

## Memorandum from Professor Julian Lindley-French

### SHIFTING THE GOALPOSTS? DEFENCE EXPENDITURE AND THE 2% PLEDGE

#### Core Message:

Britain spends some 7% of GDP on security in the round. Elements of this broad security spend that the Government has shifted into the defence budget to give the appearance of maintaining the defence budget at 2% GDP. It has done this by exploiting to the full the NATO definition of 'other' expenditure in support of deployable forces. This has been done primarily by shifting intelligence assets and resources not directly supporting the force to within the defence budget. Therefore, the 'increase' in the defence budget announced in the July Statement is unlikely to lead to enhanced fighting power, which was the political inference in maintaining 2% GDP expenditure on defence. Consequently, SDSR 2015 must finally see the switch from a force with a little bit of everything but not much of anything broad force to a core or hub force powerful enough to both act alongside the US and/or as a coalition framework or command force for coalitions. The extent to which such a vision will be realised will in turn depend on the strategic vision and force planning creativity and innovation that is invested in the future force. The defence budget is merely a barometer of that vision and indeed the role Britain aspires to play in the twenty-first century world. Ultimately, the level of defence expenditure will demonstrate the priority the government places on the defence of the realm and what influence a top five world economy and military power seeks to exert in Europe and the world.

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Professor Julian Lindley-French

### *Headlines:*

1. **Britain's defence strategic posture is to project power. However, Britain is in a defence-strategic dilemma. Does London construct a force that designed to fight the IS super-insurgency or a strategic competitor. Certainly, given the size of the defence budget Britain is unable and will continue to be unable to project power in both contingencies at the one and same time without the crucial support of allies.**
2. **A key question is why does the UK invest so much and yet the British armed forces are so small? (MoD 2020 target for regulars: RN 29,000; Army 82,000, RAF 31,500 – Total Regulars 2020 142,500 plus reserves 177,460)**
3. **If operational funding is excluded compared with the pre-SDSR 2010 method of calculating defence expenditure as a percentage of GDP the UK is already down to c 1.7%. The inclusion of the cost of the deterrent and of so-called "Other" costs (e.g. military pensions, costs of overseas stabilisation missions, UN peacekeeping missions, pay-outs to retired civil servants and MoD income) by exploiting NATO definitions has markedly reduced the resources available to invest in conventional capabilities and critically reduced the funding for much-needed personnel. The loss of so many experienced service personnel in the wake of SDSR 2010 will impose cost and practical inefficiencies on the Future Force**
4. **At current investment levels it would appear that Britain can have either a strategic nuclear force or a high-end conventional global reach force worthy of the name, or two pale imitations of either.**
5. **On balance, the British defence budget is still driven by Treasury debt/deficit assumptions as opposed to sound strategic defence planning. Consequently, there is little or no relationship between the strategic environment, the size, shape and structure of the Future Force, and defence expenditure.**

**Current UK defence expenditure and the 2% commitment: The purpose of this topic is to enhance the Committee's understanding of the reason for NATO's two percent target and its relevance to UK defence spending. A key aspect here is whether expenditure or 2% enables Britain to contribute effectively and efficiently to deterrence and defence, and whether such expenditure enables Britain to fulfil its role within NATO.**

*Baseline MoD Facts 2014-15:* Defence expenditure 2014-15 £34.4bn, £532 spent per person in UK on defence (3<sup>rd</sup> highest in NATO), 2.2% GDP on defence 2014-15, £7.8bn spent on investment in new equipment and infrastructure, £5.4bn efficiency savings delivered.

*Why the NATO 2%:* Given the complexity in the world all Western powers but most notably Britain suffers from a 'how much defence can we afford' syndrome and that is why the 2014 NATO Wales Declaration confirmed 2% GDP as a target. However, there is little worst-case analysis of likely future adversaries being undertaken upon which normally defence planning assumptions, and therefore, defence investment and expenditure would be based.

*Investment in defence equipment:* The key figure in the 2014 NATO Wales Declaration is 20% on equipment. The UK just about fulfils that commitment at 20.2%. Here, the £163bn being invested in new defence equipment puts Britain to the fore of European efforts. However, much of that investment has been made to rebuild the force after thirteen years of campaigning that went far beyond the defence planning assumptions in the 1998 Strategic Defence Review. Moreover, without concomitant investment in personnel there is the very real danger of what Chief of the Defence Staff General Sir Nick Houghton describes as an "exquisite force". This is what I would call a boutique force which looks good on paper but cannot be used to full effect.

*The problem of defence cost inflation:* Defence cost inflation is at c. 2% per annum. Therefore, to maintain the real terms year-on-year increase to the defence budget to which the Chancellor committed Britain in the July Statement would suggest at least a 2.5% increase in nominal terms across much of the defence budget for each financial year between 2016 and 2020. There is little evidence of this.

*Britain's historic investment in defence:* According to SIPRI Britain's defence expenditure as a proportion of GDP in 2014 was 2.2%. This compares with 9.9% in 1953, 5.3% in 1982 and 3.8% in 1990.

**Also pertinent is the question of whether '2% expenditure of GDP' is the correct metric to use at all... does this actually help British defence, or is it primarily a political statement? To what extent is it useful? To what extent could/ would/ should a greater commitment be required?**

*Breakdown of defence expenditure:* According to the MoD defence expenditure is broken down as follows; Military manpower 25%, Equipment support costs 19%, Single use military equipment 14.2%, Infrastructure costs 13.6% (?), Property and other equipment 9.3% (?), Civilian manpower 6.7%, Other 4% (?), Inventory 5.3% (?), R&D 2.9% (?)

*Defence investment as a political statement:* 2% is better than 1% and with NATO Europe spending at an average of 1.52%, and the EU 1.36% Britain, as Europe's leading military power, such a benchmark is an indicator of the wider influence Britain's defence investment affords. Moreover, with the US still spending some 4% GDP on defence, such UK investment on defence is an important statement to the US Congress and the White House and thus affords Britain influence with a partner vital to British defence strategy.

*Treasury assumptions:* The Treasury expects to spend between £125bn and £160bn between 2015 and 2025 based on 2% GDP growth per annum. If spent properly such moneys represent significant investments. However, with a culture that aims to keep Britain's military capabilities at the lowest possible level of both mass and manoeuvre it is hard to see how such money (if it ever materialises) could be well spent as much of it will doubtless go on inefficient urgent operational requirements (UOR).

*Getting bang for the buck:* The more interesting analysis is what the UK 2% of GDP actually buys. UK economy is worth some \$3 trillion in 2015 (Trading Economics) with a defence budget of some £37.4bn/\$61bn (IISS) which will reach £38.9bn by 2020-21. However, the number of platforms is far below US, China and Russia with little or no offset for the quality of systems. For example, the Russian Navy has some 280 ships and vessels, the Royal Navy 77 commissioned ships, and only 18 principle surface craft.

**A breakdown of the UK's 2% commitment. 2% figure. For example, are the UK's proposed inclusions (Joint Security Fund; intelligence services' budgets) in line with NATO's accounting strategy; what is NATO's definition of defence spending and does this correlate with the UK perspective;**

*Planned UK defence equipment investment 'over next decade' (programme slippage?):* Submarines £20.8bn, Combat Air £10.6bn, Air Support £9.7bn, Ships £8.7bn, Helicopters £8bn, Land Equipment £6.9bn, Weapons £6.9bn, ISTAR £2.8bn.

*NATO definition of defence expenditure:* The 2004 NATO definition of defence expenditure excludes expenditure on 'Other Forces' from the totals reported by nations, except in the case of those elements of 'Other Forces' which are structured, equipped and trained to support defence forces, and which are realistically deployable. This definition applied 'creatively' has enabled the Government to add c 14% or £5.7bn to the defence budget between 2015-2016 & 2020-2021 from other moneys. However, much of that figure is committed to intelligence assets, military pensions, costs of overseas stabilisation missions, UN peacekeeping missions, payouts to retired civil servants and MoD income. As such these moneys do not add to the fighting power of the force, which was the inference as the reason for the commitment to 2% GDP on defence.

**How best can the UK utilise the British defence budget to both successfully build defence capabilities and ensure readiness and capability to contribute to a NATO effort?**

*The core force:* Britain needs a strategic force able to generate credible, sustainable, front-line capability critical to Britain's wider strategic influence and indeed its defence. The force must be reinforced by deeper integration between the three services and deeper co-operation across Whitehall and beyond. The vision of an agile, flexible and adaptable force implicit in Future Force 2020 is only a very small first step. A strategically-credible and relevant future force will require of the British a new approach to force and functional interoperability with the British armed forces a hub for inter-force and inter-modal collaboration.

*The deep joint force:* In the past Britain had three strategic services with which to generate influence almost autonomously from each other. However, in future Britain will have to forge one strategic service, often at high readiness and configured for rapid action in a future operating environment which none of Britain's armed services will 'own' - land, sea, air, space, cyber, information, communications, and knowledge, but which all must own. Military innovation will thus be vital, together with a 'one-ness' mind-set central to deep

jointness. That vision will in turn demand a new and radical balance between force, structure and strategy, and a wholly different use of people.

*The thinking force:* To operate to effect across the eight domains of twenty-first century warfare: air, sea, land, cyber, space, information, communications, and knowledge. Therefore, the Future Force must be a thinking force that trains and thinks jointly together, with much greater emphasis placed on experimentation, knowledge and understanding in exercising so that capability can be developed over time via a more scientific application of the military art. Yes, the basic skills of soldiers, sailors and airmen must be honed, but the joint force concept must also hone a joint force mind-set at every level of command and SDSR 2015 should be the springboard for strategic defence innovation.

*Driving change:* Such a change in the British military mind-set will not come without friction. Tradition has an important role to play in military art and it can block military science. Therefore, the process must be driven ruthlessly from the top with changes made to structure, organisation and application if the British are to retain armed forces of sufficient size and scope, and with sufficient quantities of quality equipment across the whole Force, as well as attract and retain the quality people upon which such a necessarily thinking force must be built. This is not just the responsibility of the Defence Chiefs, but more importantly, the Prime Minister, Secretary of State for Defence, the National Security Council, AND the Parliamentary Defence Select Committee.

**What defence capabilities/capacities will the 2% ‘increased’ commitment afford us that were not present before?**

*A capability-capacity crunch:* The budget now assures HMS Prince of Wales, drones, more SOF and a new Army scout vehicle. However there appears to be little evidence of a defence-strategic concept at the heart of SDSR 2015 and as such the Government seem to have adopted a super-UOR approach, spending on what is the latest defence ‘fashion’. Indeed, profound questions remain to be answered as to how the increased personnel can be afforded that will be needed to exploit the platforms and systems to the full in the face of either a national emergency (Russia invades the Baltic States) or an extended counter super-insurgency (IS). Critically, the super-UOR approach means it is still questionable whether the RN will be able to afford the 13 Type-26 frigates vital for both sea control and sea presence, and the Army is unlikely to procure the numbers of armoured vehicles it needs for battlefield manoeuvre.

*Hollowed-out investment:* Indeed, whilst the investment might just about sustain the force in peacetime Britain’s armed forces remain essentially hollowed-out and fragile. The mechanism established by SDSR 2010 to generate the Reserve Force might in time prove a useful device for significant mobilisation. However, for the time-being the self-evident tension between the size of the force and the ever-expanding roles and tasks the world (and politicians) are imposing on it suggests a profound mismatch between capacity and capability that will endure.

*False assumptions:* False assumptions are also built into MoD budgeting. For example, the budget implicitly assumes access to US enablers. However, senior US figures have confirmed that due to budget cuts to the American forces Washington would be unable to provide the level of support it offered during the 2011 Libya campaign.

*The vital need for capstone enablers:* 2010 saw the ‘massacre’ of the enablers the future joint force vitally needs. This ‘massacre’ was most poignantly expressed by the application of civilian risk assessment to the MRA4 maritime patrol aircraft (MPA) and the subsequent

destruction of new assets, with loss of protection to both the deployed force and the continually-at-sea-deterrent.

*MPA:* The test of the bona fides of SDSR 2015 will be not just the number of SOF or drones Britain is prepared to invest in, but the extent to which investment is made in capstone enabling capabilities such as MPA. If, as rumoured, Britain is to cancel investment in the Boeing P8 MPA then once again London will be putting short-term cost before strategic value. In the absence of such an asset both the deployed future force and the Successor deterrent will operate at a far higher level of risk than should be the case.

**Defence Expenditure and Capabilities: The purpose of this section is to explore the relationship between the defence budget and capabilities. For example, is expenditure of 2% of GDP sufficient to counteract defence deficiencies and safeguard UK defence; what capabilities does the government's increased spending create or expand relative to spending at previous levels? What are the implications for UK defence of committed the budgetary funding to large-scale capabilities such as the second aircraft carrier; Trident successor, etc?**

*Mutually Assured Underfunding:* In July 2010 Chancellor Osborne said that the cost of the Trident Successor Programme would have to be found from within the defence budget rather than from a Treasury Special Grant. Assume the total cost of Successor at c. £150bn over the lifetime with c. £20 billion (some estimates are as high as £34bn) spent over twenty years on capital investment. That means £1 billion per annum that must be shifted from the conventional force to the nuclear force. At current investment levels it would appear that Britain can have either a strategic nuclear force or a high-end conventional global reach force worthy of the name or two pale imitations of either. It cannot have both.

**Defence expenditure and UK defence aspirations: The purpose of this section is to explore the impact of the defence budget on achieving full-spectrum capability. A particularly interesting point (from my perspective) is the link between understanding of the geopolitical strategic threats that face this country (Russia with its unconventional warfare tactics including cyber; DAESH and the crisis in Syria; the rise of China, etc) and the decision of how to define the country— this is intrinsically linked to the amount of money a country is willing to spend, and thus pertinent to an inquiry into the government's 2% commitment.**

*The hollow force:* By including the broadest range of costs within the defence budget it is hard to escape the conclusion that the Government's commitment to 2% GDP expenditure on defence investment between 2016 and 2020 is political accounting. Rather, like for like analysis would suggest that expenditures will fall to around 1.7% or lower by 2020 if one adopts the accounting model used prior to the July Statement, and possibly as low as 1.5% if one adopts the pre-SDSR 2010 model in which nuclear forces were not included in the defence budget. Such Treasury –driven 'spin' suggests a government and a country ill-prepared for the strategic turbulence the twenty-first century is already generating and which will only get worse, because recognising only a much threat as one can afford does not buy defence.

*The blunt force:* In a speech to the Royal United Services Institute General Houghton bluntly stated the problem; "...we remain too platform-focused and insufficiently concerned about enablers [*such as Maritime Patrol Aircraft – author*]. The historic service-centric, major equipment focus has left us with relatively strong environmental components, but devoid of senses and a central nervous system...We are critically-deficient in the capabilities which

enable the joint force, such things as intelligence, surveillance, compatible communications, joint logistics and tactical transport”.<sup>1</sup>

Food for thought.

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<sup>1</sup> “Lecture by General Sir Nicholas Houghton GCB, CBE, ADC Gen, Chief of the Defence Staff, UK Ministry of Defence”, RUSI 18 December 2013. <http://www.rusi.org/events/past/ref:E5284A3D06EFFD>