Still International by Design?
Towards a Post-Brexit SDSR

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Key Points

• The ambitious plans for future military capability announced in the 2015 SDSR\(^1\) exceeded the limited resources that were made available for their fulfilment.
• Yet, until the medium-term fiscal impact of Brexit has been clarified, plans for defence spending are unlikely to change.
• A mini-review of defence commitments during 2017 is therefore a distinct possibility, helping to keep defence finances on a relatively stable footing until the government is ready to hold a new Spending Review, taking account of the shape of the Brexit deal.
• This suggests that the next full-scale SDSR could start in late 2018 or 2019.

When the last SDSR was published in November 2015, it was assumed that the next one would not take place until 2020. The new government that takes office after the UK general election on 8 June will have to decide whether to stick to this timetable. One plausible outcome is that the launch of the next SDSR is brought forward to late 2018, by which time the implications of Brexit – economic and strategic – should have become much clearer.

The case for delay, beyond the immediate post-election period, will be strengthened by Prime Minister Theresa May’s support for maintaining the UK’s position as the only G20 country to spend both 2% of its GDP on defence and 0.7% of its GNI on development aid.\(^2\) At a time of increased uncertainty about what Brexit means for the UK’s international role, the dual commitments on defence and aid will be used to make the case that ‘Global Britain’ is much more than just a slogan. Yet this probably also means that, until the medium-term fiscal impact of Brexit has been clarified, current plans for defence spending are unlikely to change. No major new injection of cash into the defence budget, at least for the next two years, seems to be on the cards.

Balancing the Books

The 2015 SDSR provided some relief to the defence budget, exempting it from a continuation of the steep cuts it had been obliged to absorb after the 2010 review. Yet its programmatic ambition exceeded its financial reach. While it committed the Ministry of Defence (MoD) to an ambitious programme of new equipment commitments, amounting to some £24 billion over ten years, it provided only an additional £6 billion to fund this expenditure. It provided no new resources in the first three years of the SDSR period, with core defence spending (excluding operations) set to fall by almost 4% in real terms in 2016/17, only returning to 2015/16 levels in 2018/19.\(^3\) As a consequence, and with contingency provisions largely stripped out of the forward plan, the MoD has had to fund cost overruns in key equipment projects through a combination of project slippage and cutbacks in activity levels across the armed forces.

The MoD’s recent room for manoeuvre has been further constrained by the 2015 Conservative Party Manifesto’s commitment to maintain the number of regular service personnel and not reduce the British Army to below 82,000.\(^4\) At the same time, continuing pay restraint is making alternative employment in the private sector increasingly attractive, leading to increased difficulties in recruitment and retention for the armed forces. Removing the 2015 manifesto-generated commitments could provide the MoD, and its front line commands, with some additional flexibility to decide on the most effective and efficient balance between service, civilian and contractor personnel, as well as between spending on personnel, equipment and operations. But further resources may also be needed, beyond those programmed into MoD costings, to address the widening gap between pay settlements in the armed forces and those in the private sector.

Timing of the Next SDSR

Concern over the level of over-commitment involved in current equipment plans has been given added weight by the report of the Committee of Public Accounts, published on 25 April. On the basis of the work of the National Audit Office, it concluded that:

> [T]he Ministry of Defence’s (the Department’s) Equipment Plan is at greater risk of becoming unaffordable than at any time since its inception in 2012. Maintaining affordability is now heavily reliant on a highly ambitious, but still under-developed, programme of efficiency savings ... The Plan continues to be vulnerable to cost growth because of uncertainties around the costs of new projects,

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continued problems with cost control on some long-standing projects, and the significant fall in the value of the pound against the US dollar ... We are worried that the increase in commitments without a commensurate increase in funding puts ... the ability of the Department to deliver what our forces need to operate effectively at real risk.5

The default reaction of the government to these problems will be to emphasise the need for further efficiency savings, and to point out that, after an exceptionally hard 2016–17, the defence budget is now set to grow in real terms every year for the rest of the decade. If the government were to conclude that, despite such efforts, these imbalances could not be addressed adequately without severe cuts in programmes and capabilities, it would strengthen the case for a further major review before 2020.

Yet the timing of a full-scale SDSR – as distinct from a mini-review of defence commitments – would also have to take account of broader political, fiscal and strategic factors. If Theresa May achieves a decisive election victory, she could decide to hold a new Spending Review in autumn 2017, ensuring that government priorities would reflect her own political objectives, and not those of her predecessor. Yet the case against such a review would also be a strong one. The last Spending Review was only completed in late 2015, and departments have clear spending allocations through to 2019/20. Many planners across government are also devoting a considerable part of their time supporting the Brexit negotiations and preparing to build new national capabilities in areas (such as trade and product standards) that have hitherto been EU responsibilities. Somewhat to the Treasury’s surprise, the Brexit referendum has not resulted in a marked reduction in projected GDP in the short term. A 2017 Spending Review that assumed a continuation of this minimal effect scenario, however, could well prove to be remarkably short lived.

Given these factors, it still seems more likely that the next major Spending Review will take place when the shape of the post-Brexit settlement with the EU, and its consequences for the UK economy, have become clearer. This would then also be the logical time for a new SDSR, the central purpose of which should be to provide a strategic basis on which to determine resource allocation in relation to defence and security capabilities, in the context of a wider set of government decisions on spending priorities. A mini-review of defence commitments during 2017 – more far-reaching than a normal annual planning round, but well short of a full SDSR – would then become a more distinct possibility, helping to keep defence finances on a relatively stable footing until the time is ripe to launch a more comprehensive SDSR in 2018 or 2019.

**After Brexit**

If the level of economic disruption as a result of Brexit proves limited, then it is less likely that a 2018/2019 Spending Review would be dominated by a search for further austerity in public expenditure. An accompanying SDSR might then be able to focus on rebalancing commitments within a growing defence and security budget, suitably adjusted for the new opportunities, and

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challenges, presented by Brexit, and new developments in the international security landscape. It would also be able to build on, and help to support, the outcome of the negotiations for a 'deep and special partnership ... in both economic and security cooperation' between the UK and the EU, the creation of which the prime minister has made clear will be a central UK objective in the forthcoming negotiations. On the other hand, if Brexit leads to a sharp reduction in GDP (for example as a result of a rapid curtailment of trade flows), the MoD is likely to be asked to make a proportionate contribution to public austerity.

Given these uncertainties, as well as the current timetable for resolving them, one option could be for the government to conduct the next Spending Review and SDSR in parallel, starting immediately after the main elements of the Brexit process have become clear, likely to be in autumn 2018. If such a review could be completed by early 2019, it could produce revised budgetary allocations from financial year 2019/20 onwards. Alternatively, a new Spending Review could be held in mid-2019, in which case it would also make sense for the next SDSR to take place at that time.

The heart of the defence element of the next SDSR, as always, will be how to inject a sense of strategic prioritisation into the ongoing effort to balance aspirations, commitments and available resources. Unless Brexit generates significant additional resources, such a review can be expected to result in fewer people (especially if some allowance has to be made for increased pay), some cutbacks in the existing equipment programme, and perhaps increased investment in new technologies at the expense of older ones.

A Strategic Review

A post-Brexit SDSR would also allow for three wider strategic considerations in relation to the balance of investment in the development of both defence and wider cross-government capabilities.

First, an SDSR should address the balance between capability requirements related specifically to UK national security and requirements in the form of contributions, military and developmental, to wider alliance efforts to address shared problems.

Since 2010, national requirements have played a growing role in UK policy, in part because of the new structures put in place (the National Security Council, the National Security Risk Assessment and the SDSR), and in part because of the growing salience of new risks (terrorism, organised crime and cyber attack) which directly threaten the UK’s own territory and citizens. Demands for additional public investment in cyber security may also increase as the range of cyber threats to the UK continues to grow and deepen. Consideration could also be given to shifting more official development assistance spending to the alleviation of national security concerns, for example in relation to organised crime.

Brexit is also likely to add new demands for investment in security-related capabilities, for example in relation to border control, customs and immigration services. These capabilities, together with police services more generally, have suffered some of the steepest cuts in recent Spending Reviews. But the new demands generated as a result of taking greater control over the UK’s borders, and the new restrictions on the movement of people, goods and services that this is likely to involve, are likely to require significant new investments in the capabilities required to police them. This could also be a subject for consideration as part of the SDSR.

Second, a new SDSR would need to ask whether or not there should be a Pivot to Europe – a reallocation of resources towards the UK’s immediate European neighbourhood.

Such a shift is already underway to some extent as a result of increased Russian assertiveness on NATO’s eastern flank. The 2015 SDSR marked a significant increase in emphasis on requirements for deterring major powers (primarily Russia), and this in turn shaped several significant procurement decisions taken in that review. The deployment of semi-permanent UK forces to NATO allies in Eastern Europe, including Estonia and Poland, marked a further step in this direction. A further pivot in this direction – with consequent implications for equipment, training, logistics and other capability elements – would be a plausible option for a post-Brexit SDSR.

Some of the most difficult issues in this regard will be in relation to financial transfers. The UK currently makes an annual net contribution to the EU budget worth some £10 billion per annum, the second largest contribution after that of Germany, with France, the Netherlands and Italy also making significant net payments. These net contributions are offset by large net receipts in the EU’s newer, and poorer, member states in Eastern Europe, with Poland, Romania, the Czech Republic and Hungary being the largest beneficiaries. The UK’s contribution to the EU budget is therefore, in essence, a second aid budget – equivalent to around 0.5% of its national income, and used primarily to fund infrastructure development in poor European countries. Even as the UK is reinforcing its commitment to the military security of NATO’s most exposed states, therefore, Brexit means that it will soon be sharply cutting – and perhaps ending altogether – its contribution to the funding of their economic development. The UK’s financial contribution to the EU’s programmes designed to support development in its near abroad – in the Western Balkans, Ukraine, Georgia and Moldova – could also end as a consequence of Brexit. A new SDSR could help shape the discussion as to whether, to what extent and on what terms it will be in the UK’s interests to continue to contribute to these efforts in other ways even after it exits the EU.

Third, a new SDSR would provide an opportunity to review the case for, and against, a more global approach to foreign and security policy in the light of the exit deal.

By restoring national control over trade policy, and ending participation in EU foreign policy, Brexit could provide an opportunity to build stronger national economic and security links with the Commonwealth and with other rising powers. The 2015 SDSR announced significant new investments in defence engagement in the Middle East, Asia and sub-Saharan Africa. A more

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globalist foreign policy could build on these developments, supporting a return to the UK’s pre-1971 role as a significant global defence actor.

Yet the obstacles to a radical shift in priorities in this direction would be considerable. Unless a new Spending Review is prepared to authorise a step change in defence spending – to levels well above 2% of GDP – tough capability trade-offs will have to be made. The UK would have to consider the opportunity costs of such an approach for its ability to maintain strong commitments to European security, the importance of which the government has been keen to emphasise to strengthen its hand in the Brexit negotiations. It would also want to reflect on the lessons from recent military interventions. As Theresa May argued in her Philadelphia speech in January 2017, a strong defence of shared values and interests by the UK and US ‘cannot mean a return to the failed policies of the past. The days of Britain and America intervening in sovereign countries in an attempt to remake the world in our own image are over’.8

A new SDSR in 2018 or 2019 would provide an opportunity to draw lessons from the experience of the first two years of the Trump administration. The UK is one of the world’s most globally active military powers, with a wide spectrum of cutting-edge capabilities. But these capabilities – sophisticated but small – are largely constructed on the assumption that the UK would never fight a major war without the US being fully engaged. Even the new carriers, presented by some as a symbol of the UK’s return as a global power, are unlikely to be deployed against a serious state-based adversary except as part of an alliance operation.

Still International by Design?

While a desire for increased national sovereignty was at the heart of the UK’s decision to leave the EU, it is likely to remain the most internationalist of the major powers. Its commitment to maintaining the post-1945 rules-based international order remains central to its foreign and security policy. Its commitment to using international norms to determine levels of defence and aid spending – recently reiterated by the prime minister, and supported by all major parties – is unmatched by any other G20 state. In the absence of a further large strategic shock, these commitments are likely to remain important drivers for the next SDSR. However, the forthcoming Brexit negotiations – in relation to both economic and security relationships with the EU – could still have a profound effect on the options that are available for the UK’s defence and security policies. The exact timing of a new SDSR may depend on how rapidly the broad contours of the post-Brexit relationship with the EU are clarified. But the case for such a review is a strong one.

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8. Theresa May, ‘Prime Minister’s Speech to the Republican Party Conference 2017’.
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Published in 2017 by the Royal United Services Institute for Defence and Security Studies.

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