the transformation of our Armed Forces to meet the challenges of the future.

When considering each defence programme we developed a generic template to compare the respective costs, capability, operational risk, opportunities for regeneration and real-world risk. That way we could make objective decisions based on the facts and a clear understanding of the risks.

The adaptive posture demands that our Armed Forces become a more flexible and agile force with global reach:

- * capable of providing nuclear and conventional deterrence, containment, coercion and intervention;
- * investing in new technology and capabilities more suited to the likely character of future conflict, such as cyber security;
- * divesting ourselves of capabilities that have less utility in the post-Cold War world;
- * and with the ability to regenerate capabilities that are not needed now if threats change.

Achieving all of this in the circumstances meant smaller armed forces, painful decisions, and sacrifice from our people. But it has ensured we will remain in the premier league of military powers able to project influence and protect our interests wherever they may be.

Libya has proved to be the acid test of the SDSR and the adaptable posture we advocated. We were amongst the first countries to evacuate our own nationals, and helped many other countries to do the same; it was the UK that coordinated much of the humanitarian effort; and it was the UK who led the way in establishing the no fly zone and preventing a massacre in Benghazi. The SDSR may not have named Libya, but it imagined exactly the type of conflict we would be in and prepared us accordingly.

Let me be very clear, we are able to continue operations in Libya for however long is necessary and have the political resolve and will to do so..

Some people have advocated a reopening of the SDSR. But with the same strategic outlook, the same financial constraints and the same black hole the outcome would remain the same. The SDSR required tough choices, but these were taken on the basis of clear military advice and within a financial environment that constituted a national economic crisis.

Let me take head on the persistent claim that the nature of our operations in Libya, and the cost of them, would be different had we an aircraft carrier and the Harrier in service. The truth is that we still would have based RAF Tornados and Typhoon to Italy for the air to air role and to carry the precision weaponry such as Stormshadow or Brimstone that Harrier cannot carry. So it would not have been cheaper - in fact it would have been much more expensive. We could simply not afford to retain a third fast jet type. Labour had already reduced the Harrier fleet in 2009, leaving them unable to sustain operations in Afghanistan let alone undertake contingencies such as Libya - only Tornado has the capacity to do both. The Harrier served us well, but we have to move on and embrace new technology. However great the contribution in the past we cannot allow sentiment to drive our policy for the future.

There is much to look forward to in Defence for all three services. We will continue to have the fourth largest defence budget in the world. By 2020 the Royal Navy will have new aircraft carriers, a high readiness amphibious capability and a new fleet of Type 45 destroyers and Astute class submarines, and soon after, the Type 26 Global Combat Ship.

The RAF will be built around state of the art multi-role fleets of Joint Strike Fighter and Typhoon jets, as well as a new fleet of strategic and tactical transport aircraft with the introduction of the A400M and Voyager.

The Army, based on Multi-Role Brigades, will be powerful, flexible, fully equipped for the land environment and able to operate across the spectrum of conflict.

The MOD spends around a third of its budget every year, or around £13bn, on equipment acquisition or equipment support. This is a fundamental activity at the heart of defence and if and if it fails, it is the men and women on the frontline who suffer the consequences and the tax payer who pays the price.

In February of this year I announced a programme of work aimed at dealing with the fundamental causes of delays and poor cost estimation in the equipment programme. First, the so-called conspiracy of optimism, through which the risks and costs in new or existing projects are under-estimated both by industry and government, only to find mushrooming costs and time delays later. Second, the inclusion of programmes without clear budget lines for development, procurement and deployment that merely compounded an already unaffordable defence programme. Third, a lack of real time cost control and tight budgetary discipline that masked project failure and neutered effective project management. And finally, a relationship with industry that was out of balance.

All too often the master had become the servant, with value for money and the needs of our armed forces being undermined by inefficient practices and unreconstructed cost-bases. Cost over runs and time delays as well as poor cost and risk estimation have long

plagued successive Defence Secretaries. While there is no question that the performance at DE&S is improving, much more can be done.

To this end I established the Major Projects Review Board. This board, which I Chair, receives a quarterly update on the Ministry's major programmes to ensure that they are on time and within budget. If they are not, those responsible are rigorously held to account as those who attended the first session last week will attest. If these programmes continue to suffer time delays or cost increases, relevant details of programmes and the reasons for failure will be made public. This way market forces can hold industry and the department dramatic to account. This has begun with the 20 biggest projects by value and will rapidly expand to the 50 biggest projects. The board has already reviewed several programs and demanded improvements of the management teams.

We have also set up the Defence Exports Support Board, abolished the National Defence Industries Council and will shortly publish our white paper on equipment support and technology for UK defence following the successful consultation launched by Peter Luff and Bernard Gray. It will cover how we will identify the critical areas where the UK has or needs an operational advantage and freedom of action for a particular capability; how we intend to strengthen bilateral international co-operation and collaboration; how we will enable SMEs, which are a vital source of innovation and flexibility, to fulfil their potential; and how we will give support to exports within a framework of responsible licensing.

I don't know how but I anticipate it will emphasise open competition in the global market, buying off-the-shelf where we can, and only using single-source suppliers where we must. It will also set out the vital importance of science and technology to our future security and the viability of UK industry. Together this work will ensure that critical skills are retained in some of our most technologically advanced areas, that SMEs can compete as equals and British industry remains at the cutting edge on the world market.

An essential part of reducing the cost of the defence programme was renegotiating our contractual liabilities with industry. This programme has begun, and we are already looking at 300 contracts in light of the SDSR decisions to ensure they are both necessary and give greater value for money for the taxpayer where possible. We have also embarked on a pilot programme to renegotiate three of our PFIs, with a number of further projects being considered.

In June Chief of Defence Materiel - Bernard Gray - launched 'The Materiel Strategy' that will encompass a fundamental review of the delivery of equipment and support to the front line and will deliver the necessary step change in performance and reduction in running cost needed. Bernard Gray is talking to a number of stakeholders both within the Department and outside to understand the true nature of the problems we face, their root causes and potential solutions. Bernard's previous experience in the commercial world and his far reaching review of defence acquisition in 2009 give me confidence that the potential solutions will challenge the accepted norm and provide fundamentally different ways of doing business. I expect to see recommendations for the way forward towards the end of this year.

But none of our positive vision for the future can be achieved if we don't tackle the drivers of

structural financial instability and the institutional lack of accountability throughout the MOD. The department needed radical reform, so in August of last year I asked Lord Levene to establish a hard hitting group of external experts to lead a root and branch review of the way the department was structured. The report will be published later today, setting out a vision of transformation on a scale not seen in Defence for a generation.

You will understand why I am unable to detail the recommendations here before I have put them to the House, but I can say that there are a number of key strategic themes that have influenced this work.

Lord Levene is clear in his critique.

- * A department with overly bureaucratic management structures, dominated by committees leading to indecisiveness and a lack of responsibility.
- * A bloated top level defence board without Ministerial membership allowing strategic decision to drift and unable to reconcile ambition with resources.
- * Budget holders without the levers needed to deliver and Ministers kept in the dark.

Lord Levene has proposed a new, simpler and more cost-effective model for departmental management, with clear allocation of responsibility, authority and accountability. This will mark an end to the micromanagement of the individual services.

The report addresses the lack of key skills and fragmented career paths within defence and considers radical ways in which the Department can encourage a more joint approach across defence and promote the advocacy of joint capabilities, particularly those that deal with emerging threats such as cyber and cross-cutting issues such as intelligence. With so many different and at times conflicting channels of military advice, greater clarification at the top of the services is also given.

The report also advocates tighter financial management and a more risk-aware and cost-conscious mentality at every level at the Ministry of Defence, civilian and military alike. This work is not a criticism of our people, but a constructive critique of a department in need of reform. In fact, Lord Levene's work has exposed that the people who are at the heart of defence are the greatest advocates of the need for change at the MoD.

As well as the various reforms of acquisition and departmental structure, our Armed Forces themselves are undergoing similar change to deliver the SDSR. The rationalisation of RAF bases, the move to a new concept of deployable Multi-role brigades and the withdrawal of our forces from Germany all mean we need to reconsider the basing of our forces across the whole of the UK.

The ongoing Basing Review was the necessary follow-on work from the SDSR. It offers a significant opportunity to balance the Defence footprint across the UK, and provide greater stability to our Armed Forces. It will bring better value for money for the tax

payer, as well as helping to realise the challenging estate sales targets we are committed to achieving. Whilst the delivery of defence capability is paramount, careful consideration has been given to a range of other factors including the welfare of service families and consistency with the New Employment Model as well as the impacts on the local economy and environment. This work is making good progress, and we hope to be able to announce the key outcomes shortly.

Between the three services the way in which we generate forces vary greatly. We also operate differently from international comparators. For this reason in December of last year I launched a review of the way we generate and sustain forces within defence. This work has considered the efficiency and effectiveness of the processes by which individuals and units are prepared for operations and the overall balance between the Front Line and Non Front Line.

It has also reviewed the optimum tour length, tour interval and harmony for the Armed Forces. I expect the review to propose moving toward increased standardisation in tour lengths across the services, whilst maintaining a scalable approach where necessary.

Maximising key and niche skills that rest in our Reserves also demand serious consideration. We need to find the best balance of Regular, Reserves, Civil Servants and Contractors. The Future Reserves 2020 study (FR2020) was commissioned by the Prime Minister to ensure the most cost-effective use of Reservists to meet the UK's operational requirements for future conflict. The FR2020 Commission is committed to ensuring that the Reservist experience remains valuable for both the individual and his/her employer, as well as providing an important output for Defence. I look forward to reviewing the recommendations of the commission shortly.

Finally there needs to be cultural changes too. There must be a rebalancing between political control of the armed forces from the centre and the ability of service chiefs to manage their own services. I will set out plans by which I mean to do this in the House of Commons this afternoon. I also want to see more open, meritocratic Armed Forces better shaped to adapt to the challenges of the future, able to absorb the widest range of talents possible and to prepare for the future as well as understanding the past.

None of these ideas -- budgetary control, reform of procurement, reform of MoD structure, export promotion, SME development or change to the Armed Forces will be solutions by themselves to the problems we inherited. But taken together they provide a radical programme for change which will provide stability for future planning and improved security of United Kingdom.

Extracts from speech delivered to Reform Think Tank, 1 Whitehall Place, 27 June 2011