Decision Time
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Cover image: RAF F-35Bs flying over the east coast of the UK. Courtesy of the Ministry of Defence

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Executive Summary

The Government has decided that the defence elements of the National Security Capability Review (NSCR), under way since July 2017, will be the subject of a further review (the ‘Modernising Defence Programme’ (MDP)), which is expected to reach its conclusions by the summer of 2018. Defence Secretary Gavin Williamson has made clear that his ‘hope’ is that the MDP will be published before the House of Commons rises for the summer recess in July 2018.¹

In the 2015 Spending Review, defence was protected from the cuts being made in most other government departments, and spending is due to be 5% higher in real terms in 2020/21 than in 2015/16. Spending as a proportion of GDP is stabilising at 2.2%, significantly above NATO’s 2% target. The Treasury is resisting a substantial further allocation to defence.

Yet the 2015 SDSR, held at the same time as the Spending Review, made more commitments than the Ministry of Defence (MoD) could afford from this 5% real-terms increase. As a result, and in the absence of additional resources, the NSCR was set to announce significant net cuts in the MoD’s forward programme. Public discussion of the NSCR has been dominated by prolonged, and well-sourced, speculation that these would include reductions in amphibious capability, army personnel numbers and other areas.²

Significant delay in concluding the MDP risks damaging consequences for the country’s international credibility, especially if it has not been concluded before the NATO summit in July 2018. The period up to October 2018 is also a crucial time for the negotiation of a new defence and security partnership with the EU.

The MDP will have four strands of work. It will work to ‘optimise how the MoD is organised and is operating’. It will ‘identify further efficiencies … including through an aggressive programme of business modernisation’. It will ‘improve our performance on the commercial and industrial

issues’. Finally, it will examine the capabilities that defence contributes to national security, and will ‘move quickly to strengthen further our capabilities in priority areas and reduce the resources we devote elsewhere’.3

The MDP will therefore need to consider some or all the following:

- Maintaining capabilities able to respond to possible conflict on at least two fronts, contributing to NATO’s deterrent capability against Russia while retaining the ability to respond robustly to crises in the turbulent neighbourhoods to Europe’s south.
- An increased focus on the new technologies, capabilities and doctrines (including cyber and electronic warfare, robotics and artificial intelligence, air and missile defence, anti-submarine warfare, hardening and rapid dispersal) that are likely to be key in maintaining UK military credibility over the next ten to fifteen years.
- Additional resources for the remuneration packages and employment flexibility that will be needed to attract the best people into defence, including through greater use of reservist and part-time personnel.
- Rescheduling selected major procurement programmes, for example those for F-35B aircraft and Apache helicopters, spreading their costs over a longer period.
- A readiness to cut back on lower-priority capabilities whose contribution to defence objectives no longer justifies their cost, taking advantage of the possibilities afforded by new technology and new systems to mitigate the effect of their loss.

The National Security Capability Review

The government’s National Security Capability Review (NSCR) was announced in July 2017. While Defence is only one of twelve projects within the review, its outcome will be the most consequential, substantively and politically.

The Cabinet Office has overall responsibility for the review, consolidating the trend towards a more whole-of-government approach first seen in the 2010 Strategic Defence and Security Review (SDSR), and deepened in the 2015 SDSR. It has been seen as an opportunity for Prime Minister Theresa May to make her mark on national security policy, taking account of the changes in the strategic environment over the past two years.

An important element of the NSCR has been study of the requirements of Modern Deterrence, a concept that reflects both the need to pay more attention to the security challenges from other strong states (primarily Russia) and the different nature of these challenges compared with past (Cold War) experiences. Russia’s aggressive use of rapidly developing modern technologies (including social media and cyber espionage) is particularly concerning, as highlighted in the prime minister’s Mansion House speech in November 2017. The review is also an opportunity to assess the security implications of Brexit, with one strand of work looking specifically at borders and ports.

Unlike the SDSRs of 2010 and 2015, the NSCR is not being conducted in tandem with a government Spending Review. The government’s lack of a parliamentary majority, together with the increased uncertainty caused by Brexit, has made the Treasury more reluctant to revisit the austerity budgets set two years ago. Instead, for the Ministry of Defence (MoD) and other security departments, the review proceeded on the basis of the budgets already allocated for 2018/19 and 2019/20. The 2015 Spending Review also agreed 2020/21 budgets for selected departments, including the MoD and the intelligence services. Since a government-wide Spending Review is due by the end of 2019, it is not clear how firm this latter settlement will prove to be.

A Tale of Three Reviews

The 2010s have already matched the 1950s and 1960s for the number of major defence reviews held in one decade. The Defence strand of the NSCR, now extended into the Modernising Defence Programme (MDP), is now the third formal review of defence capabilities in seven years and is best understood in the context of the two previous reviews held since the Conservatives returned to office, in coalition with the Liberal Democrats, in 2010. Despite being described as a ‘refresh’ of the 2015 Review, its duration is due to significantly exceed those of the 2010 and 2015 SDSRs.

**Figure 1: Nine Years of Defence and Security Reviews**

The coalition government conducted the first SDSR in 2010. In part because of inherited over-commitment, and in part due to the decision to ask Defence to take a significant share of the wider spending cutbacks mandated by the 2010 Spending Review, the SDSR led to significant
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cuts in front line capabilities, including the early withdrawal from service of Harrier attack and Nimrod early warning aircraft, the early decommissioning of Invincible-class carriers and a 30,000 reduction in regular military personnel numbers. These cuts allowed the government to achieve an 8.5% real-terms cut in the core defence budget for the five years from 2010/11 to 2015/16. If the savings made by withdrawing from Afghanistan are also considered, total defence spending fell in real terms by 17.2% over five years.\(^7\)

When the Conservatives returned to power with an overall majority in 2015, a second SDSR was launched, again in parallel with an austere Spending Review. But the international situation had significantly changed. Defence planners in NATO and the UK had to focus on the implications of Russia’s increased assertiveness, demonstrated by its aggression in Crimea and eastern Ukraine from 2014 onwards. NATO’s Wales Summit in September 2014 committed member states to substantially increase their defence budgets with a view to spending at least 2% of their GDP on defence by 2024.\(^8\)

Once David Cameron was re-elected as prime minister in May 2015, his government made Defence a ‘protected’ department, joining the NHS, schools and international development in having a budget exempt from the further real-terms cuts that most other departments were being asked to make. In July that year, Chancellor George Osborne announced that the UK remained committed to meeting the 2% target through to 2020, albeit helped by further additions to the list of items included in the UK spending return to NATO.\(^9\)

More consequentially, the Treasury also confirmed that the MoD would be allocated annual 0.5% real-terms increases in its budget throughout the period of the new Spending Review. As shown in Table 1 (see Appendix), together with further allocations from the new Joint Security Fund, the MoD budget is set to increase by some 4.9% in real terms for the five years from 2015/16 to 2020/21: from £35,518 million (at 2015/16 prices) to £37,256 million.

Total core defence spending fell in real terms in 2016/17 and is due to rise by only 1.3% in 2017/18. However, provided the government sticks to the spending plans laid out in 2015, it is due to see significant real-terms growth, averaging 2% per annum, over the next three years.

On this basis, as Table 2 shows, defence spending as a proportion of GDP – as reported to NATO – is projected to rise slightly over the next three years: from 2.14% in 2017/18 to 2.18% in

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2020/21. This compares with a projected reduction in the share of total government spending in GDP, which is set to fall from 38.9% in 2017/18 to 38.2% in 2020/21.

UK Defence Spending Compared

The government has a reasonable story to tell about how the UK is committed to remain a serious defence and security player. It spends more on defence, in absolute terms, than any other NATO European member state, as well as being one of only five European states (with Estonia, Greece, Poland and Romania) to meet the 2% target. It is one of the world’s largest contributors to international aid efforts, and is one of only two members of the G20 (alongside Saudi Arabia) to meet both the 2% target and the UN’s 0.7% target for international aid.

The UK’s defence budget is also relatively well-suited to the requirements of collective military operations, especially for purposes other than national territorial defence. It devotes a higher proportion of its defence budget to ‘other’ spending than any NATO state, much more than Canada, France, Italy, the Netherlands and Spain, and more than Germany and the US. Recent analyses of NATO burden-sharing by Jordan Becker suggests that the bulk of spending in this category is devoted to operations and maintenance – the best indicator of the readiness of forces for deployment. In contrast, he suggests, spending on personnel is often more likely to be shaped by domestic employment pressures than willingness to contribute to collective defence.

The UK’s relatively high level of operational preparedness is accompanied by a continuing, and disproportionate, readiness to deploy forces in a wide range of operations. As of April 2017, the UK had 1,350 military personnel deployed in operations against Daesh (also known as the Islamic State of Iraq and Syria, ISIS); 1,100 in Estonia, Poland and Romania as part of NATO’s

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10. UK defence expenditure in 2017/18, using the NATO definition, was reported to be £43,002 million, equivalent to 2.14% of GDP. The most recent Office for Budget Responsibility projection estimates that GDP will rise by 4.1% in real terms between 2017/18 and 2020/21, and current spending plans for the MoD core (DEL) budget point to a real-terms rise in spending of 6.1% over the same period. If other items of spending reported by the MoD to NATO (such as operational spending, contributions to UN peacekeeping and relevant elements of Security and Intelligence Agency expenditure) increase at the same rate, UK spending as a proportion of GDP would amount to some 2.18% of GDP in 2020/21.


enhanced eastern presence; around 900 in support of EU and UN operations in the southern
Mediterranean, Cyprus, South Sudan and Somalia, and 300 in support of the Nigerian military’s
operations against Boko Haram. This is a commitment unmatched in its breadth by any other
European ally with the exception of France. The strategic failure in Iraq after 2003, and the
UK’s more recent experiences in southern Afghanistan and Libya, have led to greater caution by
political leaders. The 2013 parliamentary vote against the bombing of Syrian government targets
reflected this. However, the UK has subsequently provided the largest European contribution
to the air campaign against Daesh in Iraq and Syria, completing almost 3,000 combat missions
over the past three years. It remains one of the few NATO European states both willing and
able to make a substantial contribution to collective military operations across a wide range of
contingencies.

The UK is also one of a small group of NATO members (with France, Norway, Poland, Romania,
Turkey and the US) that has consistently met the target for spending 20% of its defence budget
on equipment procurement over the past three years. This spending allows the UK to continue
to invest in new defence capabilities.

In recent years, the UK has given a high priority to investing in maritime forces, where it is
using its comparative strength to lead Europe’s response to Russia’s growing presence in the
North Atlantic. Two new Queen Elizabeth-class aircraft carriers, larger and more capable than
those they replace, are entering service and will soon be deployed with F-35B Lightning II and
Crowsnest surveillance for helicopters. Work has started on the production of a new generation
of Trident-armed ballistic missile submarines (the Dreadnought class). Both will be supported by
newly procured Type 45 air defence destroyers, Astute-class attack submarines, new Tide-class
tanker vessels and, in coming years, P8 maritime patrol aircraft, new Type 26 Global Combat
Ships and Type 31e frigates.

The 2015 SDSR also announced, or confirmed, substantial investments in the RAF, British Army
and Joint Forces Command. As Table 3 shows, current equipment plans show a near trebling of
army procurement spending over the next four years, and a near doubling of spending on Joint
Forces Command. New capabilities include upgrades to Challenger tanks and Warrior armoured
vehicles, as well as the Ajax and Mechanised Infantry Vehicle programmes.

While the MoD has a high level of spending on operational readiness and equipment, it spends a
relatively low proportion of its budget on personnel. In 2017/18, personnel spending accounted

17. Stuart Peach, ‘Annual Chief of the Defence Staff Lecture 2017’, speech given at RUSI, Whitehall, 14
January 2018.
for 34% of total UK defence spending, compared with 47% in Germany, 48% in France and Poland, 51% in the Netherlands, 62% in Spain, 66% in Italy and 76% in Belgium.\(^{20}\) As a result, as shown in Table 4, the UK spends less on personnel than France or Germany, despite its larger total budget. The UK now has fewer active service personnel (153,000 in 2016) than key allies such as France (203,000), Germany (177,000) and Italy (175,000).\(^{21}\) This is broadly comparable to the position two decades ago.\(^{22}\)

**The Inherent Flaw in SDSR 2015**

Despite the government’s commitment to real-terms increases in defence spending up to 2020/21, by late 2017 it appeared increasingly likely that the NSCR would involve significant cuts in some military capabilities. As the MDP pushes back the date for the conclusion of the defence element of the NSCR, these reports are contributing to perceptions that the UK is a power in retreat, unwilling to pull its weight internationally.

The roots of the problem lie in the 2015 SDSR. While the MoD succeeded in obtaining a real-terms increase in its budget, amounting to some 5% over five years, ministers insisted on a range of new commitments that, taken together, could be afforded only by making unrealistic assumptions about efficiency savings.

At the heart of this over-commitment was the procurement programme. The 2015 SDSR had announced that total spending on equipment (procurement and support) would increase from £166 billion for the decade 2015/16–2024/25 to £178 billion for the decade 2016/17–2025/26 – equivalent to a real-terms increase of 5%.\(^{23}\) But closer examination reveals that this headline figure significantly understates the scale of additional commitments. Previous provisions in the equipment plan for unanticipated cost escalation or new projects or programmes were largely removed. In addition, equipment spending was front-loaded in the first half of the plan. As a result, as Table 3 shows, total spending on procurement is due to rise by 34% in real terms between 2017/18 and 2021/22, before falling by 19% in real terms over the subsequent four years.

The biggest single challenge to the affordability of the programme over its first five years is the rapid growth in spending on the new *Dreadnought*-class of strategic submarines, due to carry the UK’s Trident missiles from the early 2030s. With steel recently cut on the first boat, this programme is due to account for a growing proportion of total procurement spending.

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22. The gap has narrowed because of the end of conscription in most continental European states. In 1995, the UK had 237,000 active service personnel, while France (409,000), Germany (340,000) and Italy (329,000) had significantly more. See IISS, *The Military Balance 1995/6* (Oxford: Oxford University Press, 1995), pp. 44–67.
23. Because the new plan starts one year later, the 7.2% cash increase is discounted by 2.2%, the assumed rate of inflation after 2020/21.
By 2020/21, spending on ‘strategic’ programmes will account for some 33% of procurement spending, as well as 26% of total equipment spending (including support). Over the ten years from 2016/17, spending on submarines and nuclear programmes (including SSN attack submarines) will amount to about £44 billion, some 25% of total equipment spending. Recent media reports suggest that 2017/18 spending on the nuclear programme is well over budget, forcing significant in-year savings elsewhere in the department.

Spending on carrier construction is declining, with HMS Queen Elizabeth accepted into service in the Royal Navy in 2017 and HMS Prince of Wales due to enter service in 2019. At the same time, spending on other surface ships is increasing, with plans for eight new Type 26 frigates, of which five have been ordered, and at least five low-cost Type 31e general-purpose frigates.

The 2015 SDSR bridged the gap between a 5% increase in the total budget and a 34% increase in procurement spending by promising substantial efficiency savings over its first five years, rising to some £2.5 billion annually by 2020/21, a level that would then be generated in each subsequent year. This is the core assumption underpinning MoD Permanent Secretary Stephen Lovegrove’s statement that the ministry aims to achieve £20 billion of savings over the ten years of the 2015 SDSR.

Excluding savings from pay restraint (due to total around £700 million in 2020/21 if annual increases continue to be capped at 1%), this amounts to about 4.5% of total defence spending in 2020/21. It is equivalent to assuming an annual rate of growth in defence productivity – defined here as the output produced per unit of input – of around 0.9% per annum in real terms over five years. This is broadly comparable with the latest Office for Budget Responsibility figures, which project average national productivity growth for the next four years of 1.1%. It is significantly less than the 2–3% annual productivity gain needed to meet the £22 billion annual efficiency savings by 2020/21 that the Spending Review required for the NHS.
While other public services have been asked to make comparable, or larger, savings, the MoD has been constrained by the commitment to maintain military personnel numbers. The 2015 SDSR – based on the Conservative Party’s 2015 manifesto – constrained the MoD’s freedoms by insisting that the total size of the regular forces be maintained at 2015 levels, and that army regular numbers be maintained at or above 82,000. The party’s 2017 manifesto removed the specific army commitment, while retaining a commitment to ‘maintain total armed forces numbers’. The Levene reforms, introduced into the MoD after 2011, led to a significant delegation of budgetary authority and flexibility to Front Line Commands. As a result, service chiefs could decide to shift resources between service, civilian and contractor personnel, and/or other spending, with some confidence that they would retain any efficiency savings they were able to generate.

The interpretation of this commitment has been under consideration as part of the NSCR. The protection of total personnel numbers is likely to make achieving the overall efficiency savings target more difficult. It also threatens to tie the armed forces – and the army, in particular – into a metric for military capability that is increasingly outdated in modern warfare.

The political discourse on the British Army’s capabilities remains overly fixated on numbers of full-time regular personnel, with frequent references to its numerical inferiority compared with the army that fought at Waterloo or in the Boer War. Yet even a cursory knowledge of military capability is enough to understand that today’s soldiers are a much more powerful force than soldiers 100 or 200 years ago. And this trend is set to continue – provided the UK can make the necessary investments.

While the increasingly capital-intensive character of warfare suggests that raw numbers may be less important, however, the army is placing a higher premium on the quality of personnel. To attract and retain the personnel needed to take maximum advantage of innovative new ways of supporting military capabilities, the MoD will need to be willing to improve its offer – both in terms of flexibility (more room for part-time and specialist reservist personnel, as well as more flexibility to switch between military and civilian postings) and remuneration (packages that attract key personnel with highly marketable skills).

Continuing pay restraint, bearing down on the average pay of military and civilian employees relative to private sector comparators, is a large part of assumed efficiency savings over the next three years. After seven years of such restraint, this is unlikely to be sustainable for much longer, and any savings from reductions in service personnel numbers could be consumed by above-plan increases in average military earnings. For military pay to keep pace with the projected growth the most important was implementing the government’s 1% public sector pay cap to 2019/20. If these prospective savings are included, total NHS productivity was expected to increase by an average of around 4% per annum.

in national average earnings, for example, the MoD’s annual service pay bill for 2020/21 might need to increase by around 3% compared to current plans, equivalent to some £300 million.\(^\text{32}\)

While the 2015 SDSR ruled out any reduction in service personnel numbers, it did promise to cut the number of MoD civilian employees by 30%, from 58,200 in July 2015 to 41,000 by 2020, saving £150 million on the annual pay bill.\(^\text{33}\) As of late 2017, there was little sign of progress towards this target, with the total number of civilian employees at 56,900.\(^\text{34}\) As numbers have been cut by 25,000 (or 30%) since 2010, new opportunities for large reductions are increasingly difficult to identify.

Finally, the MoD faces unexpected additional expenditure due to the depreciation of sterling, especially against the dollar, since the Brexit referendum in June 2016. The equipment plans approved as part of the 2015 SDSR included £18.6 billion in US dollars and £2.6 billion in euros, together amounting to some 12% of total ten-year equipment spending.\(^\text{35}\) For the two years after the referendum, currency hedging is in place, preventing extra costs to the MoD. From 2018/19, however, the MoD will have to pay for the extra sterling costs of purchases denominated in dollars. Sterling has recently partially recovered against the dollar and is (as of 24 January) only 7% below the $1.50 level at which the MoD hedged its purchases before the referendum.\(^\text{36}\) Even at this level, however, the MoD could face an additional annual cost of around £150 million by the end of the decade: equivalent to around 0.4% of the total defence budget.\(^\text{37}\)

**New Challenges**

The prospect of another ‘rebalancing’ defence review, involving significant capability cuts, has been made harder to contemplate because of changes in the international security environment over the past two years. The 2015 SDSR recognised the need for deterrence of Russia to become more central to the planning of UK capabilities. However, evidence has mounted that the challenge from Russia is likely to be more sustained and increasingly multifaceted than thought likely even in 2015. Russia has strengthened its security position in the Middle East and is now capitalising on its ruthless application of force in support of the Syrian regime to play a key role in shaping the post-war settlement. It has become increasingly aggressive in its use of new cyber technologies to subvert the political systems of the UK’s key allies, most notably in the US.

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37. The currently planned equipment spending for 2020/21 is £18,550 million. Assuming that spending denominated in foreign exchange is spread proportionately through the period, 12% of this total, or £2.2 billion, will be in foreign exchange.
Contrary to the expectations of some in Russia, the election of Donald Trump as president has not led to a wider détente with the US. But it has led to increased concerns in Europe over the value of US security guarantees, especially in the more ambiguous crises in which Russia could have a comparative advantage.

Russia’s resurgence as a serious international actor has been underpinned by rapid growth in spending on a range of improved conventional military capabilities, which it has used in Ukraine and Syria as well in increasingly assertive exercises around NATO’s borders. While Russia’s defence budget is no longer growing, and recent sanctions appear to be causing real problems in areas where its military remains reliant on imported technology (for example, in relation to fifth-generation aircraft), the sharp increase in annual capital spending over the last decade means it can afford continuing modernisation of its forces, posing increased military challenges to NATO forces (including the UK) that are used to dealing with much less capable potential adversaries.38

As a result, in contrast to the operational experience of the two decades since 1990, the UK’s armed forces are having to put deterrence of a strong peer competitor at the heart of their preparations. Every element of the UK military needs to be prepared for a conflict that could involve cyber, electronic and missile attack from an early stage, increasing the importance of force protection and dispersal. In stark contrast to recent conflicts, aircraft and ships will need to be prepared to operate alongside UK allies in highly contested environments, as well as being able to monitor and counter the more ambiguous threats that Russia could pose in coming years.

Yet the UK military cannot be a ‘Russia-only’ force, as it almost became in the latter years of the Cold War. In contrast to that time, instability to the south of Europe – from the Gulf to the Sahel – poses a growing range of security challenges from which the UK (even after Brexit) will not be able to entirely absent itself. The UK armed forces are likely to be called to contribute to further alliance operations in this wider neighbourhood. The RAF’s most sustained operation since the Second World War is now drawing down. Given the multiple fractures and social disorder across Europe’s southern neighbourhoods, however, it would be premature to suggest that comparably sized commitments will not be required in coming years. At the heart of any review of UK defence and security capabilities, therefore, must be a strategy for being able to respond on at least two fronts.

Technology

Just as important as these geostrategic challenges are those associated with the prospective narrowing of the technology gap between Western states and their potential opponents. These problems could soon become particularly acute in areas where advances in military capabilities are driven by developments in civilian technologies, and where it is often much harder to limit

38. For example, see Igor Sutyagin with Justin Bronk, Russia’s New Ground Forces: Capabilities, Limitations and Implications for International Security, RUSI Whitehall Paper 89 (London: Taylor and Francis, 2017).
proliferation. As the wider economy is transformed by developments in cyber security, artificial intelligence, autonomous transport, new materials and big data, a wide range of new military opportunities – many of which cannot yet be predicted – might be presented, often at low cost, to potential adversaries. Conventional military forces, such as those of the UK, will have to adapt rapidly to these changes if they are to retain whatever comparative advantages they have.

For the UK, this imperative is being reflected in vigorous debate on how far its defence investment programme should focus more on new technologies, premised on the belief that large platforms and bases will become increasingly vulnerable, and that the future lies in a radical shift towards dispersed networks of autonomous systems.39

Yet, the more radical the commitment to rapid fielding of new disruptive technologies, the less useful the traditional measures of military capability – numbers of ships, manned combat aircraft and regular full-time army personnel – become as indicators of national military power. Timing is likely to be the key here. In the short term, and even over the next decade, these traditional indicators will still be critical to military effectiveness. Beyond this timeframe, it is likely that systems rather than platforms – swarms rather than autonomous units, networked robots as much as battalions of humans – will become increasingly central to military effectiveness. For decision-makers today, the key will be to invest in integration between traditional and new technologies, hedging against disruptive developments in technology, but not risking everything on unproven innovations. This might involve spending more on protecting major platforms – carriers and submarines, for example – against new forms of attack, while also investing in the capabilities that can render an adversary’s obsolete.

As the MoD’s recently published ‘refresh’ of Defence Industrial Policy makes clear, a thriving defence industry is important to the UK economy, making a major contribution to national prosperity and the balance of trade and including some of the most innovative sectors of domestic manufacturing industry. A strong defence industry can also provide greater freedom of action and operational advantage. A defence strategy that places innovation and agility at its heart, therefore, is more likely to succeed if it is developed alongside a clear commitment to maintain and develop a strong, and agile, national defence industrial sector.40 Yet this will have budgetary implications. The House of Commons Defence Committee, for example, recently proposed that the government commit to spending 2% of the total defence budget on science and technology, an increase on the 1.2% of recent years.41

In the absence of sharp increases in defence spending, the costs of investing in new technologies are likely to intensify the trade-off between quality and mass that has been a recurrent theme

of UK defence reviews since at least the 1950s. Successive reviews have decided that it is worth sacrificing numbers to increase the quality of the individual weapon systems that can be deployed, relying on the UK’s alliance relationships to provide mass where necessary. Given the new technologies now coming into play, it is a trend that seems set to continue.

Technological change could have as profound an impact on the nature of combat on the ground as in the air or at sea. The ultimate objective of most armed conflicts remains the control of populations and economies, and the lands on which they predominantly reside. The UK can, and often does, rely on local allies to provide many of the ground forces necessary for the prosecution of military operations. Yet if the UK wishes to have a significant impact on land-centred conflicts, shaping alliance operations to protect its interests, it also needs a strong army of its own.

The strength of that army cannot be measured primarily by the number of soldiers in its ranks. The prospect for increasing automation of many military tasks, together with broader societal change, means that the old model of relying on large numbers of less educated, poorly paid recruits to provide the core of military strength is being replaced by a new concept of what a modern army requires: agility and adaptability, both in operations and in response to new strategic risks and opportunities. In part, this means building strength in areas where the UK already has a qualitative edge, for example in cyber operations and special forces. In part, it means raising the ambition of the entire force, and being prepared to be ruthless in questioning traditional systems and ways of operating. The key to success, in the army and across government’s security agencies, will be to attract and develop talented and innovative personnel that can draw on the wider strengths of UK society and to ensure that the country retains cutting-edge capabilities. This is likely to require a different mix of skills and aptitudes – and a reformed pay and conditions offer.

Choices

The NSCR has now lasted more than six months, and its defence strand – in the form of the MDP – is now scheduled to last until summer 2018. The longer the review goes on, the greater the potential damage to the UK’s international reputation. If media coverage of defence issues is used as a guide, many observers – in the UK and abroad, in Russia and in the US – could be forgiven for thinking that the UK is cutting its defence budget. This message is unlikely to be making a positive contribution to the UK’s influence on allies or potential adversaries. While it might be politically tempting to delay the conclusion of the MDP even further, it is time for the government to make the necessary hard choices.

As has been widely acknowledged, the 2015 SDSR made more commitments than it could afford. Therefore, the outcome of the MDP is likely to include some combination of the following:

First, it is likely to include new investments. More money may be required to sponsor research into the implications of new technologies for the UK’s defence capability (for example, in relation to artificial intelligence, robust communications, cyber and electronic warfare), as well
as to develop effective countermeasures to developing risks, including growing missile threats to UK forces, both in the field and in the UK itself. This element would ideally draw from new innovative non-defence companies, strengthen international links with Europe, the US and Asia, and focus on improving the research output from government security research, currently undergoing a further major organisational review.

Second, the review may include further measures to improve the recruitment and retention of the personnel required by the defence enterprise. This could include reforming employment models (for example, by making reservist systems more flexible) and increasing rewards for scarce specialisms (for example, in nuclear skills). If the MoD is to balance its books over the coming years, it will also need to make allowances for the relaxation in the 1% pay cap for its military employees, prefigured in the defence secretary’s letter to the Armed Forces Pay Review Body in December 2017.42

Third, the review is likely to involve significant rescheduling of the equipment programme, pushing spending on key programmes further into the future. The opportunities for rescheduling the MoD’s largest programme – the construction of four deterrent submarines – are probably limited, but there appears to be a strong case for reducing the pace of F-35B deliveries, the capital cost of which is estimated to be about £9.1 billion for the first 48 aircraft, spares, support, training and infrastructure investment.43 Because this programme remains technically immature, the quality of future generations of aircraft is likely to be significantly better, and the costs likely to be lower, than those of early tranches. The UK can take advantage of this, while still buying sufficient aircraft to demonstrate a credible carrier strike capability on schedule. There may be other programmes (for example, modernisation of the Apache helicopter fleet) that should be reviewed in light of the army’s new focus on NATO commitments.

Fourth, the review is likely to involve some sacrifice of lower-priority capabilities, including those that have enjoyed a degree of political salience in public debate. If the experience of recent reviews is repeated, the MoD is likely to prioritise modernisation even when this involves the premature retirement of older capabilities. Such a process could also involve a further reduction in regular army personnel levels. As of December 2017, the army was already undershooting the planned level of regular personnel by 4,000, with 77,440 in place compared with the SDSR target of 82,000.44 Further reductions seem likely. The review is likely to have examined opportunities for making better use of reservists as replacements for regular force numbers, allowing the government to meet its manifesto commitment to maintaining total military personnel numbers.

Finally, in return for a strong commitment to modernisation, the MoD would have a reasonable case to make to the Treasury that it needs more money to make this work. Substantively, it could argue that the resilience of the new challenges posed by Russia needs to be reflected in increased resources for defence, and for relevant security budgets more broadly.

The Treasury is wary of being seen to reward failure, in this case the MoD’s inability to deliver the efficiency savings it promised in the 2015 SDSR. However, the MoD can reasonably claim that factors outside its control – notably the post-Brexit devaluation of sterling, and prospective relaxation of the pay cap – have increased the pressure on its budget. Providing compensation for these two factors would require some £500 million to be added to the 2020/21 budget, increasing planned budget growth for the five years of this Spending Review period from 4.9% to 6.3%. Such an increase would still not be as generous as that agreed for the NHS, which is due to be allocated an 8.9% real-terms increase over five years.\(^4\) However, it would be among the most generous departmental settlements for the period up to 2020/21, amounting to some 7.5% in real terms over the next three years.

To obtain further significant increases in its budget, the MoD is likely to have to persuade the Treasury that it will prioritise its commitments more ruthlessly than it was able to do in 2015. In return for more funds, it will also be under pressure to show that its budget is now balanced and sustainable, and with sufficient contingency, through to the end of this Parliament. If the MoD cannot do this, it may be forced to undergo a further major book-balancing review in 2019 or 2020, this time alongside a Spending Review.

**A Predictable Friend?**

Defence reviews matter, not only in determining the shape of military capabilities, but also how the UK is perceived by others. The NSCR started as a sensible attempt to refresh national security capabilities in the light of recent developments, not least the decision to leave the EU. But, with media coverage increasingly focused on possible cuts in totemic capabilities, its extended duration is now threatening to undermine the UK’s credibility as a serious security actor.

The government has a positive story to tell in relation to defence spending. After six years of real-terms cuts, due to the high priority given to defence in the 2015 Spending Review, the MoD’s core budget will be 5% higher in real terms in 2020/21 than it was in 2015/16. UK spending as a proportion of GDP is set to stabilise at around 2.2%, comfortably above the 2% NATO target. Spending on new equipment is higher than in any other European ally and is set to rise further in the years ahead, helping to consolidate the UK’s position as NATO-Europe’s most capable military power.

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However, by promising more than it could realistically afford from a 5% real-terms increase, the 2015 SDSR sowed the seeds for the budgetary imbalances that the 2017/2018 NSCR is now having to correct. With the NSCR now matching both the 2010 and 2015 reviews in length, and with the MDP set to last until summer 2018, the government is increasingly perceived to be unable to make difficult decisions, distracted by Brexit and unable to play an international role that is commensurate with the resources it devotes to this purpose.

The longer this policy paralysis continues, the greater the risk to the UK’s reputation as a reliable ally, and the stronger the (unfair) perception that it is no longer capable of being a serious security player. With talks on the EU’s future relationship with the UK approaching a critical moment, this is not a helpful message.

Yet it is far from clear that this will be the last defence review of this Parliament. Frequent reviews, the main purpose of which is seen as the net removal of military capabilities, corrode confidence in the government’s stewardship of the country’s defence, both in terms of its ability to manage it effectively, and – more importantly – to be a reliable international partner. It remains to be seen whether ministers are more prepared to balance the MoD’s books in the NSCR MDP than they were in the 2015 SDSR. Despite three major defence reviews in seven years, another major review before 2022 (the end of the current Parliament) now seems a high probability.
# Appendix

**Table 1: Core Defence Budgets**

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<tbody>
<tr>
<td>Outturn</td>
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<tr>
<td>Supplementary</td>
<td></td>
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<tr>
<td>Estate</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Defence Spending £ millions (cash)</td>
<td>34,374</td>
<td>34,681</td>
<td>35,670</td>
<td>36,977</td>
<td>38,079</td>
<td>39,600</td>
</tr>
<tr>
<td>Defence Spending £ millions (2016/17 prices)</td>
<td>35,518</td>
<td>34,681</td>
<td>35,122</td>
<td>35,878</td>
<td>36,434</td>
<td>37,256</td>
</tr>
<tr>
<td>% Change, Real Terms</td>
<td>-2.4%</td>
<td>+1.3%</td>
<td>+2.2%</td>
<td>+1.5%</td>
<td>+2.3%</td>
<td></td>
</tr>
<tr>
<td>Cumulative Change Over Five Years</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>+4.9%</td>
</tr>
</tbody>
</table>

**Notes**

Figures are for Total Departmental Expenditure excluding depreciation (Total DEL), excluding net additional costs of military operations.


Table 2: Proportion of UK GDP Spent on Defence, as Reported to NATO

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Proportion of UK GDP Spent on Defence</td>
<td>2.08%</td>
<td>2.18%</td>
<td>2.14%</td>
<td>2.16%</td>
<td>2.16%</td>
<td>2.18%</td>
</tr>
</tbody>
</table>

Notes

Actual figures for first three years taken from NATO, ‘Defence Expenditure of NATO Countries (2010–2017)’, Table 3. UK defence expenditure reported to NATO for 2017/18 was £43,002 million. HM Treasury, ‘GDP Deflators at Market Prices, and Money GDP November 2017, (Autumn Budget 2017)’, Table 1.

Projected figures assume that NATO reported defence expenditure grows in proportion to the change in MoD DEL spending (see Table 1).


Table 3: Equipment Procurement Plans 2017/18 to 2025/26 (£m cash)

<table>
<thead>
<tr>
<th></th>
<th>2017/18</th>
<th>2021/22</th>
<th>2025/26</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Programmes</td>
<td>2,475</td>
<td>3,169</td>
<td>3,766</td>
</tr>
<tr>
<td>Air Command</td>
<td>1,514</td>
<td>1,402</td>
<td>690</td>
</tr>
<tr>
<td>Navy Command</td>
<td>1,163</td>
<td>1,117</td>
<td>1,165</td>
</tr>
<tr>
<td>Joint Forces Command</td>
<td>795</td>
<td>1,586</td>
<td>840</td>
</tr>
<tr>
<td>Army Command</td>
<td>766</td>
<td>2,289</td>
<td>1,833</td>
</tr>
<tr>
<td>Total</td>
<td>6,713</td>
<td>9,563</td>
<td>8,294</td>
</tr>
</tbody>
</table>


Notes

Real terms change calculated using GDP deflator from HM Treasury, ‘GDP Deflators at Market Prices, and Money GDP November 2017, (Autumn Budget 2017)’. 
### Table 4: Spending by Function, 2017, Key NATO Allies

<table>
<thead>
<tr>
<th></th>
<th>Equipment</th>
<th>Personnel</th>
<th>Other (Including Operations and Maintenance)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>UK</strong></td>
<td>$12.1 billion</td>
<td>$18.7 billion</td>
<td>$23 billion</td>
<td>$55 billion</td>
</tr>
<tr>
<td><strong>France</strong></td>
<td>$10.7 billion</td>
<td>$21.3 billion</td>
<td>$11.1 billion</td>
<td>$44.3 billion</td>
</tr>
<tr>
<td><strong>Germany</strong></td>
<td>$6 billion</td>
<td>$20.3 billion</td>
<td>$15.1 billion</td>
<td>$42.9 billion</td>
</tr>
<tr>
<td><strong>Italy</strong></td>
<td>$4.7 billion</td>
<td>$15 billion</td>
<td>$2.6 billion</td>
<td>$22.6 billion</td>
</tr>
<tr>
<td><strong>Canada</strong></td>
<td>$3.9 billion</td>
<td>$9.6 billion</td>
<td>$6.1 billion</td>
<td>$20.3 billion</td>
</tr>
<tr>
<td><strong>Netherlands</strong></td>
<td>$1.6 billion</td>
<td>$4.8 billion</td>
<td>$2.7 billion</td>
<td>$9.4 billion</td>
</tr>
</tbody>
</table>

About the Author

Professor Malcolm Chalmers is Deputy Director-General of RUSI, where he has been based since 2007. His research is focused on UK defence, foreign and security policy. His recent publications have included RUSI studies on: prospects for, and implications of, a war in Korea; the UK and the North Atlantic; implications of Brexit for UK foreign and security policy; and future nuclear threats to the UK. He has been an Adviser to Parliament’s Joint Committee on the National Security Strategy since 2012. He was a Visiting Professor in the Department of War Studies, King’s College, London (2008–11). During 2006–07, he was a Senior Special Adviser in the Foreign Office to Foreign Secretaries Jack Straw MP and Margaret Beckett MP.