

Summary

Economic conditions for the ongoing
restructuring of the Swedish Armed Forces
(RiR 2014:7)



Economic conditions for the ongoing restructuring of the Swedish Armed Forces

The Swedish Armed Forces is undergoing a comprehensive reform which requires that increases in ambition and costs must be balanced against rationalisations and ambition reductions. This has centred the focus on reforms, streamlining measures and cost savings.

The Swedish National Audit Office has examined whether sufficient measures have been taken to create the economic conditions for achieving this new direction for the Armed Forces. The audit also includes an assessment of the role that issues of long-term economy has played in important decisions regarding the future direction of the Armed Forces. The audit focuses on the financial calculations that have formed the basis for the restructuring of the Armed Forces as well as the cost trends that have occurred since 2009, and also highlights some of the measures implemented since the 2009 governmental defence bill.

The National Audit Office's overall assessment is that the measures that have been implemented in order to produce economic conditions for the restructuring of the Armed Forces are not sufficient. Furthermore, the National Audit Office considers that issues surrounding the long-term economy have played an all too subordinate role in the various background documents prepared prior to the decision.

Audit background

The 2009 decision of the governmental defence bill involves a significant future commitment for the Armed Forces. Staff provision has shifted to being based on voluntary participation and new personnel categories have been introduced. The mission-based organisation will be changed and will be staffed by the new personnel categories to collectively form an available and useful defence resource. The period following the defence bill has been characterised by this reform work, which naturally has resulted in long-term implications that extend beyond 2014. The Armed Forces is planning a restructuring process that will take many years before all the units are staffed, equipped and reach full operational capacity.

With the decision of the defence bill, it was also established that the funding of the restructuring would be based on the economic levels calculated by the Government in the 2009 budget bill. The Government emphasised that such reform work would occur at a pace dictated by financial resources.

Since the investment in an available and useful mission-based organisation involves increased unit costs, funds must be acquired from elsewhere in the organisation.



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As a whole, the Armed Forces has had to implement cost-cutting measures. This has made what is known as support activities the focal point for rationalisations and cost savings, as well as a sustained reduction in defence materiel costs.

In light of this, the National Audit Office's audit has been based on the following questions:

- Have adequate measures been implemented to create economic conditions for the restructuring of the Armed Forces?
- Did long-term economy play a sufficient role in the 2009 decision regarding the direction of the Armed Forces?

Audit results

The National Audit Office's examination of the background documents prepared prior to the decision on the future direction of the Armed Forces, shows that reformed staff provision along with a mission-based organisation featuring high levels of availability and usability was assessed as involving increased costs. In order to afford this reform, it was necessary to review and adjust other costs within the Armed Forces.

The reform presupposed cost restructuring which was not calculated in detail

The National Audit Office finds that the Armed Forces' financial calculations in the documents prepared prior to the defence bill decision related to the period up until 2014. However, the operational objectives described were significantly more long-term in nature. For example, the units in the mission-based organisation were calculated as not being fully staffed and equipped until much later than 2014. The financial calculations thus covered an organisation where units would have lower staff levels than in the projected complete organisation.

According to the National Audit Office, this means that overall, calculations did not account for the costs of a fully restructured Armed Forces in line with the principles set out in the defence bill. Instead, the Government stated that ambition and cost increases would be continuously weighed against rationalisations and ambition reductions, and that the reform of the Armed Forces can only occur at the pace permitted by the economy.

The background documents were ambiguous and sometimes inadequate

The National Audit Office ascertained that the Armed Forces called attention to significant ambiguities in the calculations contained in the background documents. The data on which the Armed Forces based its calculations only covered the preliminary staff frameworks for operations. Within the area of defence materiel, the Armed Forces also indicated long-term risk-taking within equipment supply, but did not further specify what this means in economic terms. It was also



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unclear what savings potential was actually reasonable within areas such as research and development, logistics, and equipment supply.

Overall, the National Audit Office's assessment is that the estimates of costs and savings measures relied on relatively vague assumptions, and numerous investigative initiatives have therefore been necessary to supplement, clarify and ensure the quality of these measures.

Limited results from rationalisations with simultaneous cost increases

In order to fund a mission-based organisation with greater availability and usability, it was necessary to implement a series of rationalisation and streamlining measures. The audit shows that measures have both been planned and are ongoing in a number of areas, including within support activities and logistics, organisational restructuring and equipment supply.

At the same time, the audit shows that ambition increases have thus far been made possible through reallocation and appropriation savings, and that the appropriation for unit activities has comprised significant funds beyond the level proposed by the Armed Forces in the background documents to the 2009 defence bill.

The problem is that a redistribution of costs has been achieved more slowly than planned. Meanwhile, many costs have increased, especially the cost of staff and services. The National Audit Office also notes that overhead expenses still represent about half of the Armed Forces costs for unit activities. Generally, it seems therefore that the costs within the Armed Forces remain at a problematic level in terms of continued restructuring.

Results of rationalisations are lower than planned, delayed and in certain areas, unclear

The background documents prepared prior to the 2009 defence bill revealed that a range of measures were needed to enable a restructuring of the Armed Forces. Several areas formed the focal point of various savings and rationalisation measures.

The National Audit Office can observe that efforts were made to achieve savings within areas such as research and development, logistics and equipment supply, and to some extent the core organisation, i.e. the units, schools and centres where activities are conducted.

Overall, the National Audit Office finds that assumptions regarding possible savings have been lowered, but have also been shifted over time. Delays and the risk of diminished savings thus implies worsened economic conditions ahead of schedule. The audit has also revealed that it is difficult to understand how savings and ambition reductions within the support operations will be of benefit within the Armed Forces. It is partly due to the fact that the financial results of the savings have not been accounted for in a comprehensive way.



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Further rationalisations and the supply of funds will balance future appropriation for unit activities

To allow for the continued development of the mission-based organisation, further rationalisations in the operation will be required, in addition to supplemental appropriation. Among other things, this involves savings within the area of staff. At the same time, it is important that rationalisations within the area of staff are carefully weighed against the need for available and competent staff who can conduct operations of the scope and direction determined by the Parliament and the Government.

Future defence materiel needs must be addressed

The Armed Forces have estimated that there is a shortfall of SEK 3-5 billion per year during the period 2013 to 2023 required to cover the necessary outlay resulting from operational requirements. According to the Armed Forces, the shortages within equipment supply mean that the mission-based organisation for 2014 cannot be achieved. Within the framework of this audit, the National Audit Office has not been able to examine the implications for the Armed Forces' capabilities. However, a previously completed audit by the National Audit Office (RiR 2013:22) calls attention to defence materiel shortages which risk limiting the ability to carry out operations. The Government has taken some steps, but according to the National Audit Office, the Government's actions are not altering the situation at a foundational level. Instead, the problems within equipment supply still remain to be dealt with.

A return to old cost structures

The National Audit Office's compilation of various assessments of the economic situation in the Armed Forces, projected over a few years, points to a cost structure similar to that which existed before the reform work began. The Armed Forces' assessments of future needs involve the equipment appropriations returning to a relatively high level. A sustained reduction in costs for equipment is something that had been proposed early on as an important prerequisite for planning the restructuring of the Armed Forces. For example, the Swedish Defence Commission report addressed various factors which indicated that equipment supply was inefficient, inter alia that the proportion of the defence budget which goes to equipment is high in international comparison.

It can certainly be assumed that this distribution between appropriations is associated with a defence force with significantly greater availability and capability than was the case before. However, the cost of this far exceeds the assessments made prior to the defence bill.

The National Audit Office's recommendations

The Armed Forces are in the midst of a major restructuring process. The Government and the Armed Forces' control over the process is deficient in certain key respects. To strengthen the



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control and thereby improve the chances of achieving the objectives for the restructuring, the National Audit Office submits the following recommendations:

- The Government should develop its financial monitoring of the cost structure within the Armed Forces. The financial monitoring should comprehensively cover both the planning of the rationalisations and cost savings, as well as the results obtained. Objectives and results should also be analysed and interpreted. There should also be a follow-up conducted regarding costs for units in relation to other activities within the Armed Forces.
- The Government should report economic implications to the Parliament in connection with major strategic decisions on defence. For example, even if a policy decision for defence usually covers a four-five year period, the implications of the decision can extend over a much longer period of time. The report should be based on the objectives proposed by the Government, such as capability, task and organisation.
- The Government should investigate the conditions necessary to meet equipment requirements in the long term. This investigation should include how the link could be strengthened between capability, changes in ambition and economy. This does not prevent the Armed Forces from already developing a more explicit presentation of the traceability between various tasks and equipment needs. The presentation should allow for the economic implications of different ambition levels to be distinguishable.
- The Armed Forces should further develop its monitoring of results from performed rationalisations and cost savings. The model and the lessons learned within the context of the reform of defence logistics can be used in future work.

