

Defence Committee

Oral evidence: One-off session on Defence Spending, HC 327

Tuesday 5 November 2024

Ordered by the House of Commons to be published on 5 November 2024.

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Members present: Mr Tanmanjeet Singh Dhesi (Chair); Mr Calvin Bailey; Alex Baker; Lincoln Jopp; Mike Martin; Jesse Norman; Ian Roome; Michelle Scrogham; Fred Thomas; Derek Twigg.

Questions 1-37

Witnesses

I: Professor Malcolm Chalmers, Deputy Director General, RUSI, and Fenella McGerty, Senior Fellow for Defence Economics, the International Institute for Strategic Studies (IISS).

Examination of witnesses

Witness: Professor Malcolm Chalmers.

Chair: Welcome, everybody, to the first public evidence session of the newly elected Defence Committee. I warmly welcome today's experienced expert witnesses, Professor Malcolm Chalmers and Ms Fenella McGerty.¹ I hope Ms McGerty will join us online, but we are experiencing some technical glitches. I ask Professor Chalmers to formally introduce himself to the Committee.

Professor Chalmers: I am Malcolm Chalmers. I am the deputy director general at the Royal United Services Institute.

Q1 **Chair:** To get things off to a nice easy start, do you think that our armed forces can achieve what they are being asked to do within the current levels of defence expenditure?

Professor Chalmers: That is a "how long is a piece of string?" sort of question. Clearly if the armed forces had more resources, they could achieve more. The nature of military preparation is preparing for the possibility of conflict with other countries and adversaries. The chances of success in that are always uncertain, no matter how great the resources you apply to preparatory effort, but we are in a better place if you are better financed.

I will slightly rephrase the question and ask what the trends are in that regard. The trends are rather worrying because, compared both with our allies and with our potential adversaries, the resources we devote to defence are going in a direction that mean we are less capable than we were perhaps a decade ago.

Q2 **Mr Bailey:** If you were struggling to answer the question whether the armed forces can achieve what is being asked of them within the current levels of defence expenditure, can I ask whether is it clear that defence knows what it should be doing within the current levels of expenditure? How much of what it is being asked to do is not clearly defined and perhaps should not be done?

Professor Chalmers: The fact that the Government have ordered a strategic defence review to answer exactly the question you are asking suggests that the Government are not entirely clear what the priorities are and are wondering whether they can define the priorities more clearly to give the armed forces and the Ministry of Defence clear guidance. Right now, the MOD is being asked to do a wider range of tasks than it has the resources to fulfil.

Q3 **Lincoln Jopp:** We had the Budget recently, which has resulted in a little

¹ Fenella McGerty, Senior Fellow for Defence Economics, International Institute for Defence Studies (IISS) was unable to give evidence due to technical issues.



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more money for defence, so an up arrow. Professor, can you give us a sense of what that new money enables us to do? Is it treading water, pot-boiling stuff, or are there enhancements to defence capability? Have you been able to make an assessment of what the Budget settlement got us to compared with 2.5% of GDP, the Government's declared intent over an unspecified period? Can you give us a sense of what is in that space and what the budget that we have for defence currently does?

Professor Chalmers: The Budget allocation for the next financial year is £59.8 billion on TDEL. The Government's Budget statement says that that is 2.3% per annum real-terms growth over a period of two years. That growth is slightly above the rate of GDP growth, so it should mean that there is a slight increase in the proportion of GDP devoted to defence, but only a marginal one. We are at about 2.3%, so maybe it will go up 0.01 percentage points from 2.3% to 2.31% or something of that order, depending on how the GDP numbers play out.

To answer the question, "What do we get for the extra money?", we first have to think about the context of a defence budget that is significantly out of balance already, at the starting point. If we look at last December's report from the National Audit Office on the equipment plan, we can see that for the next four years the money projected to be available in the defence budget is significantly less than the commitments in the equipment programme's forward plan. In addition, the pay settlements for the armed forces as a result of accepting the Armed Forces Pay Review Body recommendations this summer are another pressure on the defence budget.

The challenge for MOD budget planners, therefore, is not to add something new to current plans; it is that the current budget allocation for this year and next year will not be enough to fund the commitments that were reported by the NAO. Clearly, there have been changes since then—some projects have slipped, some things have been given up and maybe some new things have been taken on—but certainly the press reports this summer from the MOD suggest that it has not entirely closed that gap yet. Closing the gap for this year and for next financial year is the first thing it has to do. If we wanted to add more things that we are not doing at present, we would have to take something else out, on the basis of these Budget numbers.

Q4 **Lincoln Jopp:** How sophisticated is the MOD's thinking about what getting to 2.5% looks like? Do you think there is a strong sense of what that would mean?

Professor Chalmers: First, the impact of getting to 2.5% depends on the timing of getting to 2.5%. In April, about a month before the election was called, the previous Government published something called "Defending Britain". That had a timetable for getting to 2.5%, which I think was by 2030, the end of the decade, with a straight-line trajectory towards that. That meant that the defence budget would rise by between 3% and 3.5% per annum in real terms on a straight line.



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The Budget said that the timing for getting to 2.5% would be announced at a future fiscal event. That could be the spending review in the spring, but it could be some other fiscal event; it is not clear yet. The spending review will essentially give us the budget allocation to defence to the end of the Parliament for RDEL—for resource spending—but it also indicates that it will give a longer projection for capital spending. We will see how that plays out in the case of the MOD, but it is certainly possible that we will get a sense in the spring of how much progress towards 2.5% is planned for this Parliament.

Q5 Lincoln Jopp: Clearly the figure is an input. I am interested in the MOD's thinking on how developed, sophisticated or otherwise it is. I have heard other things from MOD colleagues, who have said, "If you gave me all that money now, I wouldn't know what to do with it," which is deeply disappointing. Do you think that the debate has moved on a bit and that if we were on that trajectory, there would be quite a swept-up and sophisticated plan for making that expenditure in a coherent way?

Professor Chalmers: A lot of work is being done around the strategic defence review, as you would expect, which has been given explicit and public guidance to work on the basis of 2.5% being available. There are clearly many commentators who suggest that 2.5% is not enough, but that is the current Government policy. I think it will remain so for a little while, but who knows?

If you have a trajectory of 2.5% by the end of the decade—by 2029 or 2030—you still need to make quite a number of hard choices. It would not in itself mean that the funding gap identified by the NAO last year disappears, because you are not getting to 2.5% at once; you are getting to it over a number of years. You could close that NAO gap in the next year or two if you went to 2.5% next year, but we are not going to: we will be staying at 2.3% next year, so you will have to make some hard choices within a 2.5% trajectory to the end of the decade. You will not be able to do everything in the current plans.

One consequence of the war in Ukraine particularly, but also of other developments, is that new requirements are coming on stream all the time. There are things about which we think, "My goodness. We really need to take advantage of this," and you will essentially have to do net increases of zero. In other words, if you want to put something new in the programme that is not currently there, you will have to take something out.

Maybe the last point to make is that the full-scale invasion of Ukraine in 2022 consolidated what was already a trend in UK defence to focusing more and more on war fighting, rather than expeditionary warfare and operations. During that long period from the mid-'90s to 2010 or maybe a bit later, our forces were increasingly optimised for warfare operations against relatively weak opponents a long way away, exemplified by Iraq, Afghanistan, Libya and Syria.



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There are lots of things that you did not need for those operations, but that you do need if you want a force that is optimised for deterring Russia in Europe. You did not need a capability for air defence or combating air defence. You did not need the mass that you need if you are fighting a sophisticated opponent, whether that is Russia or perhaps China in the future—that has been brought home a lot. You did not need the stocks of munitions right across the services that you do for a conventional war-fighting scenario.

In a way, certainly in the 2010 review, but even in the 2015 review to a large extent, the Government were operating on an implicit 10-year rule that there would not be a large-scale conventional war with a near-peer opponent. You could therefore take risks on your preparedness and readiness and instead invest in the platforms.

Right across our armed services, we have a whole range of capabilities that look—not always, but in most cases—pretty cutting-edge, on the face of it, and we continue to invest a lot in new equipment. But if you look behind the curtain and see how long those forces could operate for—whether you have the logistics, munitions, spare parts and everything else—it is more worrying. That does not mean that in all those areas Russia has wonderfully ready forces; in some areas, Russia has been severely depleted as a result of the war. Nevertheless, that sense of hollowness in our forces is now relevant in a way it was not in 2010, when we probably did not need to plan for an imminent conflict with Russia.

- Q6 **Chair:** You have mentioned Ukraine, which we will be delving into briefly, but you have also alluded to a lack of clarity. The new Government mentioned a commitment to 2.5% in their manifesto. Do you think that the lack of a timetable or of an announcement—obviously there have been lots and lots of announcements in various spheres of Government business—is having a major effect? What impact is that having on industry or the wider defence community?

Professor Chalmers: It is very important, because at the moment we do not have anything from the Government on what the defence budget will be beyond the next financial year. Whether it is industry, the armed forces, military planners or allies, it is hard for them to know what the UK would be capable of doing without that budget envelope. Even if you have a clear budget envelope for the next five or 10 years, there is still a question about what your priorities are within that. You can have a discussion and continue to make decisions on relative priorities, but the lack of that budget envelope does create more uncertainty. After all, the Government also have a commitment to reach 0.7% of national income on official development assistance, and there is no timetable for that either. It is not clear which of those two goals has priority right now.

Chair: Agreed. I think Calvin Bailey also wanted to come in on this point.

- Q7 **Mr Bailey:** To take you back a bit, the first two questions were about the amount of money and whether we have enough to do what we think we should be doing, and about where the 2.5% goes. In your answer, you



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alluded to the fact that the 2010 and 2015 defence reviews did significant damage to our ability to war-fight. This Committee, in its previous guise, produced a readiness paper that touched on where we think we are, but I do not think the extent of the poor state of our defence at the moment is readily or widely understood. We reached a nadir in defence spending in 2016 of £44-odd billion. We have a reasonable equipment programme in some places, and we have some good pieces of kit.

I know we will come on to this later in another question, so I do not want to go too far—it is just that you went there yourself. How eroded do you actually think we are? How far behind the line are we before we expect this defence review to start moving us forward?

Professor Chalmers: As I think you implied in your question, it varies across defence and there are more problems in some areas than in others. The challenge for the Government is not only to identify which areas are further behind; a lot depends on what baseline you are measuring against. Further behind what? That often depends on specific assumptions about what you need.

On the choice whether to invest more in, say, bringing our manoeuvre warfare capability up to speed compared with our anti-submarine warfare capability, our nuclear deterrent or our deep strike capability in the Royal Air Force, all of those are things that we could invest quite a lot more in. Right now, in part because there are real concerns about our ability to maintain CASD, a very high priority has been given to nuclear for the last three years or so, which is reflected in the increased budget allocation, but some other areas have been given less of a priority in terms of changing allocation. With any conceivable budget, even if it is a little bit more than 2.5%—even if it is 2.6% or 2.7%—we will not be able to address that lack of readiness, war stocks and so on across every part of our armed forces in the near future.

Q8 **Alex Baker:** I want to ask about the lack of a road map and how much that is felt in our armed forces community on the ground. How much is that contributing to poor morale?

Professor Chalmers: I am not sure I know the answer to the question about how it contributes to low morale. There is a range of issues, and some are more people issues than equipment issues, but it is certainly a contributing factor. As I say, it is not the case that every part of our military is very poorly equipped—it does vary quite a lot—but I would say that people issues are as important.

One of the things that has happened in recent years is that, as a result of the 2020 spending review and the associated integrated review, there was a significant increase in defence spending in real terms, but it was entirely focused on the capital budget, and the resource budget was reduced in real terms, as it turned out, given increased inflation. That has not only meant cutting back on a whole range of readiness investments in terms of maintenance of equipment, maintenance of infrastructure and what have you; it has also meant that the budget for pay has been significantly restrained. That has started to change in the last two armed forces pay



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review settlements—the last two financial years—where the pay increase was more generous, particularly in those areas where people with specialist skills have alternative employment, but sometimes not; people with significant experience in the armed forces more widely have alternatives. Retention is an issue that is partly one of money, and I think that is a real issue. The armed forces are unable to get up to their assigned personnel numbers in some cases, and that is worsening in part because of those people issues, so I think it is a people issue as well.

Chair: I will now bring in Ian Roome, who wants to delve further into Ukraine.

Q9 **Ian Roome:** The UK Government is committed to supporting Ukraine. What has been the impact on UK defence of committing £3 billion of military support for Ukraine annually?

Professor Chalmers: We started off at £2.5 billion a year in the first couple of years after the invasion. The Government now has a commitment to devote £3 billion a year. The National Audit Office produced a report just last month, which went into some detail about the main elements of that. The £3 billion is a mixture of elements. There is some money being spent on purchasing equipment for transfer to Ukraine. There is some transfer of our own equipment, although the amount of that is declining quite rapidly as we run out of things to transfer. There is quite a lot being spent on training, and there is quite a bit on the direct costs of activity to the MOD—people spending time, essentially, helping Ukraine in all sorts of ways, many of which are not public.

On the question of the opportunity cost, that £3 billion compares with a total defence budget of £60 billion, so it is about 5%. If we spend 2.3% of our GDP on defence in total, about 0.1% of that 2.3% is on Ukraine. As a proportion of our total defence effort, it is significant, but it is still pretty small. It is a lot less as a proportion of our defence effort than you would see in Scandinavian and Baltic countries, which spend a lot more on Ukraine as proportion of their defence effort, but it is more than some other countries. That is where we are on that.

The question of what we could do otherwise would of course depend on whether that total budget remained as it was. Although we are in a bit of a transition period at the moment, in the initial years that extra money for Ukraine was funded from the Treasury reserve, so it was on top of the actual allocation. When the Government say they are committed to spending 2.5% of GDP on defence, that includes spending on Ukraine. Therefore, if we get to a moment sometime in the future when we no longer need to spend that money on Ukraine, there would be a question about whether that money was then available, under a 2.5% commitment, for other commitments. I assume it would be.

Q10 **Ian Roome:** Are there any other areas within UK defence where we could have done with £3 billion?

Professor Chalmers: Of course there are.



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Ian Roome: What sorts of areas do you think are critical at the moment?

Professor Chalmers: Across the armed forces, there is a real need for a significant increase in investment in munitions. That is a gap across all our conventional forces. In some areas, there are real industrial constraints, in particular if we are buying from the UK, but also to some extent from others. Having the money is not enough; you also have to have the industrial capacity. Having said that, if you had another £3 billion a year and devoted a large part of that to munitions, then you could make a real difference over the next couple of years.

Chair: We would now like to interrogate the issue of defence prioritisation, and I will bring in Fred Thomas.

- Q11 **Fred Thomas:** Thank you, Professor Chalmers, for being with us. I have a question about the strategic defence review that is due to land early next year—we are not sure exactly when—and your assessment of the Government's ability to reprioritise and change things, given that it has been laid out that some of the big-ticket items, such as defence nuclear, Ukraine and AUKUS, are protected. Does that allow room for serious reprioritisation?

Professor Chalmers: Yes, I think it does. It is harder to reprioritise the budget for next year and to some extent for the year after because there are so many contractual commitments in place, and you have people and equipment contracts and support contracts and infrastructure contracts and so on. But as the MOD made clear in their submission to the NAO a year ago, once you get to year 3, 4 and 5, then the proportion of the budget that is contractually committed declines quite sharply.

Of course, that does not mean that it is easy to change, because there is a much bigger proportion of the budget that is committed in policy terms—you identify a couple of areas, which are only a portion of the defence budget, but there is a lot in there that, in practice, we will not change—but nevertheless, once you get three, four or five years out, there is quite a bit of scope for reprioritisation from one area to another if there is a political decision to do so.

- Q12 **Fred Thomas:** Not only the MOD and serving personnel, but industry, will be looking on very keenly to see what comes out of the SDR. How much scope do you think the Government will have to change how industry interacts with the customer, that being the MOD, in a way that we have not seen for the last several decades, particularly in terms of how the MOD deals with SMEs as well as primes?

Professor Chalmers: A sensible procurement strategy has to make a distinction. With some of the larger programmes—you have mentioned AUKUS, which is a very good example, and the nuclear deterrent programme—there is a firm long-term commitment from the Government, and the procurement and sustainment of the capability requires long-term certainty because it requires very large capital investment by the contractors in massive, multibillion-pound facilities. Therefore, what industry needs, and indeed what the military needs, is a clear, long-term



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commitment to a particular level of funding and a particular offtake, in terms of amount of equipment and what have you. In the past, we saw in Barrow the problems that were created when we did not have a clear drumbeat of orders over time, and to some extent Barrow is still struggling with that today.

A significant part of the procurement budget is in that category, where you need a significant degree of certainty to produce most efficiently. Indeed, the special financial arrangements for the nuclear budget within the MOD budget, with the ringfencing agreements, is designed to reflect that; there is lots of financial flexibility, which the rest of the MOD budget does not have.

However, there is also a strong argument for a significant part of the procurement budget to be much more flexible and responsive to the very rapid pace of technological development in the defence sector. There is money available for innovation, new ideas and so on, but I think there would be a concern—certainly I would have a concern—if not enough of the procurement budget were ringfenced for things that we don't know about yet, but we do know that, given the pace of technological development, they will arise.

The Ukrainians are the best example of that. A lot of what the Ukrainians are building now are things that did not exist before. They started this war fighting with cold war Soviet equipment and now they are, by necessity, innovating at an incredible pace and producing things much more cheaply than NATO producers can produce them that are very relevant to the battlefield today but, they realise, will not be suitable for the battlefield next year, because equipment will have to keep changing. I would submit that in our armed forces we need to make sure that we have sufficient leeway for that, and the SMEs that win from that will be those that are competitive in producing the best kit for our forces.

So we are not providing certainty in that area at all; you need agility as well as certainty, and it is about getting the balance. The challenge when budgets are tight—and I think they are still tight—is to ensure that the big programmes do not squeeze out the ability to have any agility.

Q13 Fred Thomas: Very quickly, Professor Chalmers, would you support, and would you like to see in the SDR, budget being ringfenced for research and development, and innovation, particularly for SMEs? Would you like to see our Government go that far? Do you think that is a good model?

Professor Chalmers: That should be seriously considered, but as well as ringfencing for R&D, you also need to have some ringfencing for bringing into service the best things that come out of that R&D. It is a classic British problem, which extends well beyond defence, that we seem to be pretty good at research, getting Nobel prizes and so on, but the actual manufacture happens elsewhere. In MOD terms, we just need to make sure that we have got—and it is hard to put money aside for something that you don't know what it is yet, when budgets are tight, but my submission would be that doing so would be good value for money.



Q14 Mike Martin: As you know, Professor Chalmers, the Defence Nuclear Organisation used to be funded by the Treasury and about a decade ago it was brought into the MOD budget. For obvious reasons, it is ringfenced, because it is nuclear; we do not want accidents and all the rest of it, so it must be funded properly. To what degree do you think that that financial structure is driving a coach and horses through our conventional capabilities? Would you advocate for the Government to look seriously at taking defence nuclear back to being funded out of the Treasury as a separate enterprise, and keeping the defence conventional budget as something that—you used the term “flexibility” earlier—has more flexibility because defence nuclear has been taken out of it?

Professor Chalmers: There are a number of dimensions to that. There is certainly quite a bit of disagreement between historians of the UK defence effort as to whether nuclear was ever separate. The figures that the MOD provides to NATO on our defence spending have certainly always included nuclear, and that has not changed. What has changed recently in the UK is that we now have a separate accounting officer for the nuclear budget, and it is ringfenced in the sense that they have the particular ability, for example to overcome the annuality problem—to move money from one year to the next; to bring it forward or push it back. There are some constraints, but there is nevertheless a lot more flexibility than the rest of the defence budget. I think that all makes sense. But it is still part of defence, and when we talk about the £59.8 billion budget for next year, that includes nuclear.

What that does mean, based on the experience of recent years, is that if nuclear spends more next year than it is currently planning, that will increase the £59.8 billion; it will not have to be taken from the rest of the budget. Similarly, if nuclear spends less next year than it is currently planning, that will not be available to the rest of the budget; it will simply be saved, and they will spend it in a subsequent year. We are talking about very large sums of money—a small percentage change in nuclear spending next year could be worth hundreds of millions of pounds—so that flexibility is very welcome indeed.

The other important point to make is that the nuclear enterprise is not hermetically sealed from the rest of the defence enterprise. If you look at the defence nuclear enterprise, it includes our SSN attack submarines, which makes sense—the same industrial enterprise produces them, and the SSNs have a key role to play in the protection of our deterrent. But of course they have lots of other roles as well; it is not only about protecting the nuclear deterrent at all. Then you have other aspects of our defence set-up that are really important: anti-submarine warfare in the north Atlantic is critical to the defence of our deterrent, and we need P-8 aircraft and ASW frigates—Type 23, Type 26—for that, but those have other roles as well. Do you include them in the cost of nuclear or not?

I think the current arrangement has removed the main problem to which you allude, which is the instability created for the conventional budget by significant variations in the nuclear budget. I think that has been addressed already. I am not sure you need to go any further without

starting to create a separate armed force for nuclear, which would not make any sense at all.

Chair: Do you want to carry on, Mike, on NATO?

Q15 **Mike Martin:** The Government are talking about “NATO first” as a cornerstone of their approach to defence. Is the UK currently fulfilling its commitments to NATO? If not, could you illustrate with some examples where we are falling short of our commitments? These are all already agreed, right? We have already agreed to provide certain forces at certain readiness—are we doing that?

Professor Chalmers: The question of “NATO first” is an interesting one, because it is not always clear exactly what is meant by it. Historically, some of the most consequential defence reviews in our country’s history have been driven by a “NATO first” concept. If you go back to the late 1960s—I apologise for the history lesson—and look at the defence reviews in 1966, 1967 and to some extent 1968, under Denis Healey, that was a time when the United States was increasingly focused on a really grinding war in Vietnam, the Soviet Union had achieved nuclear parity and had 400,000 troops in the centre of Germany, and we were worried about the Soviet threat getting greater. The Government at the time essentially decided to withdraw from east of Suez and focus their efforts on maintaining and indeed improving the UK’s commitment to NATO. That was a “NATO first” review. After the end of the cold war, the Soviet threat disappeared for a while, and we increasingly focused on activities elsewhere. To some extent our investments, as well as our operational spending, reflected that.

The other big review in the “NATO first” category was the Nott review in 1982², which again was focusing on NATO tasks and disinvesting in what were then called out-of-area operations. Today, I think we are in a situation that is different in many ways—not least because Russia is not the Soviet Union, but nevertheless, “NATO first” today has echoes of 1982³ and 1966. It is about focusing on the NATO theatre and NATO operations, and certainly I think there is a very strong argument for doing that. It is not “NATO only”, but it is about prioritising NATO. In many regards, we already prioritise NATO, but maybe there is more we can do in that regard.

That brings us to your question about the particular force goals that SACEUR places on countries. Those are certainly, across NATO and Europe, very ambitious targets indeed. Very few countries meet those targets right now, and SACEUR is not asking countries to meet them right now; he is asking them to meet them over a significant period of time. The UK certainly does not meet all those force targets right now. Probably the area in which we fall furthest behind is in land forces—but it is not only in land forces, and that is a problem for the UK within NATO, compared with

² Professor Chalmers has clarified after the hearing that he had meant to say “1981”.

³ Professor Chalmers has clarified after the hearing that he had meant to say “1981”.



other countries, which are more land oriented. However, others do not meet their targets either. Germany does not fully meet its NATO targets. There is an ongoing conversation, as I understand it, in NATO about the prioritisation of meeting NATO force goals between now and SACEUR's long-term aspiration.

Personally, I think there is also a question whether NATO targets are set in a way that does not sufficiently take into account the rapidly changing nature of modern warfare, and focuses too much on quantitative targets in terms of a rather traditional concept of warfare, which may not be what we face today.

My final comment, if I may, is that I think there is an ongoing conversation to be had, relating to your previous question about how far the very considerable expense the UK devotes to its nuclear deterrent is sufficiently taken into account when NATO conducts burden-sharing exercises between major allies. At the moment, we devote about 20%, or maybe a bit more, of our defence budget to nuclear. It is about 0.4% or 0.5% of GDP. If you took that out, we certainly do not meet our 2% target on the basis of conventional only. However, the UK's nuclear deterrent is assigned to NATO. We talk about the Nuclear Planning Group—that is an important part of NATO deterrence—so why should that not be counted in NATO burden-sharing exercises?

Q16 Chair: Obviously, the Prime Minister confirmed to the House in an earlier statement his commitment to NATO, and in fact, to quote him, that the UK will commit “all of our armed forces to NATO”. “NATO first” is very well understood in terms of the workings of Government. Given that the US election is taking place this week, and considering the result of that, if there is a US pivot to Asia—often referred to as the Indo-Pacific tilt—what impact could that have on how we operate with respect to NATO and also to Europe?

Professor Chalmers: Whoever wins the American presidential election today, the trend towards the United States focusing more of its military effort in the Indo-Pacific will continue. If we have President Trump in the White House in January, it may accelerate that move, but that trend is there, and it is there most of all because of the rise of China. China is an increasingly capable military power. The United States is seeking to deter Chinese aggression in China's backyard, and that is a really difficult military task—a much more formidable one for the Pentagon than anything it has faced for many decades. China is posing that challenge with a defence budget of about 2% of GDP; it has not had to increase the proportion of its national income going to defence, because the Chinese economy has been so robust and rapidly growing over a long period.

Increasingly, those in policy circles in Washington do view most defence issues through a China lens, for those very good reasons. It is not emotional; it is not because they do not know Europe very well. It is because the fundamental structural factors of global geoeconomics have changed and made China an all-round peer competitor of the United States in a way the Soviet Union never was. Therefore, many



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commentators in the United States see Europe and, indeed, the Ukraine/Russia conflict through a China lens. In Europe, we see China very often through a Ukraine lens, but from the United States, it is very different.

On top of all that, we have a Pentagon budget that is not rising very rapidly in real terms. If you do the league table of percentage increases in defence spending across NATO since 2014, by far the biggest increases have been in the countries exposed to Russia: the Nordic countries, Poland and the Balts. The slowest percentage increases have been in the United States, the United Kingdom and France—NATO's leading powers. We have seen a big levelling-up process within NATO. The United States still spends more, proportionately, than almost everybody else in NATO, but that has not been increasing, and there are so many fiscal pressures in the United States that I think it is probably pretty unlikely that there will be a big boost in defence spending even under a Republican President, so it is going to have to make some really difficult choices.

I would say for Europeans, assuming that NATO continues, which I think is likely, the American commitment—who knows what will happen?—the most plausible planning assumption for the UK right now is that America will provide a progressively smaller proportion of NATO's overall capability and we are going to have to fill those gaps. I think that is particularly the case in relation to maritime and air capabilities, because those are the capabilities that the United States needs in the Indo-Pacific and, to some extent, in the middle east. China does not pose a threat on land in the Indo-Pacific and therefore the US army, if it does not have a Europe role, does not have many places to go, so I think the US army is more likely to stick around in Europe than the rest. I am not suggesting for a moment the US is going to withdraw, but American policymakers expect the Europeans to take a bigger share of the burden, and we need to be prepared to fill some of the gaps that the United States might leave.

Chair: Thank you. There are many challenges facing our country, and we would now like to delve into current and future challenges. I will ask Alex Baker to please lead on that segment of work.

Q17 **Alex Baker:** Leaving aside the equipment plan, which we will come on to, what wider economic and social developments could impact other areas of defence spending such as personnel, infrastructure and training costs?

Professor Chalmers: On the personnel side, the MOD, like much of Government, was able to make significant savings in the cost of personnel by freezing military pay or having increases below inflation. That took place for most of the period from 2010 onwards; it happened across the rest of the public sector as well. So that made some significant savings. However, the pension costs for the armed forces have risen very rapidly. I cannot remember the exact number, but the Treasury imputes a very high proportion charge to the service personnel bill, which makes employing service people more expensive than ever, even though their pay has not risen in real terms since 2010.



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Where will that all go? I don't know. It is partly a matter of policy choices, and a lot of it is to do with economy-wide trends. If the economy continues to grow at the relatively low rate that the OBR assumes—1.5% in real terms—along with limited productivity, maybe real wages and the rest of the economy will not grow very much, so there is less pressure on defence.

My instinct would be that we have reached the end of the road in reducing the earnings of service personnel compared with the civilian economy. You might not restore what has been lost since 2010, but it is unrealistic to expect it to get worse without problems of recruitment and retention also getting worse. That is particularly the case in areas where there is a scarcity of skills, and we are all aware of the different areas where that is the case—nuclear, energy, cyber and so on. There are some real cost pressures there, which have been exacerbated by the fact that the resource budget took the brunt of the cuts since the last major defence review.

On running costs and infrastructure, inflation in the period from 2020 to today was significantly higher than the Treasury assumed in the 2020 spending review and, with the exception of the nuclear programme, there was not compensation for that, particularly in the running costs budget. Therefore, a lot of things that were projected to be affordable in 2020 are not now, and the effect of that is felt in the defence budget incrementally. Let's say you have a contract that lasts until 2026, which was written in 2021 at 2021 prices, and the companies have just had to take the risks. When you come up to renew it, they will say, "Well, we are going to charge new prices." That is going to come in, and so the delayed effect of that big inflation surge is still being felt in the defence budget.

Of course, then there is the generic UK problem that we seem to have in infrastructure, which is about not only personnel shortages in the armed forces, but the inability to get infrastructure projects delivered on time. Some of the big challenges in military capability that we have are in relation to infrastructure. We have these massive, really complex bases, especially in the Navy but also in the RAF—maybe less so in the Army—which are really under a lot of pressure. Unless we get the infrastructure right, everything else will fall over. There are some big pressures there on both the capital and the maintenance side.

- Q18 **Chair:** Obviously, people, places and kit is something that we will be coming back to again and again, and the Committee is very much minded to focus on it in future as well. Earlier this year, the previous Committee heard the admission that for every eight service personnel the MOD loses, it has managed to recruit only five people in their place. Obviously, we have the issues around its estate, whether damp and mould or the MOD itself noting in the budget that much of its built estate is "old, poor quality and expensive to run. Around 40% of its estate assets are more than 50 years old." We have systemic problems with the issues that Alex mentioned. How can we get around them?



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Professor Chalmers: In the end, the only way we can get around those problems is either by no longer needing that estate, because you have made capability choices that mean you do not need it any longer, or by investing in refurbishing that estate and making it fit for purpose. In the messages that the Chancellor sent in her Budget there was quite a lot of emphasis on capital spending and funding capital spending from borrowing. One of the central purposes of capital spending in the MOD, as well as in other Government Departments, is absolutely to reduce running costs. It is about making what you are providing better and more fit for a modern purpose, but it is also about reducing running costs. I have a strong suspicion that in a lot of the areas we are talking about, if you actually had up-to-date estate, you would need fewer people and less spending to maintain it. It is the same with equipment. One of the main purposes of investing in new equipment is to allow you to retire the old costly equipment.

- Q19 **Chair:** It is not just in the UK that we have issues. Some of us have been to some of our very important, strategically located bases such as Gibraltar. The previous Committee had an excellent report on that particular issue in terms of defence and climate. With rising sea levels, huge remedial work will need to be undertaken. Have you heard anything about what works are potentially being undertaken? Has the MOD made any statements to that effect?

Professor Chalmers: I have not seen anything on that.

Chair: You have not seen anything. I just wanted to place that on record. No doubt we will come back to this. Alex, did you want to come in on this issue?

- Q20 **Alex Baker:** Yes. Across all the elements that we have talked about, the private sector is intrinsically linked with the MOD in delivering on those areas, but sometimes it seems that there is a slightly adversarial relationship between the private sector and the MOD. Do you feel that? Could more be done to develop the right relationship between the Department and industry to make progress on these issues, so that the private sector is seen as part of the solution?

Professor Chalmers: Part of it comes back to what I was saying earlier about having a procurement strategy that has different tiers. One size does not fit all in procurement. In those areas where there is, for all intents and purposes, a quasi-monopoly on the private side—where you are committed to buying British, and there is only one provider because that is all you can afford to fund; we cannot afford to fund two competing submarine producers, so there is only one—it is bound to be rather more co-operative.

Of course, that does not mean that the Government's interests are exactly the same as a private provider's—they are not. The private providers, by their nature, are profit maximisers, but we hope they are long-term profit maximisers rather than short-term profit maximisers, and we need to have incentives to create that. But nor does it make sense to have



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artificial competitive processes where you know who is going to win. It is the bane of defence's life to have a culture of optimism bias where companies and indeed military constituencies understate the complexity and cost of a particular new capability to get it on to the programme. Then it all unravels later as people—surprise, surprise—realise it is a lot more expensive and complex. That is really important to combat.

At the other end of the spectrum are capabilities that are more of a commodity and there is competitive procurement. A normal competitive process is perfectly legitimate there, but in between it becomes more difficult. I do not think we can remove competition from the process altogether in a situation where the main providers are private. There are lots of examples of bad practice from private providers as well as bad practice from Government, so your general point is well taken that it needs to be co-operative.

What I think the Government needs to do—this is almost its primary responsibility in this regard—is to set clear directions in terms of overall budgets and priorities within them. I accept that it can be clear about what that means for procurement in some areas, and in others it has to preserve a degree of flexibility.

Q21 Mr Bailey: A number of times during your responses, you have spoken of the pay increase as a pressure within the defence budget, and I want to challenge that directly. The reduction that you spoke about, which was a result of the 2010 and 2015 reviews, and the management of defence over the last 14 years, did not manifest in pressure. It was accepted that that was a risk, and it was said that we could pay people less and we would be able to retain them. What we actually have is that risk manifesting in the way Tan said: we have eight people leaving and five remaining. My challenge to you is that the pay increase is not a pressure but a relief; it is trying to address a problem that has manifested.

The point of the question was about the wider economic and societal impacts on defence. The difference between military and commercial sector pay is most obviously exposed when you have whole forces—when you have people of equivalent trade competencies side by side—which is where we are seeing some real pressures. That exists largely in the whole forces, but also in the PFIs.

I will allow you to come back on those points, but I would like to hear your view, first, on how that should go forward. Have we gone too far with the whole force? Should more of our personnel be in uniform so that does not manifest?

Secondly, PFIs are a pressure in and of themselves. They are protected parts of the budget—guaranteed resource goes to them—while the rest of the budget ebbs and flows. Mostly, over the last 14 years, it has been ebbing. Could you offer a response to those two points?

Professor Chalmers: I do not think I disagree at all with the first things you said. All I would say is that, whenever it is argued that we need to address a particular bit of the defence budget and spend more on it, my

riposte is: "Fine, that seems very sensible. What are you going to spend less on?"

- Q22 **Mr Bailey:** My point is just that we separate it. When we talk about recruitment, we say, "Well, we are going to pay more," but they are the same pot.

Professor Chalmers: Absolutely. As I indicated earlier, the pay offer is one of the reasons for the recruitment and retention problems. The state of the rest of the economy, and the availability of jobs elsewhere, is perhaps another. There are also all the issues around the state of accommodation and the nature of service life, which is not always very compatible with bringing up a family and what have you. Recently, there was the issue of VAT on private schools.

There is a whole range of issues relating to the decision about whether to remain, on top of some uncertainty about what the Government's priorities are in the SDR. There is no magic bullet to solve that. I think the Government will have to think about what the most cost-effective way of doing it is.

The other thing, which leads on to the Haythornthwaite review—which attempted some costings, although they were very rudimentary, as they would admit—is the issues relating to the changing nature of the service career, which you alluded to. Perhaps in some cases, we could think about using more or fewer civilians or contractors for the tasks that the services are doing right now. Perhaps the services can take on things that others currently do.

However, if you make comparisons between the services and the civil equivalents, you need to take into account the very substantial value of service pensions in that comparison, in terms of the cost of service personnel to the MOD. That massive addition is, I think, about 70%, if I recall correctly, on top of service pay. That makes it more attractive to use other civilian personnel, or indeed contractors, for tasks than it would be if the pension contribution were less.

- Q23 **Mr Bailey:** And PFIs?

Professor Chalmers: They had a value at their time. Partly because of Treasury management—as far as I understand, we don't have a choice to walk away from existing contracts—

Mr Bailey: It is just about understanding how those pressures bear out more broadly within the budget that we have.

Professor Chalmers: I don't have the numbers for that.

- Q24 **Jesse Norman:** Professor Chalmers, you mentioned that, very broadly speaking, the degree of seriousness in spending across Europe and across NATO was very positively correlated with how close you were to Russia. There is a degree of seriousness about the border states because they know that they have Russia breathing down their neck with an



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actual threat, which is not shared by people further away.

Can you talk a little bit about where the UK fits into that? Everyone thinks they are doing a very serious job in this area, and many are—in fact, probably everyone is—but the enterprise itself may not be serious in a deep way. That is to say, it may not be ready to present a threat or a capability that could be used to discipline a potential adversary in all areas.

We are not in a wartime mode, but many would argue that we are in a pre-wartime scenario, with Ukraine and the wider impacts that is having. How do you assess that? How serious do you think the UK is on that spectrum between zero to 10, where 10 is very serious and potentially capable of fighting immediately and zero is not really capable of fighting immediately?

Professor Chalmers: In terms of budgetary allocations, first, on aid to Ukraine, the UK is the third-largest contributor after the US and Germany, according to Kiel Institute numbers, but our aid to Ukraine is roughly equivalent to the combined aid to Ukraine of the Scandinavian countries. That points to the very intense concentration of effort on Ukraine in Scandinavia, which of course has a defence budget as a whole and a GDP as a whole that are significantly less than the UK.

We are not giving as high priority to Ukraine in terms of aid or in terms of changing our own budget trajectory as the Scandinavians or the Balts or the Poles, but we are doing significantly more than many other west Europeans. That is where we are—

- Q25 **Jesse Norman:** Could you not argue that we are doing a great job of supporting Ukrainians with finance, compared with many others? But I am really thinking about our, as it were, UK domestic capability—the effective spending of money to create preparedness and capacity that can be readily and quickly deployed. That is my worry at the moment.

Professor Chalmers: I wouldn't dissent with what you are saying at all.

- Q26 **Jesse Norman:** So you understand it?

Professor Chalmers: I would accept that for the UK, it is remarkable how little extra money has gone into conventional defence in the UK since 2022 compared with the very significant increases among many of our European allies. If you put Ukraine spending to one side, there has been very little real-terms increase in the rest of the conventional budget in the last two years, and that is quite unusual in NATO.

If I may make a linked point, we are seeing one of the perverse consequences of the 2% target by NATO. NATO set that target in 2014. It has been remarkably successful in levelling up defence spending across the alliance—the big majority of NATO European members now meet that 2%, helped by President Putin. But those countries that were already at 2% at the beginning, including our own and the United States, have felt much less pressure; we met the norm. On top of that, in response to the

full-scale invasion a couple of years ago in 2022, we haven't reacted with a big increase in our own defence budget.

Chair: We have only 15 minutes left because of the hard stop at 12.30 pm. There are three significant contributions to come, so I will rush things along. I call Michelle Scrogham.

- Q27 **Michelle Scrogham:** Thank you, Chair. Professor Chalmers, do you think it is a problem that we have annual spending limits on defence, given the particularly long timescales for some of the major procurements? Do you see that as a significant issue?

Professor Chalmers: I do, and it reduces the effectiveness of defence spending. It is not, unfortunately, unique to defence. It is understandable that the Treasury is concerned about looking after the public finances, but the impact is that every year, the MOD must either struggle to spend the money before it is lost or push back spending into April from March to make sure that it stays within the limits. I am sure that it is happening this year; it happens most years with the MOD. It means that you get less value for money. It would be great if you could move beyond that, as we have moved beyond that with the nuclear budget.

Realistically, for the Treasury to agree to move beyond annuality for most of the defence budget, it would have to have much greater assurance that the MOD was capable of managing its total budget. There have been moments in the MOD's history where the Treasury has had greater confidence in that regard, but I would not say it was for the majority of the time.

Without a constant high-level commitment to managing the defence budget from the Defence Secretary and the Treasury, the natural tendency in the British defence budget is for it to get out of balance, and it always takes a major review to then put it back in balance. Understandably, the Treasury is reluctant to do that, but it has made an exception for nuclear. You will have to ask Treasury officials, but my impression is that there would be circumstances in which if the MOD got its house in order in budgetary terms, the Treasury might be prepared to consider something, which would be very positive.

- Q28 **Michelle Scrogham:** What changes could help, and are they politically realistic?

Professor Chalmers: Giving freedoms to the defence budget as a whole, or the equipment budget as a whole, comparable with what the nuclear budget has, so you could, within an overall multi-year budget, have much more flexibility to move funds between one year and another. That could mean either moving it back so you do not lose it if you cannot spend it, or spending it now rather than next year, so you have the ability to move money between different financial years rather than having a fixed allocation for a particular year. That would add significantly to the cost-effectiveness of defence spending.

- Q29 **Derek Twigg:** In the past, Parliament has been able to monitor spending



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on the capability programmes via the equipment plan. There is some uncertainty about whether there will be an equipment plan this year, with the MOD considering whether it is fit for purpose. What is your view on that? How serious a concern is it?

Professor Chalmers: It is a shame that the level of transparency has been reduced and that the major equipment programme report is now not being produced. I hope we will find a way to restore that. MOD officials giving evidence to the Committee in the past, as I recall, said that they did not think it was necessarily the best system to use, and that maybe the Committee and the MOD—and, indeed, the Public Accounts Committee—should together examine ways of being more transparent with Parliament in this regard.

Q30 **Derek Twigg:** Just to be clear, I am sure you weren't suggesting that the MOD were concerned that they were not being transparent to the Committee, were you?

Professor Chalmers: I think MOD evidence recognised that there was an issue about transparency.

Q31 **Derek Twigg:** Do you think they were trying to be more transparent?

Professor Chalmers: You will have to ask the MOD what their view is, but, as I recall, when they gave evidence to a previous Defence Committee, they recognised that there was a problem in this regard, which I think there is. One of the issues for me is about timeliness, and that also affects outsiders such as myself who are commenting in this area. The more that the data being provided to you is from some time ago—and when you comment on it, the MOD's response is, "Well, that was 18 months ago. This is what the situation is now, and it's different"—the less helpful it is, isn't it?

Q32 **Derek Twigg:** That is why we have you here, given your vast experience and knowledge. How can the MOD make this more transparent for the Committee?

Professor Chalmers: Most of all, I think that they can provide more up-to-date numbers. The level of detail in the equipment plan was quite significant, and maybe, at the margins, you could improve it, but most of all, the figures could be more up to date. That could be done without revealing material that was either "commercial in confidence" or "sensitive" for national security reasons—I think that is possible.

Chair: Mike Martin wants to come in, and then Jesse Norman.

Q33 **Mike Martin:** On transparency, this is about not just the equipment budget, but readiness. Ten years ago, this Committee and Parliament would have readiness figures. That is exactly what the US Congress gets, as do other nations in similar positions. If, as a whole, we take the assertion that the MOD has become less transparent towards Parliament, why has that happened?



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Professor Chalmers: I don't know why it has happened, but I think you are absolutely right—we should not focus only on the equipment budget; the whole budget should be scrutinised.

Q34 **Mike Martin:** Why do you think it has happened, if you were hypothesising?

Professor Chalmers: I think that question is too party political for me.

Chair: Fair enough; I completely accept that—but don't worry, we will delve into these issues in future meetings.

Q35 **Jesse Norman:** I just want to pick up your point about the relative underspend—or the slowdown on spending—on conventional forces and to mention a couple of recent things. A recent report stated that the head of the French navy said to the French National Assembly that there was a problem because Britain could put out only two of its four destroyers and three of its nine frigates, because of a shortage of personnel, equipment and so on. I think that is quite telling, and obviously, we know about munitions issues that have been flagged.

So the question is: do you think that the worry about optimism bias, which you have diagnosed as quite pervasive, also applies to some of the ways in which these matters are being presented externally? We have been talking about the 4th Brigade deploying rapidly to the eastern flank of Estonia, but it is not going to have any Challenger 3s for a good long time, or Boxers. It feels to me that there is a degree of self-deception here, which could be quite painful, and it is not going to deceive our opponents.

Professor Chalmers: I think that is right, with a budget, in relative terms, that is much less unique than it was. I published something earlier this year that made the calculation that, in the year 2000, at the turn of the century, just before 9/11, our GDP was the same as that of China, and we had the second-largest defence budget in the world. Today, we are on track, within one or two years, to have the eighth-largest defence budget in the world. And in NATO Europe, we are much less leading the way than we were—and sometimes still think we are. In reality, we are still probably the most powerful in some domains, but in other domains, we are absolutely not the most powerful compared with our NATO European allies.

The political choice is that if you want to restore that relative position across the board, you are going to have to spend a lot more than 2.5%. If you are not prepared to do that, and you are sticking to 2.5%, you do have to make some serious choices. If you do not make choices, you will end up having a force that, in the IISS military balance, might look impressive in terms of number of warships and regiments and so on, but in reality, is much less so.

Chair: Finally, I will bring in Calvin.

Q36 **Mr Bailey:** While noting the time pressures, I want to go back to the point about transparency, and maybe to make it slightly less malign, I



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will take it all the way back to the beginning and the “Ready for War?” report. Perhaps the reason why defence is not able to articulate the gaps is that defence does not actually know what it is meant to be doing on a day-to-day basis.

In the “What is Readiness?” section, there was a question about “Readiness for what?”. There is this thing called operational readiness, which I don’t understand and doesn’t appear in any defence doctrine, because it should be simply “force elements at readiness”. The previous Defence Secretary said that if he asked defence to do something, it would say “Yes, but articulate the costs.” I would posit that, maybe, the accumulation of those costs has never been resolved, and therefore the gap and the dissonance between what is being asked, such as the NATO ask and what is actually being done, is so great. Could I take your view on that?

Professor Chalmers: What our forces are being asked to do now—the primary NATO task—is to contribute to the NATO deterrence of Russia in the conventional and nuclear domains. That follows through to being ready at a particular level of notice to contribute to that. I think the task is pretty clear, actually.

Q37 **Mr Bailey:** Do you think that is true of the defence support to other Government Departments, which routinely depletes the Army of its readiness forces. All those accumulations—where does Shader sit?

Mike Martin: The MOD’s mission statement talks about global military tasks.

Professor Chalmers: The NATO task is relatively clear at a very high level, but one of the challenges for the SDR will be coming up with an interpretation of what “NATO first” means in relation to a whole range of other tasks. Most of those other tasks, individually, do not seem that expensive or draining, but they are considerable when added up. It is not only about money; it is also about time and attention. When key force elements of our contribution to NATO spend a significant amount of time training and involved in operations that have nothing to do with NATO deterrence of Russia in Europe, it does erode their readiness for that primary task.

Chair: Thank you very much. Professor Chalmers, on behalf of the Committee, I thank you for your illuminating submission today; I hope that everybody outside this room has found it so. Personally, I thank you for your co-operation over the last couple of months. Having a tour of your magnificent RUSI building, meeting all the staff and attending your various events has been very helpful to me and other Members, and made us more informed within our work.

I also extend my apologies to Ms Fenella McGerty from the IISS. She was due to provide evidence, but unfortunately, due to technical difficulties, she was not able to do so. With that, I bring the first public evidence session of the newly elected Defence Committee to a close.



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