

## **CHECKED AGAINST DELIVERY**

With your permission Mr Speaker, I would like to make a statement on progress in balancing the Defence budget and establishing a sustainable Equipment Programme as part of the work to deliver the vision set out in the Strategic Defence and Security Review – a vision of formidable, adaptable and well-equipped Armed Forces, backed by balanced budgets, disciplined processes and an efficient and effective Department.

The United Kingdom's Armed Forces and the Ministry of Defence exist to protect our country and its interests and provide the ultimate guarantee of its security and independence.

My overriding priority as Secretary of State for Defence must be achieving success on military operations.

But our Defence is built on the extraordinary quality and commitment of our people and ensuring their welfare is close behind.

And I am clear that when we ask the brave men and women of our Armed Forces to put themselves in danger to ensure our national security, we owe it to them to make sure they are properly supported with the very best equipment we can give them to do the job.

Mr Speaker, the best way I can support our Armed Forces as they restructure and re-focus themselves for the future, is to give them the assurance of stable and well-managed budgets and the confidence that the Equipment Programme is affordable and deliverable.

Because the only way to ensure, in the long-term, the ability to project power, to protect our national security, and to ensure that our troops have the equipment they need, is to have a Defence Budget that is in balance.

A strong, diverse, economy and sound public finances are a pre-requisite to being able to sustain the Armed Forces that our national security requires.

And so correcting the disastrous fiscal deficit we inherited and returning the economy to sustainable growth, are themselves strategic imperatives.

Defence has, rightly, contributed to that fiscal correction – as well as putting its own house in order by dealing with the chaos we inherited in an Equipment Programme that left a yawning black-hole under our Armed Forces.

Tough Decisions have been taken. And Mr Speaker, I want to take this opportunity to pay tribute to those who have taken them:

My predecessor, the Rt Hon Member for North Somerset who showed the courage to tackle head-on some of the worst and longest-running procurement fiascos, and to make agonising choices over capabilities that Britain could simply not afford.

The Armed Forces Chiefs, who have grasped the challenges the SDSR has presented and embraced the opportunity to create a sustainable foundation on which they can build for the future.

And the leadership team in the MOD who have worked tirelessly to turn this supertanker around – to tear up the old ways of doing things and to embrace a new model that will ensure that MOD never again gets into the mess it was in by early 2010.

Thanks to all of them, and with the decision I announced to the House last week on Carrier Strike being the final piece of the jigsaw, I can tell the House today that, after two years work, the black hole in the defence budget has finally been eliminated and the budget is now in balance.

With a small annual reserve built in as a prudent measure to make sure we are not blown off course by unforeseen events.

A plan which is endorsed by the Chiefs – and by the Treasury.

We have achieved this by facing up to the fiscal reality and taking the tough decisions the Party opposite shirked.

Reluctantly accepting smaller Armed Forces and redoubling our resolve to invest in the best possible equipment for them.

Transforming the role of the TA as the regular army gets smaller – making it an integral part of Future Force 2020.

Embarking on a major restructuring of the Department and a reduction of just over a third in the civilian workforce.

Mr Speaker, these have not been easy decisions, but they have been the right ones.

This has been a difficult period for all our people – in the Armed Forces and more widely across Defence.

Major change; the threat of redundancy; uncertainty about the future – all present challenges to confidence and morale.

Reaching a balanced budget for MOD's "Planning Round 12" (or PR12) represents a hugely important milestone in the transformation of Defence.

A symbolic break with the failed practices of the past.

And a solid foundation on which to build the future.

And starts to put that destabilising uncertainty behind us as we move forward with Defence Transformation:

Mr Speaker, at the heart of the plan is the Defence Equipment Programme, which by the end of the PR12 period will account for around 45% of the total defence budget.

I have seen, over the last seven months just how complex defence procurement is.

Developing cutting edge technology so that our Armed Forces have a battle-winning edge.

In projects that rank alongside the biggest being undertaken in this country today.

And while there have been widely publicised failures, there have been unsung successes – most notably in Afghanistan where the Urgent Operational Requirements process funded by the Treasury has repeatedly allowed us to deliver the equipment our Armed Forces need quickly and efficiently.

Brigadier Patrick Sanders, who commanded 20th Armoured Brigade last year in Afghanistan, has described the equipment his troops had as “second to none” and “the best that I’ve experienced in 27 years”.

We need to build on the best elements of the UOR model to achieve that level of performance across defence as a whole.

And at the same time we must learn from the failures.

Over the ten years of PR12 we will spend almost £160bn on new equipment and data systems, and their support, reflecting the planning assumption agreed with the Treasury of a 1% per annum real increase in the Equipment and Support budget from 2015.

But poor decision making and poor management have too often meant that the Armed Forces have not received the full benefit of all this spending.

Under the previous Government, the Equipment Plan became meaningless because projects were committed to, without the funding to pay for them - creating a fantasy programme.

Systemic over-programming was compounded by a “conspiracy of optimism” where officials, the Armed Forces and suppliers all consistently planned on a best case scenario – in the full knowledge that once a project had been committed, they could then revise up costs with little consequence.

An over-heated Equipment Plan; Managed on a hand to mouth basis; Driven by short-term cash, rather than long-term value;

With constant postponements and renegotiations driving costs into projects in a self-reinforcing spiral of busted budgets and torn-up timetables.

Rigid contracting meant no flexibility to respond to changed threat priorities or alternative technologies becoming available. And it is our Armed Forces, and the Defence of our Country, that have ultimately paid the price for this mismanagement.

The culture and the practice have to change.

We will move forward with a new financial discipline in the Equipment Plan. Under-, rather than over-programming, so that we can focus on value rather than cash management. Giving our Armed Forces confidence that once a project is in the programme, it is real, it is funded and it will be delivered.

So they can plan with certainty.

The core committed equipment programme, **covering investment in new equipment and data systems, and their support**, amounts to just under £152bn over ten years, against a total planned spend of almost £160bn.

That £152Bn includes, for the first time ever, an effective centrally held contingency reserve determined by Bernard Gray, the new Chief of Defence Materiel of over £4bn to ensure the robustness of the plan.

It includes:

- 14 new Chinooks, Apache life-extension & Puma upgrade
- A programme of new armoured fighting vehicles worth around £4.5bn over ten years, and a £1bn upgrade of the Warrior Armoured Fighting Vehicle
- The building of the two QE class aircraft carriers; the remainder of the Type 45 destroyers and the new Type 26 frigates; the Astute class and Successor nuclear submarines;
- investment in new Wildcat helicopters, the Merlin upgrade programme and the assessment phase for Merlin marinisation;
- introduction into service of the Voyager Air-to-Air refueller & troop transporter, the A400M air transporter and the Air Seeker surveillance aircraft;

- An additional C17 strategic airlifter;
- continued investment in Typhoon and JSF;
- And £7bn invested in “complex weapons” – the smart missiles and torpedos that give our Navy, Army and Air Force their fighting edge.

Balancing the budget allows me to include within that £152Bn Core Equipment Programme:

- A £4bn plus investment in Intelligence, Surveillance, Communications and Reconnaissance assets across the CIPHER, SOLOMON, CROWSNEST, DCNS, and FALCON projects;
- The outright purchase of 3 Offshore Patrol Vessels which are currently leased;
- Capability enhancements to the Typhoon
- And a range of simulators, basing, and support equipment for the new helicopters and aircraft we are introducing.

This programme represents the collective priorities of the Armed Forces. Set out by the Armed Forces committee on which all the Service Chiefs sit.

They confirm that this Committed Core Equipment Programme, together with the £8bn available unallocated headroom, will fund the capabilities they require to deliver Future Force 2020 as set out in the SDSR.

That £8bn will be allocated to projects not yet in the committed core programme only at the point when they need to be committed to be delivered on time, and only in accordance with the military assessment of priority at the time.

No project will be allowed to commit without a ten year budget line to cover not only its procurement, but also its support costs.

Not rocket science, you might think Mr Speaker, but quite an innovation in Defence procurement, nonetheless.

And individuals and contractors can expect to be held to account for the estimates on which decisions to commit to projects are based.

Mr Speaker, this Government believes that transparency is a driver of performance. And I want to be as transparent as possible about the Defence budget – because greater transparency will help me drive the change that we need to see in MOD.

But the House will understand that some elements of the Defence budget are security sensitive, and other elements are commercially sensitive. It is essential that we preserve our negotiating space with defence contractors without announcing all our detailed intentions in advance.

So, to provide the reassurance that the House will want, while protecting the commercial and security interests of Defence, I have agreed with the NAO that they will review the Equipment Plan and confirm that it is affordable.

The NAO will have access to confidential and detailed information on the Equipment Plan that cannot be published. But once they have completed their work, we will publish their verdict on the Plan, together with a summary of the Plan itself.

Mr Speaker, today's announcement and the work we are taking forward means that for the first time in a generation the MOD not only has a balanced budget, and an appropriate reserve, but is putting in place the behaviour-changing incentives and structures that will keep it in balance.

It means the politicians and the civil servants in the MOD can look the Armed Forces in the eye, in the knowledge that we are delivering them the stable platform they need to build Future Force 2020

A budget agreed across Government, across the Department and by the Service Chiefs.

A firm baseline for the Transformation that is underway to an Armed Forces that may be smaller, but will be adaptable, agile and equipped with the very best technology;

Supported by an MOD that is laser-focussed on their needs.

Working alongside a Defence Industry which can invest with renewed confidence in an Equipment Plan which is actually deliverable.

It represents the start of a new chapter in the long history of UK defence.

I commend this statement to the House.

ENDS