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Seas of change in defence present new opportunities for SMEs



Despite impending budget cuts, for those aware of the MoD's changing requirements, opportunities still exist for SMEs to target the defence sector.

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The recent announcements of defence budget cuts will not have gone unnoticed by the army of SMEs supplying the MoD. However, it takes some careful analysis to predict what this news could mean for the UK defence industry.

At a time when defence analysts perceive British forces to be overstretched and under resourced, the spending cuts will have incensed, if not surprised, many. The MoD budget is set to be reduced by £1.5 billion annually over the next three years, against a backdrop of opinion that insufficient funds already exist for present personnel and equipment commitments.

A large proportion of the required cuts are due to the current economic situation; however, the treasury is also seeking to recoup some of the many billions that have been spent through urgent operational requirements (UoRs) in Afghanistan and Iraq.

At the centre of the debate are the Royal Navy's plans for two giant aircraft carriers, new armoured vehicles for the Army and the at sea nuclear deterrent. All are under pressure and the aircraft carriers are likely to be postponed by up to two years in an attempt to delay the payment of some £4 billion. It is likely that the big names of the UK defence industry, such as the UK's biggest supplier BAE Systems, will bear the brunt of the cuts.

However, the MoD has been quick to emphasise that whilst the cut in the defence budget will inevitably include the closure of some bases and scaling back of headline projects, its focus is to trim civilian budgets in favour of releasing extra cash for frontline soldiers.

The civilian budget cuts are likely to prompt a sea change in the way that the MoD does business, with the government outsourcing many of its functions to the private sector. Smaller private companies involved in product design, tactical consultancy and military training, may benefit from any potential outsourcing and should be actively engaging with the MoD to identify opportunities to make a stretched budget go further during this review period.

Despite the gloomy prognosis for public sector spending, the fiscal crunch may create opportunities for SMEs that are agile enough to assist a more streamlined civilian MoD function in supporting frontline troops, as the defence industry evolves over the coming decade.

Of course, the ability of the MoD to reduce the cost of British forces whilst maintaining their strength is not easy and many argue that it will ultimately prove impossible to preserve frontline capabilities in the wake of MoD budgetary costs.

However, supplying the defence sector remains an attractive proposition for many SMEs as the need for a UK military presence in international relations is unlikely to go away anytime soon. The current review should, therefore, be seen as a realignment of priorities rather than the end of the line for the UK defence industry.

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