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INTRODUCTION

Ladies and Gentlemen, this year will be special for the Royal United Services Institute as it celebrates the 180th anniversary of its establishment by the Duke of Wellington.

I would like to take this opportunity to thank the Institute for the positive role it has played over many decades – but particularly over the last year, helping to prepare the ground for the Defence review we all knew was coming – and indeed we all knew was needed.

The Duke of Wellington famously said that “all the business of war, and indeed all the business of life, is to endeavour to find out what you don't know by what you do” - what Wellington called "guessing what was at the other side of the hill."

The National Security Strategy and the Strategic Defence and Security Review could certainly be said to have been such an exercise.

TRANSFORMING DEFENCE – SETTING THE BLUEPRINT

Not only did we need to ensure, that in every decision we made, success of the mission in Afghanistan was given priority.

But, also after 12 years without a full scale defence review, we needed to look ahead – to the other side of the hill - and lay out a blueprint for the transformation of Defence so that our Armed Forces, and all who provide them with support, are fit and structured to face the challenges of the decades ahead.

The analysis in the National Security Strategy points to a world in which the threats to the United Kingdom are diverse and unpredictable and the character of conflict evolving.

That is why the Adaptable Posture set out in the SDSR, rather than the alternatives we considered, was chosen as the best strategic response to the years ahead.

The task ahead of us to 2015 and beyond is driving the transformation of Defence.

We have a once in a generation opportunity, not only on the back of SDSR, but also through the root and branch reform of the entire Ministry of Defence led by the Defence Reform Unit under Lord Levene.

Your conference calls this the 'unfinished business' of the SDSR – so let me be clear for one moment about the finished business.

The National Security Strategy and the SDSR provide the baseline, the parameters, the direction for everything in Defence from this point on.

Strategy, operations, force structure, resource – all are framed by the vision set out in SDSR.

The SDSR is the agreed blueprint.

But we do need to take our time to work through the decisions required to implement the vision.

They are not straightforward and they are not easy – the devil, as they say, is in the detail.

We need to make sure the growth of capability is coherent and compatible with current operations – to make sure that where we reduce we do so without creating undue pressure elsewhere – and where we strengthen capability we do so with new efficiency.

We need to make sure that our people are looked after through the process and that they understand what it is we are asking them to achieve.

This is a political challenge as well as an organisational challenge.

Some of the implementation decisions, such as on the future of the Reserves, will impact on much cherished institutions with powerful and persuasive supporters.

Others, such as on basing, could impact on communities across the UK whose representatives will continue to fight hard for them, inside and outside Parliament.

And of course we face the challenge of reducing numbers across all three forces and the civil service in a manner which honours the committed service of those who will be leaving.

This coalition Government has already proven that it has the courage to make the unpalatable decisions that were ducked for so many years by our predecessors.

But we must now show that we have the courage to see it through.

If we do not – we will fail to create the balanced Armed Forces the country will need for the future and the cost-effective support structure that taxpayers demand.

So let me be clear about the challenge ahead in the next few years, particularly that challenge of resources.

TRANSFORMING DEFENCE – THE CHALLENGE OF RESOURCES

The coalition Government is acting to reduce the huge fiscal deficit that we inherited from Labour – it will be hard, but it is necessary.

We in Defence cannot pretend that deficit reduction is somebody else's problem.

It is a strategic objective for the Government, and Defence must make a contribution.

Economic stability and growth must come first, because this underpins everything that Government can hope to achieve for the people it serves – including defending them.

Any country that does not keep its economy under control will find it near impossible to preserve its national security in the long term.

The same difficult decisions are being made by many of our allies - including the United States.

As David Cameron and Nick Clegg have both made clear recently - this year will be a difficult year - as the tough decisions we have taken in the Budget and the Comprehensive Spending Review become a reality.

I am a Liberal Democrat – and I am determined that this coalition Government is a reforming Government.

We have opportunity in adversity to make radical change a reality – to make this country fairer, more sustainable and more secure.

The act of cutting isn't radical in itself – being radical is the act of building something different, better and lasting.

And that should be what the transformation of Defence is about - not just creating a coherent Defence capability for the future, but making that capability sustainable.

Just like the rest of Government, Defence must learn to live within its means.

That is why the reform agenda is not just about the big ticket items decided taken in the SDSR, it's about driving through new systems and processes – of accountability, transparency, cost control, realistic planning, firm and controlled project management – to bring the efficiency required to keep Defence within the funding envelope.

Despite the relatively generous financial settlement the Defence budget has received compared with most other Departments, the budget has still been reduced and we have to face up to very tough circumstances.

Not only are we fighting in Afghanistan and in the midst of the biggest fiscal crisis in a generation, but we also inherited an overheated and inflexible forward equipment programme.

Over the 12 years since the last review, the previous Government allowed a massive unfunded liability in Defence to build up.

It is crippling and has to be tackled.

The SDSR took some very difficult decisions to help rebalance the defence programme and has significantly reduced the underfunding.

But the act of implementation will require us to continue to develop and refine our plans to live within our means – because we are not there yet.

In my view, Future Force 2020 now provides us with a realistic aiming point, consistent with the financial envelope set for us by the Government's challenging Comprehensive Spending Review over the next few years.

But I recognise that we haven't been able to put absolutely everything right in one go but that is also why the commitment to 5 yearly Defence Reviews creates the ability to continue the transformation process .

As we approach the next General Election, and as we prepare for the next Defence Review in 2015, the key debate will be around how we meet the financial challenges of Future Force 2020 and the vision of a Britain active on the world stage and protected at home.

Now, rather than cover the ground that the Chief of the Defence Staff did in his lecture here last month when he set out much of the strategic background to the decisions we have made, let me instead talk about how we make transforming Defence a reality.

But first it is worth setting out the vision of Future Force 2020.

TRANSFORMING DEFENCE – THE BASELINE

Throughout the next few years, the mission in Afghanistan remains our Main Effort.

Having made this commitment in the SDSR, this shaped many of our other decisions: the proposed changes to the Army, for example; and the preference for Tornado over Harrier.

As we transform Defence we will have to ensure that the decisions we make do not have unintended consequences for operations in Afghanistan.

This may slow the process down as each implication is worked through – but it is the right thing to do – right for national security and right for the men and women on the ground in Afghanistan.

Despite the hardship and sacrifice shared with our international partners and the Afghans themselves, we are now operating from a position of strategic strength and there is cause for cautious optimism despite the significant challenges ahead.

The difficult job our Forces are doing there is being done with the determination, skill and professionalism we have come to expect and so too often take for granted.

We have made it clear that there will not be British troops in a combat role or in the numbers they are now in Afghanistan by 2015 and depending on progress we may be able to start reducing our footprint earlier as we transition to more of a support role.

So in transforming Defence we need also to think beyond Operation Herrick and ensure equally that each decision we make is in line with the Adaptable Posture set out in the SDSR.

Future Force 2020 isn't a specific package for a specific operation.

It provides a menu of force elements from which we will be able to draw in the future.

It provides a force structure which will enable us to react rapidly to crises, to conduct operations similar to Afghanistan, but also to respond with flexibility and agility to a range of threats.

We have taken the difficult decisions on the equipment platforms necessary to focus of the challenges of future warfare rather than of the Cold War, such as reducing tanks and heavy artillery, and in order to begin to balance the books.

Perhaps most painfully, we are reducing the size of the armed forces by 17,000, and the size of our civilian workforce by 25,000.

This will be difficult for the individuals concerned many of whom have served their country with great professionalism and dedication over many years.

But so painful as this is, we know that it just has to be done.

But SDSR was not just about cuts: it was about change – transforming to meet the challenges of the future with coherent and sustainable capability.

So we will now deliver carrier strike in a way that is more compatible with operations with our closest allies and with a more capable aircraft.

The structure of the Army will be based on the more modular, more flexible, more effective, deployable Multi-Role Brigade structure.

The Royal Air Force will be based on fewer, more capable aircraft types, making for greater ease of maintenance and hence cost-effectiveness.

So what are the challenges ahead in achieving this.

TRANSFORMING DEFENCE – THE KEY CHALLENGES

Many of the force structure changes are being implemented, including the retirement of platforms as set out in the SDSR.

Other implementation issues are more complicated.

Take basing for example.

On the one hand, force structure changes mean that the RAF no longer has a use for several bases.

On the other, we will bring home our Forces from Germany progressively over the next decade with all the attendant issues that raises, including finding suitable accommodation and training areas in the UK.

It will take time to ensure we are making the best decisions possible, not only for the Armed Forces and our people – but taking into account the impact on the areas concerned.

At the same time, we need to maximise receipts for the tax payer from disposals of those parts of the estate we no longer need.

All in all, a massively complex jigsaw which we will take some time to assemble.

I know that people want clarity as soon as possible – but I would prefer to get these things right rather than rush them.

TRANSFORMING DEFENCE – A MORE EFFECTIVE DEPARTMENT

It is equally important that we transform how we do things as well as what we do.

To be successful, transformed Armed Forces require a transformed Ministry of Defence.

The MOD has taken some justifiable flak over the last few years.

In opposition, I was one of the leading critics – and, to be fair, almost everyone I have encountered in the Department has been quick to point out where things have gone wrong – and what could be done better.

We must recognise how immensely complex and wide-ranging the business of Defence is – and while the MoD knows it needs to change – it is worth reflecting on the vast amount of work that the Department carries out quietly and effectively.

The MOD undertakes a huge and diverse set of tasks – from military operations to estate management – from medical services to postal services – from meteorology to coastal protection.

This makes it difficult to bring unified strategic direction to all parts of the Department.

Much has improved in the last few years, but much more needs to be done.

Under the leadership of Lord Levene, the Defence Reform Unit, is working through how to create an MOD that is simpler, more effective better-led and, quite frankly, less wasteful of time and resources.

Everything is in its scope.

We are looking at the whole system, the ‘operating model’ of Defence – the internal structure and processes, the senior rank structure, and how people are to be held to account.

We are looking at how to incentivise staff so that the behaviours we want to see are encouraged – leadership, personal accountability, creative thinking and innovation.

We are looking at how we generate and sustain forces, as well as at our lengths and harmony guidelines.

And in all of this we are working to reduce significantly the running costs of Defence.

Acquisition reform is a key element of this agenda.

The appointment of Bernard Gray as Chief of Defence Materiel is an important step for the Department.

It is a recognition of the need for radical and lasting change and the intent to make it happen.

This includes a new relationship with industry, one that recognises our mutual interests, but one that demands value for tax-payers money as the bottom line – not just jobs and profit for shareholders.

The Green Paper recently published by my ministerial colleague Peter Luff is a stepping stone to a new, no-nonsense approach to acquisition.

This programme to transform Defence cannot be done overnight; it will take time to implement.

But taken all together – the force structure set out in the SDSR and the remodelling of the MOD by the Defence Reform Unit - this will be the most significant reform programme for a generation.

CONCLUSION

In all of this, as the Chief of the Defence Staff said last month, what gives our Armed Forces their edge is the quality of the people who serve.

We know the forthcoming period of transition will be difficult for many in both the Armed Forces and the civil service.

We will look after those leaving, preferably by voluntary release, by giving them the fairest terms and conditions we are able to offer.

And we will be looking after those staying, by developing a new employment model for the Armed Forces, by reinforcing the Military

Covenant and by creating an organisation that we are all proud to be part of.

We have new leadership in the form of the new Government, a new Chief of the Defence Staff, General Richards, and the new Permanent Secretary, Ursula Brennan along with Jon Day and Bernard Gray.

Success will be collective – as must be the effort.

It will be the energy and determination of military, civil service and indeed the wider Defence community, including yourselves, that will make the transformation in Defence happen.

This is truly a joint endeavour and I hope today's conference goes some way to highlighting what together we need to achieve.

ENDS