

# WebMemo



Published by The Heritage Foundation

No. 2298  
February 18, 2009

## The Brown Government Should Stop Mortgaging the Future of Britain's Defenses

*Ted R. Bromund, Ph.D.*

In December, British Secretary of State for Defence John Hutton announced postponements to several major procurement projects. These measures were intended to help close a two-billion-pound shortfall in the Ministry of Defence's (MoD) projected 2009–2010 budget. Hutton emphasized his desire to prioritize support for frontline troops in Iraq and Afghanistan, whose equipment has since 2001 been paid for through the Treasury's reserve fund.

But at the same time, Hutton announced that in the future, the MoD's core budget, not the Treasury, would have to bear most of the cost of future Urgent Operational Requirements (UOR). With the recent announcement that the cost of operations in Iraq and Afghanistan increased to over 4.5 billion pounds in 2008, the danger facing the MoD is clear: Either the troops in the field will have to go without necessary equipment paid for by UOR, or the MoD's budget will have to be cut even more sharply in the coming years. This is an unacceptable mortgage on the future of Britain's defenses.

### **The Fallacies of the December Announcement.**

Late last year, it became clear that the MoD faced an approximately two-billion-pound budgetary shortfall. In the near term, much of this shortfall was driven by the cost of procurement and by the number of large programs that were moving out of research and development and into the expensive acquisition phase. More broadly, this deficit was the result of the fact that the Labour governments have barely increased spending on defense since

1997. The inefficiency of Britain's procurement system, which subordinates cost effectiveness to the protection of British jobs and the diplomatic imperatives of the European Union, has only made the problem worse.<sup>1</sup>

The measures Hutton announced to close this shortfall in December were inadequate and poorly thought through. He did, at least, avoid cancelling or mothballing necessary forces, such as the U.S.–U.K. jointly developed F-35 Lightning (the Joint Strike Fighter). But his solution was simply to delay programs: Britain's two new aircraft carriers—under study since 1998, formerly due in 2012 and 2014, and already delayed for two years—have been put on hold for another one to two years. The Future Rapid Effects System armored vehicles program will also be slowed. The only cuts came to the extravagantly priced Future Lynx helicopter program, and even these savings were offset by the announcement of a new program to retrofit the existing Lynx helicopters.<sup>2</sup>

These measures were not enough to balance the MoD's budget for 2009–2010. Nor were they sufficiently bold. Britain's defense crisis can be solved only by modest and steady increases in defense

This paper, in its entirety, can be found at:  
[www.heritage.org/Research/Europe/wm2298.cfm](http://www.heritage.org/Research/Europe/wm2298.cfm)

Produced by The Margaret Thatcher Center for Freedom

Published by The Heritage Foundation  
214 Massachusetts Avenue, NE  
Washington, DC 20002–4999  
(202) 546-4400 • [heritage.org](http://heritage.org)

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

spending, by a willingness to cancel overpriced and underperforming systems like the Future Lynx, and by closer collaboration with the U.S. on procurement. Delaying defense programs, apart from reducing the nation's military capabilities, only raises their final price. Hutton's measures have trimmed the coming year's deficit, but they have done so by increasing future costs.

**Accounting for the Cost of Urgent Operational Requirements.** The sting in the tail of Hutton's December announcement came in the form of a little-noticed statement about the funding of future UOR. Since 2001, the cost of UOR has been met by the Treasury's reserve fund, not by the MoD. This arrangement was sensible: If the MoD is to have a meaningful, planned budget, this core funding cannot be consumed by urgent tactical requirements. Certainly, part of the MoD's responsibility is to attempt to anticipate these requirements, and to budget accordingly. But such attempts at foresight will often be unsuccessful, and to the extent that the MoD fails, its funding should not be at risk. The proper remedy in such cases is not to change the budget; it is to change the personnel.

But that is not the remedy the government has chosen. Instead, it has decided to force the armed forces to bear the costs of their own requirements. In 2009–2010, the Treasury will pay the first 635 million pounds of UOR. It will also assume the initial costs of any additional spending, but the MoD will be responsible for repaying the sum out of its budget after two years. Since 2001 the MoD has proclaimed that the UOR are “new money over and

above the core defence budget from the Treasury special reserve, to ensure our forces are properly trained, equipped and supported for operations in Iraq and Afghanistan.”<sup>3</sup> Hutton's announcement means that is no longer true.

**The Effect of the Treasury-MoD Deal on Britain's Defenses.** The Treasury–MoD deal would be devastating for the MoD. If operational expenses amount in 2009–2010 to 3 billion pounds—a 33 percent decrease from the 2008 rate—and if, as was the case in 2007–2008, UOR account for 80 percent of that 3 billion,<sup>4</sup> then the UOR bill will be 2.4 billion pounds. Of that, the Treasury will meet 635 million pounds. The MoD's budget in 2011–2012 will be charged the remaining 1.765 billion pounds.

This means the MoD will be forced to choose between meeting the needs of the troops in the field by cutting its budget today, not meeting those needs and preserving the programs that will sustain the forces tomorrow, or doing both by going heavily into debt to the Treasury. In light of this fact, the Treasury's boast that the MoD's budget in 2009–2010 will rise by approximately 500 million pounds—approximately 1.5 percent, before it faces its operational bills—is simply meaningless. The more realistic figure, taking those operational bills into account, is a 1.2-billion-pound reduction.

Hutton's expressed desire to force the MoD to “live within its means” is not sensible, in that it assumes that the budget provides the appropriate measure of the problem.<sup>5</sup> Far more important is asking whether the budget is adequate to provide

1. Ted R. Bromund, “Britain's Armed Forces: Victorious Abroad, Imperiled at Home,” Heritage Foundation *WebMemo* No. 2166, December 11, 2008, at <http://www.heritage.org/Research/Europe/wm2166.cfm>.
2. Russell Hotten, “Carrier Delay Fears Cause VT and BAE Fall,” *The Telegraph*, January 12, 2008, at <http://www.telegraph.co.uk/finance/newsbysector/industry/2782442/Carrier-delay-fears-cause-VT-and-BAE-fall.html> (February 17, 2009); Sylvia Pfeifer and Alex Barker, “Navy Faces Aircraft Carriers Delay,” *The Financial Times*, December 4, 2008, at <http://www.ft.com/cms/s/0/bb1b9392-c252-11dd-a350-000077b07658.html> (February 17, 2009); *The Telegraph*, “New Royal Navy Aircraft Carriers Delayed,” December 11, 2008, at <http://www.telegraph.co.uk/news/newsttopics/onthe frontline/3708337/New-Royal-Navy-aircraft-carriers-delayed.html> (February 17, 2009).
3. Richard Norton-Taylor, “UK Military Costs in Afghanistan and Iraq Soar to £4.5bn,” *The Guardian*, February 12, 2009, at <http://www.guardian.co.uk/uk/2009/feb/12/british-costs-soar-in-afghanistan-and-iraq> (February 17, 2009).
4. House of Commons Defence Select Committee, “Operational Costs in Afghanistan and Iraq: Spring Supplementary Estimate 2007–08,” March 10, 2008, paras. 8, 13, at <http://www.publications.parliament.uk/pa/cm200708/cmselect/cmdfence/400/40004.htm#a2> (February 17, 2009).
5. Pfeifer and Barker, “Navy Faces Aircraft Carriers Delay.”

the nation with balanced forces equipped to deter and win across the spectrum of combat.

Similarly, the Treasury's claim that the new arrangement will increase "the incentive for the MoD accurately to estimate the costs of operations"<sup>6</sup> fails to account for the fact that in war, the enemy is never static. It is extremely likely that the Taliban will rely even more heavily on Iraqi-style explosively formed projectiles to defeat allied armored vehicles in the coming year. This will require new research, new counter-measures, and new expenses. It is nonsensical to believe that the MoD can, if it only tries harder, budget for those measures a year or more in advance.

By agreeing with the Treasury that the MoD would be allowed to exceed its 2009–2010 budget at the cost of bearing most of the burden of future UOR, Hutton has, literally, mortgaged the future of Britain's defenses. As Liam Fox, the Shadow Defence Secretary, correctly stated:

At this rate it is anybody's guess on how bad the finances of the department will be in the years ahead. The unfunded liability for the department could total hundreds of millions of pounds. This deal with the Treasury makes very little long-term financial sense.<sup>7</sup>

**What Should Be Done.** The Treasury-MoD deal is a desperate expedient. It cannot and will not provide long-term solutions to the problems facing Britain's armed forces. Indeed, it will make those problems worse. Repudiating the deal, though nec-

essary, is not sufficient. The answer must begin at the top, in a new Strategic Defense Review and in the office of the secretary of state for defence.

The next British administration must commit itself to conducting a new Strategic Defense Review, Britain's first since 1998. Britain adopted its current defense doctrines to justify spending less on its forces; it must not make the same mistake twice. Similarly, the incoming administration, as part of this review, must produce a new National Security Strategy. The administration should also commit itself to a schedule for the production of future reviews and National Security Strategies, thereby breaking from the current government's legacy of carrying out these exercises only when politically convenient.

Finally, the next administration must put in office a strong and principled secretary of state for Defence, one who is firmly committed to reforming the MoD's culture, to defending and increasing the budget of the services, to making appropriate procurement decisions, and to articulating the core deterrent purpose of Britain's armed forces. Without those measures, the strength of those forces will continue to decline, and the mortgage the government has imposed on them will only grow more burdensome.

—Ted R. Bromund, Ph.D., is Senior Research Fellow in the Margaret Thatcher Center for Freedom, a division of the Kathryn and Shelby Cullom Davis Institute for International Studies, at The Heritage Foundation.

6. Sylvia Pfeifer and Alex Barker, "Treasury Rethink Hits Defence Budget," *The Financial Times*, February 2, 2009, at <http://www.ft.com/cms/s/0/fcdeb104-f157-11dd-8790-0000779fd2ac.html> (February 17, 2009).

7. *Ibid.*