

## **Professor Matthew Uttley and Professor Andrew Dorman, King's College London - Written evidence (DCC0013)**

*This document contains written evidence in response to questions asked by the Committee during the evidence session on 13 July 2022. Due to technical issues Professor Uttley was unable to give evidence orally.*

### **General**

1. *The Defence Command Paper outlines ambitious plans for the future of the UK's defence. To what extent does this vision align with current and projected defence expenditure?*

The plans in the Integrated Review (IR) and Defence Command Paper (DCP) are indeed ambitious in the context of reconciling perennial preoccupations in the UK's national defence and security strategy.

The first point to note is that the DCP is noticeably light on detail compared to any previous defence (and security) review. All previous reviews have contained details on force numbers, deployments etc. In part this means that the government cannot be held accountable for non-delivery. That said, some details, such as the future structure of the Army have emerged subsequently.

The second point to note is that the IR/DCP mark an about-turn in half a century of consistent UK government policy. From the late 1960s and the 'East of Suez' decision successive governments have sought to focus on the European 'continental commitment' through NATO. In the Cold War this was via 1 (Br) Corps and RAF Germany and in the post-Cold War it has been via the Allied Command Europe Rapid Reaction Corps, both at the expense of a global 'maritime commitment'. The IR/DCP's emphasis on 'Global Britain' represents a renewed emphasis on a more traditional 'maritime strategy' and implicit acceptance of a reduced 'continental commitment' through the adoption of an element of free riding within the NATO alliance. The UK's intention has been to pivot away from the Persian Gulf and Europe towards an explicit focus on China as a 'systemic competitor'.

Third, emphasis has been placed on preparing the UK for an era of 'persistent competition' both above and below the threshold of war, reflected in the MoD's Integrated Operating Concept and aspirations to create Multi-Domain Integration within UK defence and wider

national security through investment in new domains including space, cyber and the electromagnetic spectrum. These aspects sit within the aspiration that defence investment will assist in the UK's emergence as a Science and Technology (S&T) superpower.

Fourth, the IR/DCP adopted the ruse followed in the previous 2010, 2015 and 2018 reviews of setting the timeline of a decade ahead for the UK's acquisition of the capabilities deemed necessary to tackle the then current defence and security challenges identified in the reviews. In 2010 there was some strategic coherence in adopting a de facto '10-year rule'. In all subsequent national security strategies/strategic defence and security reviews the rationale made little sense given that the threats identified had become imminent. Under the IR/DCP the timeline is now 2030, so it is understandable that the new Chief of the General Staff, General Sir Patrick Sanders, declared last month that the British Army is at a 1937 moment!

Fifth, the 2010 National Security Strategy and Strategic Defence and Security Review announced a series of capability cutbacks, which allowed Sir Philip Hammond as Defence Secretary to announce in 2012 that the newly published MoD 10-year Equipment Plan was affordable. Since then, the annual National Audit Office review of the 10-year Equipment Plan has highlighted that it has become increasingly unaffordable as successive prime ministers have rescinded some of the previous cutbacks (e.g. the acquisition of a maritime patrol aircraft) and new projects (e.g. Wedgetail AWACS aircraft).<sup>1</sup> Moreover, the previous reviews have made assumptions about MoD efficiency savings and proceeds from the sale of the defence estate which have generally proven to be over optimistic (these are two of what Cornish and Dorman refer to as the '10 Iron Laws of such reviews').<sup>2</sup> This has meant that the promised uplift in funding contained in the IR/DCP is insufficient to meet the existing MoD Equipment Plan as the NAO have recently made clear.

Sixth, the government's pledge to increasing spending on defence equipment via additional funds was also based on the costs of personnel and the defence estate remaining constrained. The current cost of living crisis is having an impact on service personnel and civil servants in the MoD and the result, particularly for the

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<sup>1</sup> [The Equipment Plan 2021 to 2031 \(nao.org.uk\)](https://www.nao.org.uk/reports/2021-2031/)

<sup>2</sup> Paul N Cornish and Andrew M Dorman, 'Complex security and strategic latency: the UK Strategic Defence and Security Review 2015', *International Affairs*, vol.91, no.2, March 2015, pp.351-70.

former, is likely to be a significant rise in personnel costs. Currently, Prime Minister Johnson has sought to reinterpret his previous commitment to a real term increase in defence spending to one in which defence spending rises to 2.5% of GDP by the end of the decade.

Seventh, Russia's illegal invasion of Ukraine means that the UK cannot now free ride on NATO. At the NATO Summit in June 2022 the Prime Minister pledged additional forces to NATO and this pressure is likely to increase. Moreover, the MoD will need to replace the weapons and equipment it is sending to Ukraine worth £750m or more, currently funded out of Treasury reserves.

## *2. Are those plans financially affordable and technically viable?*

As the latest NAO report on the Equipment Plan makes clear, the MoD is currently making short-term year-on-year decisions to balance its in-year budget. The result has been a series of short-term capability reductions. For example, the plan to grow the Royal Navy's escort fleet of frigates and destroyers is, in the short-term, seeing a reduction in force size as some of the Type 23s are taken out of service when their replacements (Type 26s and 31s) are being deferred to the latter half of the decade. Similarly, the Wedgetail order has been reduced from five to three aircraft and there is a temporary gap in capability because the E3As have already been withdrawn from service.

In terms of technical viability, we do not have access to detailed information relating to individual programmes. That said there are clearly major issues surrounding the AJAX programme which raise doubts about its continuation.<sup>3</sup>

Similarly, the issues of whether there is likely to be a further vote on Scottish Independence, the likely result, and what that might mean for the continued integrity of the UK and access to facilities in Scotland, mean that there are ongoing technical questions surrounding the Dreadnought programme.

That said, the likely consequence of Russia's illegal invasion of Ukraine is further pressure to raise the UK defence budget, which

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<sup>3</sup> <https://www.nao.org.uk/wp-content/uploads/2022/03/The-Ajax-programme.pdf>

could help to resolve the current financial impasse. Moreover, renewed importance placed on NATO's nuclear capabilities is likely to re-emphasise the importance of the Dreadnought programme. Prior to the 2022 NATO summit Prime Minister Johnson moved away from his IR commitment to a real term increase in defence spending to a commitment to increase defence spending to 2.5% of GDP by 2030, some two years after the Defence Secretary had requested.

## **Role of the Treasury**

### **3. What is your assessment of the role of HMT when it comes to defence policy?**

Our assessment is that the HMT has five main roles when it comes to defence policy. First, as with all other government departments the Treasury is responsible for 'balancing the books', so to speak. It therefore wants to ensure that the defence policy does not commit the government to commitments that it cannot afford.

HMT's second responsibility is one of ensuring value-for-money, which applies in its dealings with all government departments. In this it looks to ensure that the MoD follows best practice and government/parliamentary guidelines. Here it is worth noting how often the MoD's own accounts have been qualified, generally because of an inability to keep track of its assets.<sup>4</sup>

The third area that HMT is involved in is that of support for the government's 'prosperity' agenda. It is therefore looking to the MoD to increase 'social value' by acquiring less from abroad and more from companies in the UK's onshore defence industrial sector.

The fourth area pertains to the replacement of the nuclear deterrent. The current programme is estimated to cost £31bn with an additional contingency of £10bn held by HMT. Despite what some military officers and commentators have claimed the MoD and its antecedents have covered the cost of nuclear replacement. The current force of Vanguard-class SSBNs is due to be replaced by a new class of Dreadnought-class boats initially equipped with the same Trident SLBMs. Concerns have been expressed by several commentators about the MoD's ability to keep the whole programme within the existing budget and the MoD can apply to HMT for additional funding with the Treasury earmarking £10bn to offset any cost overruns.

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The fifth area relates to foreign exchange. The MoD is currently acquiring several expensive programmes from overseas, particularly the United States. Each is acquired using foreign exchange and HMT organises the forward acquisition of foreign exchange. As such it can influence the overall cost of individual equipment programmes.

What are its concerns with regard to defence spending, and how justified are they?

We are not privy to HMT's specific concerns relating to defence spending and they would be in a better position to clarify. That said, the big issues for HMT are the current state of the public finances, the financial squeeze confronting many households and the potential financial consequences of Russia's invasion of Ukraine. Germany has already agreed a significant uplift in its defence budget and if the UK government makes a similar decision, then this will have a significant impact on the nation's finances.

Are HMT and the MoD constructive or antagonistic partners, both historically and today?

There is ample evidence that HMT and MoD relationships have historically been antagonistic. Part of this is structural: HMT seeks to control expenditure and government departments seek to maximise their budgets. In other words, the MoD is no different from any other large spending department. But it should also be remembered that HMT has, at times, been very supportive of defence as was the case during rearmament in the 1930s.

As a large spending area, the MoD has historically been a primary area for budget raiding because of its expenditure programme is one of the largest across government. Moreover, given the high level of capital investment it is an area where substantial savings can be made relatively quickly should a major programme be cancelled. That said such cuts can have significant political consequences.

As Robert Self has suggested, HMT has required close supervision of the MoD because of its consistent inability to live within its budget and demonstrate rules of financial discipline, leading to inquisitorial dealings with the MoD. In effect, the MoD has been viewed by HMT as a 'recidivist over-spender'.<sup>5</sup>

## **From ambitions to reality**

4. Looking at previous Strategic Defence and Security Reviews and the ambitions outlined in last year's Defence Command Paper, what is your assessment of MoD's ability to deliver promised programmes on budget and to time?

Without wishing to appear overly negative, history is not on the MoD's side. Post-2012 NAO reports on the MoD's forward Equipment Plan have successively pointed to potential affordability problems. Despite the MoD's multi-year spending settlement, the NAO concluded in 2022 that "in this year's Plan, risks remain of over-optimistic assumptions about future budgets, costs, and the likely achievement of savings targets.

There is a real risk that, despite the additional funding it has received, the Department's ambition outstrips the resources available to it".<sup>5</sup> The 2020-2021 Government Major Project Portfolio report identified similar concerns relating to delivery confidence.

We know from a host of academic studies that intergenerational cost trends when existing generations of equipment are replaced results in smaller unit production runs of more expensive and capable platforms. We also know that historically the Services have tended to emphasize numbers of platforms over having fully equipped platforms. This was one of the frustrations of Sir John Nott in his 1981 defence review where he identified that the Royal Navy possessed too many ships that were fitted for but not equipped with weapon systems. This practice does not appear to have ended. For example, the Type 45 destroyers had provision to have VLS-41 tubes fitted. Ten plus years into service the Royal Navy is now looking to use this space to equip the ships with SeaCeptor surface-to-air missiles in the second half of this decade. Similarly, the Type 26 and Type 31e frigates are likely to be fitted for but not with some planned weapon systems. Similarly, the RAF Typhoon fleet will belatedly be equipped with an active-scanned radar.

5. How can the UK's limited defence spending deliver optimal strategic effect?

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<sup>5</sup> Robert Self, *Making British Defence Policy*, (Routledge: Abingdon), 2022, Ch. 8.

<sup>6</sup> <https://www.nao.org.uk/report/the-equipment-plan-2021-to-2031/>

The UK's national strategy as a post-WWII residual great power has been based on minimising strategic shrinkage and balancing between a range of sub-strategies. This includes balancing the Britain's maritime and European continental commitments, as well as investment choices between conventional and nuclear investment, and the maintenance of the special relationship with the US via NATO versus closer integration with mainland European attempts to create security architectures.

In doing so, as John Baylis pointed out, the UK's approach has been to 'muddle through' via serial incrementalism, which has served to provide flexible options in response to risks and threats.<sup>7</sup> The focus on China and Russia as potential or existential threats is logical and could be considered 'optimal', but questions remain over whether the limited UK defence spend provides sufficient 'strategic effect' in both contexts. We suggest that the jury is out on this because much depends on developments relating to Russia's invasion of the Ukraine, and the extent to which this will require a pivot towards Britain's enduring 'continental commitment'.

Moreover, the provision of a minimum level of capability across the full defence spectrum rather than engaging in some degree of role specialization is inherently inefficient because it inevitably requires a higher 'tail-to-tooth ratio' and because the MoD loses the efficiency that longer production and larger capabilities inevitably bring.

6. Are there areas where spending can deliver outsized gains and/or others that could be prudently reduced?

In rebalancing the defence priorities to take account of Russia and NATO's changing membership, with Sweden and Finland joining, there is a serious question to be asked about what would be the key contributions that the UK can make. In this context and bearing in mind the UK's location, the UK is probably best to focus on:

1. Defence of the Northern Flank ranging from Norway to Estonia. The Central part of NATO's Eastern border can more easily be covered by the likes of the United States, Germany, France, and Poland. Following this logic, the UK should be looking to bring forward its F-35B acquisition to enhance the air reinforcement capabilities to the

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<sup>7</sup> John Baylis, *British Defence Policy: Striking the Right Balance*, (Basingstoke: Macmillan), 1989.

Scandinavian area whilst also having the option fully to equip the two Queen Elizabeth-class carriers. The Army along with the Royal Marines will need to engage with its NATO partners in the region to develop an appropriate defence plan including pre-deployed equipment.

2. Whilst NATO remains a nuclear alliance the UK is probably best placed to fulfil the role of a second nuclear guarantor. The increase in operation warheads and potentially missiles at sea should help to preserve what used to be called the Moscow Criteria. That said the UK is unique amongst the UN Security Council Permanent Members in only having a single delivery system and a case could be made for the UK to develop a second delivery system. The easiest would probably be to equip the existing Storm Shadow missiles currently carried by RAF Typhoons with a nuclear warhead. This option would probably require the acquisition of a further tranche of Typhoons.
3. For the 'Global Britain' role, this largely requires maritime and air capabilities with a light air portable brigade at most together with Special Forces. The UK is unlikely to have the resources to ask the Army to make any more of a contribution.

In terms of what might be cut, with a focus on NATO's northern flank there is probably room to review the Army's current armoured capability plans, especially the Ajax programme.

## **Defence procurement policy**

### *7. What is the optimal balance between indigenous development and 'off-the-shelf' purchases in defence procurement?*

It is difficult to define an 'optimal balance' between indigenous development and 'off-the-shelf' purchases because each option has different generic strengths and weaknesses. This difficulty also applies to the generic acquisition options available that sit between 'make or buy acquisition', namely international collaborative ventures and forms of defence offset.

The difficulty arises because the 'balance' – if such an optimal balance exists – is contested and reflects alternative perspectives



about defence acquisition and associated industrial strategy and policy. To summarise, one perspective is to assume that the acquisition of defence capabilities should follow market-based principles, favouring international competition and 'off-the-shelf' alternatives as the default. Another perspective assumes that the imperfection of defence markets and other factors necessitate indigenous sourcing of defence capability and an associated defence-industrial strategy.

To paraphrase, the emphasis placed on these differing perspectives has been evident in successive reforms to UK defence and defence-industrial strategies and policies, evidenced by 1) Lord (then Sir Peter) Levine's reforms under the late Baroness Thatcher's administration emphasising primacy of the market-based off-the-shelf' approach; 2) the defence industrial policy and industrial strategies of the later Labour Administrations; and 3) subsequent successive reforms under the Coalition then Conservative administrations, initially with a default of 'open procurement' and buying 'off-the-shelf' where possible, and then migrating to a posture that sees the UK's defence industrial sector as a lever for national security and prosperity.

*8. What are the associated considerations, and how would you prioritise them?*

The associated considerations relate to the reconciliation of inherent imperatives and trade-offs that governments confront in acquiring major defence capabilities. These imperatives can be summarised as:

1. Ensuring the armed services are equipped with adequate military systems to prevent them from falling into a position of inferiority relative to threats to UK national security interests.
2. The related imperative to maintain an appropriate degree of national autonomy – or 'security of supply' – over the acquisition, operational use, upgrading and replacement of weapons systems, thereby avoiding risks that foreign suppliers might withhold the supply of spare parts or future system upgrades.
3. The requirement to secure Value-for-Money (VfM) when selecting between domestic and non-national alternative available defence

systems options, which could be defined as acquiring from domestic and non-national alternatives on the basis of cost/lead-time/performance criteria, versus a broader VfM definition embracing 'social value' and 'prosperity' gains derived from onshore defence-industrial activity.

The co-existence of these considerations and imperatives complicates the identification of an 'optimal balance' between indigenous development and 'off-the-shelf' purchases in defence procurement because they create difficult choices and trade-offs. To paraphrase in stylised terms:

1) The main benefit of 'off-the-shelf' procurement is that it reduces procurement risk because the cost, lead-time and system performance parameters are known. The main trade-offs are potential 'security of supply' risks if the vendor withholds supply or upgrades, unanticipated cost increases of imported products due to currency fluctuations, and the loss of potential domestic jobs and other economic gains such as exports revenues derived from the alternative of indigenous development.

2) The main benefits of indigenous development are that the equipment specification is tailored specifically to MoD requirements, and that 'security-of-supply' and domestic 'social value' and 'prosperity' gains accrue (e.g., export potential, jobs, and domestic skill development) via onshore defence-industrial build capacity. The primary trade-offs relate to risk management. In contrast to 'off-the-shelf' purchasing, where the parameters of cost, lead-time and performance are known, indigenous development means that the MoD is exposed to unforeseen risk in terms of final equipment cost, lead-time, and performance (e.g., the Queen Elizabeth aircraft carrier programme).

3) An interim alternative to 'off-the-shelf' and indigenous development is international collaboration, which has the benefit of sharing development risks and costs with at least one other participating state, offering longer production runs leading to economies of scale, and interoperability between the participating nations (e.g., the F35 Lightning programme). The primary trade-offs with international collaboration are that they incur greater risk of cost and lead-time overruns than 'off-the-shelf' procurement but offer fewer domestic 'social value' gains than an indigenous alternative.

The UK's current reconciliation of these considerations, imperatives, choices, and trade-offs is articulated in the 2021 Defence and Security Industrial Strategy (DSIS).<sup>8</sup> To paraphrase, the DSIS:

- Identifies the onshore defence industrial sector identified as a 'strategic capability' in its own right
- Pursues closer and more strategic partnership between government and industry in capability and market segments most important to national security.
- Seeks to sustain and grow onshore industrial capability and skills, supporting growth across the Union.
- Seeks to maximise benefits from international collaboration and exports.
- Relies on global markets and key allies for defence goods at the prime and subcontract level
- Pursues the aim of achieving the 'virtuous circle', whereby:
  - Transparency and clarity and government acquisition plans gives industry confidence to invest in cutting-edge R&D and innovation, leading to future technology and productivity gains.
  - Maximising the benefits of international collaboration and defence exports leads to more effective capability development and economies of scale.
  - Through an approach that sustains skills in the UK and encourages further reinvestment in R&D, skills and long-term productivity and enhanced competitiveness

Our assessment is that the DSIS approach represents a logical reconciliation, and a welcome change since 2021 is the MoD's commitment to increasing the amount of the defence budget specifically allocated towards R&D after a long-term decline in investment, although questions remain over whether a single infusion of cash will be effective at driving meaningful and applicable R&D over the longer term.

9. *More generally, what defence capability needs to be supplied by the state itself and what can simply be sourced from private suppliers?*

John Louth and Trevor Taylor refer to "The Defence Extended Enterprise [which] includes organisations, people and competencies

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[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/971983/Defence\\_and\\_Security\\_Industrial\\_Strategy\\_-\\_FINAL.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/971983/Defence_and_Security_Industrial_Strategy_-_FINAL.pdf)

that allow for the generation and use of national defence capabilities. This concept goes beyond the MoD to include the armed forces, broader governmental bodies, defence manufacturers, and suppliers.”<sup>9</sup> The situation is that virtually all defence equipment is made and, in many cases, sustained by private sector firms who provide life-cycle support critical to defence capability availability and sustainability. Consequently, private sector suppliers are intrinsically linked to the provision of ‘Defence Lines of Development’ (DLODS) that co-ordinate the elements of capability generation required to generate a real military capability. In effect, the MoD’s role is to develop organic capability within the armed services, and to set requirements and place contract with industry as an intelligent customer/partner with industry.

10. *The 2022 Queen’s Speech outlined the Government’s ambitions to reform and streamline public procurement in 2022 and replace several different regulatory regimes, including the Defence and Security Public Contracts Regulations, as a part of its new Procurement Bill*<sup>10</sup>.

11. *What is your assessment of the Government’s defence procurement policy so far?*

We have touched on this previously in relation to the DSIS ‘virtuous circle’ assumptions, and the factors relating to acquisition decision-making. The policy looks logical, but the proof of the pudding will be dependent on the ability to manage and avoid cost-overruns, slippages and performance problems that have previously plagued major programmes.

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<sup>9</sup> John Louth and Trevor Taylor, *Beyond the Whole Force: The Concept of the Defence Extended Enterprise and Its Implication for the Ministry of Defence*, (RUSI: London), 2015.

<sup>10</sup> See more: ‘Defence Procurement Reform’, Research Briefing, House of Commons Library, 10 June 2022, <https://commonslibrary.parliament.uk/research-briefings/cbp-9566/#:~:text=The%20Government%20intends%20to%20reform,Lords%20on%2011%20May%202022.>

12. Does it need to be reformed, as per this Bill, and if so, why?

Our reading of the Bill is that it is intended to increase national flexibility and control in defence acquisition post Brexit. It seeks a) to provide the UK with greater latitude in acquisition choices by selectively decoupling the UK from provisions in EU directives; b) decouple the UK from European Commission initiatives intended to extend competition in the Single Market relating to defence procurement practices (Article 348); and c) decouple the UK from future Court of Justice of the European Union (CJEU) involvement.

Is the Procurement Bill adequately addressing current and future challenges?

We are not in a position comment at this stage.

**27 July 2022**