



The New Government – Challenges and Opportunities for Defence and Security

June 2015

Introduction

Perhaps there is such a thing a catastrophic success.

With the historic, unexpected victory for David Cameron's Conservatives on the 7th of May we suggest that in defence, as well in other portfolios, the new ministerial teams are likely already calculating how they can fulfil manifesto promises which were partially made with the expectation that they would serve as a starting point in policy horse-trading with coalition partners rather than as the action plan of a majority Conservative administration. However, with a reasonably strong commitment to defence in black and white the next parliament will be an exciting time for the UK's armed forces and the industry which supports them.

The defining decision will be whether the Conservatives commit the UK, in the long term, to remaining in the premier league of global force-projection. There will be ample siren voices to distract the Prime Minister from the defence agenda. Both the vastly empowered Scottish Nationalists and inevitably fraught national campaigning over the UK's future with the European Union will inevitably affect the defence debate. Yet we see potential in the administration to promote, if not a renaissance, an era of cautious consolidation for the Armed Forces in to a post-Iraq and Afghanistan era.

The Bottom Line

We see two likely scenarios for the defence budget over the first half of this parliament, both of which would have seemed wildly optimistic a few months ago. Firstly, and inevitably favoured by the Chancellor, is to maintain the current trajectory of promised very modest real terms spending increases. This would mean maintaining a current budget of around £34 billion, which is, of course, significantly trimmed over the last four years, and an annual one per cent increase in the equipment budget. With explicit, manifesto name-checks of most major equipment programmes, as well as the promise not exceeding the currently planned reductions in manning, major capability cuts would be unlikely. However, there is the very real possibility that continued efficiency savings demanded by this scenario would veer into 'hollowing out' capabilities. Indeed we have already seen a request from HM Treasury for an additional £500 million of cuts. Likely victims would be training opportunities - especially vehicle track/flying hours; less generous terms and conditions of service; readiness states; and scales of munitions held in the logistics chain.

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Secondly, the Government could commit to spending the widely discussed NATO target of two per cent of GDP on defence. The instincts of the Prime Minister have likely long leant in this direction; with the unexpected Conservative majority government it now makes political sense.

The new parliament is likely to be defined more by friction between the Prime Minister and his backbenches, rather than between the Government and the Opposition. We therefore assess the Prime Minister will be keen to placate his back benches where possible and two per cent of GDP for defence could be considered low hanging fruit. Already there are reports that the Prime Minister has been warned by backbench Conservative MPs that they could block key laws if he does not spend two per cent of GDP on defence.

“We have the second largest defence budget in NATO and the largest in the EU, and this Government is committed to spending two per cent of GDP on defence this financial year.”

While fiscally difficult, it is ultimately easier compared to the wider risk of a large group of disaffected backbenchers routinely voting against government policy. Effectively this would place the MoD budget in the same 'protected' class as health and education and in the same way result in increased pain in the remaining unprotected portfolios.

Any such announcement would likely come after the Strategic Defence and

Security Review (SDSR). It is hard to imagine a Review which did not identify a deeper and broader spectrum of threats to national security than in 2010. Such a commitment to 'the two per cent' in response to this could therefore conveniently coincide with Conservative Party Conference in October, doubtlessly to ecstatic reception within the Conservative Party. Significant figures are at stake. At current projected GDP growth a two per cent budget would mean around at total £25 billion extra for the MoD over the life of the next parliament, with a remarkable £75 billion if the level was maintained to 2025/26: in the medium term this would be game-changing. The political negatives for the Government will, of course, be stark: such funding levels would see a relatively greater increase in defence spending than in health and education. However, as well as from Tory backbenchers political capital would be gained with NATO, the USA, and generally in terms of invigorated image on the world stage, which Cameron will inevitably want to cultivate to counter accusations of 'Little Englander-ism' over the EU referendum. Cameron has already indicated his commitment to a One Nation Conservative agenda. The defence two per cent, beloved of many Conservative backbenchers and party members, is often mentioned in the same breath as the 0.7 per cent of GDP international aid budget, to which many of the 'modernising' wing of the Conservative Party are attached. To commit to both could be an elegant solution to emphasise Cameron's 'big-tent', One Nation Conservative credentials. We think it is a gamble the PM may be prepared to make.

Reviews: the 'When'

The defining defence policy process of this parliament will be the SDSR. The timing of the review is arguably as important as the final recommendations it makes. The 2010 SDSR took place after the austerity-promoting Comprehensive Spending Review (CSR) and thus the SDSR was undertaken with a clear agenda for major cuts. Thus, in 2015 an SDSR before the CSR will give a least a general indication that the Government could be prepared to consider extra funding for the MoD. Similarly, many proponents of a clear-visioned defence policy which meets contemporary threats will hope to see a comprehensive review of the National Security Strategy (NSS) before the SDSR is started. Many defence and foreign affairs watchers within the Conservative party will be arguing that the unexpected majority government is a unique opportunity to set a Conservative vision in national strategy, rather than pursue the short-term pragmatism in international entanglement which has characterised recent years. Indeed, the maturing of a consensus that the UK urgently needs to clarify its strategic goals is not limited to Conservatives: in one of its final reports before the dissolution of the last government, the cross-party Commons Defence Select Committee articulated strategic questions which it felt SDSR 2015 should answer. Summer 2015 is increasingly looking as a pivotal season in deciding the UK's future role in the world.

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Reviews: the 'What'

Assuming strategic goals are set before the SDSR and financial restraints after, it is hard to imagine that the gravity and range of strategic threats against the UK identified are less than in the 2010 review. The rise of Islamic State and the general proliferation of Salafist extremism, along with squeamishness against facing such enemies with conventional ground forces, will keep the intelligence officers and Special Forces in favour, as they have been since 2001. The key question is the comment and recommendations in the SDSR in relation to the increased Russian aggression of recent years. Operationally, can be boiled down to asking “is the UK seriously prepared to undertake an all-out, NATO Article Five operation in Eastern Europe?” If the answer is “yes” then there will need to be a hugely significant policy pivot back to heavier forces prepared for state-on-state conflict of the highest intensity. President Putin's ultimate intent and risk appetite is all: Kremlinologists should be at the beating heart of the SDSR.

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In terms of equipment programmes, the Government has made at least general commitments to most the major equipment programmes already in train. The biggest issue to deal with will be the Joint Strike Fighter (JSF). With the UK a minor partner in the sprawling, multi-national JSF programme, the Government



has limited influence in getting it back on track. However, the SDSR will likely make a final decision on Lighting II numbers to be procured and will be a litmus test on what level of resources the UK is prepared to commitment to maintain a world-class ground attack capability of any size, and, critically, how much bang the Queen Elizabeth Class carriers eventually bring to the battlefield. The four Vanguard Successor boats are now assured. It will be interesting to see if the SDSR addresses the political dynamite of contingency planning for deterrent basing in the 'worst case scenario' of Scottish independence.

Northern Warriors

Apart from actual independence, one of the Scottish National Party's most well-known policies is their opposition to a renewed nuclear deterrent and the removal of Trident from the Clyde, a point the leader of the SNP in Westminster, Angus Roberston MP, made plain in his first speech in this new parliament. However, beyond this the SNP's manifesto had one of the most detailed, if inevitably parochial, sets of conventional defence policies of the major parties. It is hard to see that these demands will not figure on the negotiating table as the Conservative Government enters the difficult negotiations with the SNP Scottish Government over the future constitutional settlement for Scotland. Expect to see the granting of some upcoming defence contracts to Scottish-based firms, especially the Type-26 frigate build, along with the ominous predications about the unlikelihood of such contracts being awarded to an independent Scotland.

The image shows the logo of the Scottish National Party (SNP), which consists of the letters 'SNP' in a bold, black, sans-serif font, followed by a stylized white saltire (cross) on a yellow background.

“We will resolutely oppose the renewal of Trident weapons of mass destruction.”

Angus Roberston MP

There could be an intersection of the SNP manifesto's identification of the High North and Arctic as vital ground, and any analysis of increased Russian manoeuvring in the North by the SDSR: reinforcement of air and maritime operations off Scotland could well make sense for several reasons. With the SNP now being, by some margin, the third largest party in the House of Commons, they will be allocated a number of seats, and the chairmanship(s), on the House of Commons' Select Committees. We expect there to be a significant interest in the Defence Select Committee in particular. This committee will though once again be chaired by a Conservative MP.

Defence Reform

While capability cuts as part of the last government's Defence Transformation agenda often made the headlines, the Defence Acquisition Reform element of this process has received very little coverage outside the sector. A year on from the Defence Reform Act 2014 gaining Royal Assent, returning Minister for Defence Procurement Philip Dunne MP will likely see the bedding-in of the regulatory framework to support the Act as a major priority. Specifically the Single Source Regulations Office (SSRO), active since December 2014, will need to gain the trust in action both from equipment end-users in Front Line Commands and – perhaps with more difficulty – from industry. Major tests of the new framework can be expected from any novel acquisitions initiated by the SDSR. Although contacts and sub-contracts of the size realistically likely to be granted to SMEs were eventually excluded from Single Source Contract Regulations, expect a culture of increased information security to filter across the sector, as a result of punitive measures for the release of commercially sensitive information on contracts covered by the Act.

The Battle of Europe

EU regulations moving Europe towards a more open single defence market are unlikely to be high on the Prime Minister's list as he begins his battle to renegotiate the UK's membership of the EU. In the event the 2017 referendum results in the UK leaving the EU, the results for the defence industry could be less significant than in many areas of life. While the obligation to follow EU open market regulations in MoD procurement would no longer be necessary, the Government would be likely to continue to marry its current approach of international, open procurement where possible, while still being happy to play the 'technological advantage' card to pursue single-

source procurement where there is an overwhelming national security or national industrial capability case to be made. In the longer term, a post Brexit UK might prove to be in a stronger position to avoid a painful prolonged entanglement in patently inefficient joint European procurement ventures, such as Eurofighter, with the political imperative of furthering EU defence cooperation removed.

The Ministerial Team



Secretary of State for Defence: The Rt Hon Michael Fallon MP

Fallon has served as the Conservative MP for the Sevenoaks constituency in Kent since 1997. Prior to this he served as the Conservative MP for Darlington from 1983 to 1992.

He was a minister in the then Department for Education and Science from 1990 to 1992. Since returning to parliament in 1997, he has held positions on the Treasury Select Committee and was Deputy Chairman of the Conservative Party. In September 2012 he was appointed Minister for Business and Enterprise and in March 2013 Minister of State for Energy. In 2014 he also became Minister for Portsmouth. He was appointed Secretary of State for Defence on the 15th of July 2014.

This is therefore not a new appointment. The Prime Minister has chosen to return the 'Thinking Man's Rottweiler' to MoD Main Building. Combining a reputation as a safe pair of hands with a head for business, we anticipate that Fallon will be aiming to permanently bed-in a culture of fiscal responsibility to which the MoD has painfully clawed its way to during the last parliament. While not having a personal military hinterland or track-record of passion for defence prior to his appointment, Fallon has turned his considerable intellect to the brief and recently made strong commitments to no further reductions in the head count of the Armed Forces and to levels of funding and equipment which the Conservative majority government will now feel compelled to see through.

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Junior Ministers

With the Government's junior ministerial appointments, the Prime Minister has mixed continuity with fresh blood and seems to have chosen to promote those with a personal background in the field. Out of the six-person junior ministerial team, three have experience in the Regular or Reserve forces.

Minister of State for Defence Procurement: Philip Dunne MP

Dunne has served as the Conservative MP for the Ludlow constituency in Shropshire since 2005. Prior to entering parliament he worked in farming, business, and investment banking. Following the 2010 General Election, he was appointed Assistant Government Whip, a role he had carried out in opposition. He has been a member of the Work and Pensions Select Committee, the Public Accounts Select Committee and the Treasury Select Committee. In September 2012 he was appointed Minister for Defence Equipment, Support and Technology with responsibility for defence procurement and defence exports.



Again this is not a new appointment and could be considered a nod of approval from the Prime Minister for the progress made in Defence Acquisition Reform as Dunne was largely the architect of the Defence Reform Act 2014. Dunne will remain Fallon's principal agent in maintaining momentum in the improvements in the MoD's financial

sustainability. He will also remain guardian of the MoD's programme of defence sector SME engagement.

Minister of State for the Armed Forces: Penny Mordaunt MP

Mordaunt has served as the Conservative MP for the Portsmouth North constituency since 2010. Prior to entering parliament she was director of communications at Kensington & Chelsea Council and the Freight Transport Association. She was also employed in a number of roles within the Conservative Party.

In parliament she was a member of the Public Bill Committee for the Defence Reform Act 2014. She served on the European Scrutiny Committee and the Defence Select. In autumn 2013 she was appointed Parliamentary Private Secretary to the then Secretary of State for Defence, the Rt Hon Philip Hammond MP. In July 2014 she was appointed Parliamentary Under Secretary of State for Communities and Local Government.

Mordaunt is the first ever female Minister of State for the Armed Forces and is a Royal Naval Reservist, serving as a Sub-Lieutenant, at HMS King Alfred on Whale Island.



Minister of State for the Ministry of Defence and Deputy Leader of the House of Lords: The Rt Hon the Earl Howe

Prior to joining the House of Lords in 1984, Lord Howe worked in Banking.

Lord Howe served as Parliamentary Secretary, Ministry of Agriculture, Fisheries and Food from 1992 to 1995 and as Parliamentary Under Secretary of State, Ministry of Defence from 1995 to 1997. In opposition he served as Spokesman for Health from 1997 to 2010.

Following the 2010 General Election he was appointed Parliamentary Under Secretary of State for Quality at the Department of Health.



Parliamentary Under Secretary of State and Minister for Defence Personnel, Welfare and Veterans: Mark Lancaster TD MP

Lancaster has served as the Conservative MP for the North East Milton Keynes constituency since 2005. Prior to entering parliament he served in the Army between 1988 and 1990 and then became a company director for the family fireworks firm Kimbolton Fireworks. Like his colleague Penny Mordaunt, Lancaster also serves in the Reservists as a Lieutenant Colonel in the Royal Engineers.

In parliament he was a Conservative Party whip from November 2006 to July 2007. Shortly after his re-election in 2010, he was appointed as the Parliamentary Private Secretary to the Secretary of State for International Development. In September 2012 he became a government minister when he was made a Lord Commissioner of Her Majesty's Treasury.

As a serving Reservist funding will likely be high on Lancaster's agenda. With responsibility for Defence Personnel, he faces a potentially difficult tenure if further financial restraint squeezes military terms and conditions of service in order to protect manifesto promises on equipment programmes and manning levels.



**Parliamentary Under Secretary of State and Minister for Reserves:
Julian Brazier TD MP**

Brazier has served as the Conservative MP for the Cambridge constituency since 1987. Prior to entering parliament he worked in finance and management consultancy. He also served as an officer in the Territorial Army for 13 years, six of them in airborne forces.



In parliament he became the PPS to the Minister of State at the Treasury Gillian Shepherd. He remained Shepherd's PPS after the 1992 general election in her new capacity as the Secretary of State for Employment, but he resigned in 1993 as a protest against defence cuts. Following the 1997 general election, he became a member of the Defence Select Committee.

In 2001 he was appointed an Opposition Whip and then in 2002 a spokesman on Work and Pensions. After the 2005 General Election he was appointed as spokesman on Transport. He was a member of the Public Bill Committee for the Defence Reform Act 2014. In May 2014 he was one of eight candidates for the chairmanship of the House of Commons Defence Select Committee.

Again this is not a new appointment. Brazier remains central to thinking on the relationship between defence policy and Conservative ideology. He will likely be intimately involved in the campaign to rescind the Human Rights Act and, as he described it, the resulting potential for 'lawfare' against service personnel engaged in military operations.

Conclusion

“Now is a good time for all those in the sector to reassess their strategic goals and to contribute to the national debate on how the UK acts on the world stage.”

For most of the new parliament we will continue to live in an age of financial restraint and reductions in certain departmental expenditure. That said, we feel that, for the first time since the end of the Cold War, political circumstances have conspired so that there is a real possibility UK defence receives a significant boost both in terms of funding and, perhaps more importantly, in receiving a credible strategic vision of what our armed forces are *for*. In industry, there will definitely be a need to adjust to ever increasing scrutiny of each pound the MoD spends. With a government defence team combining credible experience both in business and in uniform we anticipate a real effort to promote a culture of consultations. Now is a good time for all those in the sector to reassess their strategic goals and to contribute to the national debate on how the UK acts on the world stage.

Endeavour Public Affairs – About Us

Founded in 2011, Endeavour Public Affairs are public affairs and communications specialists, providing tailored advice and support to organisations of all sizes, communicating at all levels of government from the local authority to the institutions of the European Union. EPA has undertaken work for a variety of organisations and businesses, ranging from large global companies, through to SMEs and trade associations. Working at the senior-most levels, EPA devises, implements, and leads UK and EU public affairs strategies for its clients. As well as undertaking work for clients based in the UK, EPA has also worked for clients based in North America, Europe, and Asia.

EPA offer a range of tailored services to help their clients build their profile and influence with political and stakeholder audiences from local government to Westminster and from the devolved institutions to the European Parliament and Commission.

EPA uses their experience and knowledge to help clients build a communications programme with public affairs, media, and campaign support that fits their needs.



EPA offer a comprehensive range of services from parliamentary monitoring to coming in house and spending time working with a client on a specific project.

EPA adheres to the highest possible ethical standards in the provision of all their services. EPA is registered with the European Union Transparency Register and is bound by its code of conduct. EPA is also listed on the Register of Consultant Lobbyists in Westminster. Over the last four years EPA has established a solid reputation in developing innovative solutions combined with tenacity in their implementation.

Since 2011, EPA has worked for a wide range of clients in a variety of sectors. To date EPA has achieved a number of notable successes.

EPA's Defence and Security work combines an in-depth knowledge of the global defence and security environment with practical results driven public affairs engagement and campaigning.

The Team

Richard Hyslop – Founding Director

Richard is an experienced and innovative public affairs and communications professional with an in-depth knowledge of Local Government, Whitehall, Westminster, Brussels, and the devolved institutions. He has more than 10 years professional experience advising policy makers and working with large global businesses, SMEs, and trade associations both in the UK and Europe.

Richard has worked within the Civil Service, advised members of the European and Scottish Parliaments, worked for a number of leading trade and business organisations, and has devised and led successful campaigns on a wide range of issues for politicians, individual businesses and trade associations. He has represented organisations in the media, has devised and led successful campaigns on a wide range of issues, and is the author of a number of reports that have led to changes in policy at the UK and EU level.

Liam Purbrick – Defence and Security Specialist

Liam is a defence and security expert. Prior to joining EPA he spent nine years in the army as an infantry officer, developing his knowledge of defence and international affairs while taking part in operations in Bosnia, Iraq, and Afghanistan. After spending his last military posting at the Permanent Joint Headquarters he worked in Whitehall as a civilian focusing on foreign affairs.

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