Written evidence submitted by the Royal United Services Institute

Macro findings from limited data sources

The MoD has been engaged for some years in trying to generate better information on the impact of defence on the UK economy. In 2018 the former Procurement Minister Philip Dunne compiled a report at the request of the MoD which noted the limited data available[1] and which led to the establishment within the Government-Industry Defence Solutions Centre in Farnborough of the Joint Economic Data Hub (JEDHub). In 2022 it published its first report and its second report appeared earlier in 2023. [2]

Given any interest in whether Wales has its 'fair share' of defence jobs, the first report found that Wales had 3% of defence industry jobs while the Welsh population is 4.6% (3.1/67) of the UK total. The 3% fell to 2.9% in the second, 2023 report.

Using a different perspective, the JEDHub 2022 numbers show that while manufacturing industry as whole is a modest part of the Welsh economy, defence share of Welsh manufacturing was slightly higher than in Wales as a whole.

But scrutiny of the footnotes in the JEDHub reports shows that the bases for the numbers are limited and the figures quoted should be seen as the best estimates that could be offered. In particular it is not easy to track defence employment down through the supply chains that enable delivery and the JED Hub is significantly dependent on companies' readiness to collect data and share it.

Further sources of information are the reports from Oxford Economics commissioned by the Army and some of the larger firms to define their contributions to the economy.[3]

Defence Prime Contractors

One element in assessing the significance of defence spending in a region is to look at the prime contractors with sites there.

The longest established is **BAE Systems** which bought Royal Ordnance in the later 1980s. The company owns and operates the Glascoed ammunition facility (and also has around 90 support staff looking after aircraft at the RAF Valley training centre). These two operations provide 780 full time jobs and involve a £50 million a year spend with local suppliers.[4]

As a munitions site, Glascoed is a former Royal Ordnance site which, along with other munitions factories in Hirwaun and Bridgend, are reported to have employed 60,000 people during the Second World War. Thus, while Glascoed could be seen as a shadow of its former self, it is at least still open, unlike many former RO factories, and it will benefit from the MoD's recent contract with BAE Systems to expand production capacity there in the light of the Ukraine War.[5] Glascoed is also

[1] Growing the Contribution of Defence to UK Prosperity (publishing.service.gov.uk)
[2] The National, Regional and Local contribution of Defence to the UK (jedhub.org); 2022 Annual Economic Report | JEDHub: Joint Economic Data Hub; 2023 Annual Economic Report | JEDHub: Joint Economic Data Hub
[3] The Wider Value of the British Army - Oxford Economics; BAE_Report_230623_web-final.pdf; The+Contribution+of+Leonardo+to+the+UK+Economy+2020.pdf; Babcock-International-Groups-Contribution-to-the-UK-Economy-1.pdf (oxfordeconomics.com); The-impact-of-Airbus-on-the-UK-economy-Oxford-Economics-March-2022.pdf (oxfordeconomics.com);
[4] Our contribution to the UK and its regions | What we do in the UK | BAE Systems
[5] UK Ministry of Defence raises frontline battlefield munitions order to £410m | BAE Systems

covered by the 2020, 15-year munitions arrangement that the MoD has with BAE Systems (The Long-Term Munitions Solution) which took over in 2023 from an earlier commitment, the MASS (Munitions Supply: Acquisition Solution) that came into force in 2008. [6] Many aspects of munitions production are automated and are not a source of a huge number of jobs. However it is easier (but still not easy) to surge production in automated facilities.

Airbus operates a site in Newport (South Wales) which deals in information technology broadly defined. As it informed the Committee in May 2023. Airbus there specialises in 'secure connectivity, cyber solutions and the security of critical infrastructure in the UK. It is thus a security and defence business with a wider customer range than just the MoD.[7] It has long been recognised in Government that the UK needs its own very capable sovereign cryptography sector and the Airbus facility in the UK is a critical element in this.

The Airbus centre of large aircraft wing manufacturing expertise is at Broughton in North Wales which makes a large number of wings for Airbus commercial aircraft. The site employs almost 5000 people.[8] The wings for the A400M are assembled in Filton (Bristol) so defence currently is little defence involved in Airbus operations in Broughton. Clearly it has no role in the Boeing aircraft bought by the MoD (which include the P.8A, Wedgetail ACAWs system and Rivet Joint.

General Dynamics (GD) UK has two related businesses in Wales that were founded on separate specific projects. Back in 2001 it was awarded the contract for the design and integration of the Bowman tactical communications system for the British Army. The Bowman project with US and Canadian radios at its core was delivered by GD Mission Systems which is located at Oakdale just outside Newport. This business has supported and further developed the Bowman system since then, with development including the installation of additional battlefield applications. [9]

In terms of future developments this facility has an uncertain long-term but secure short-term future. The MoD's plan was that applications installed on Bowman would be removed under a 2017 contract known as Evolve to Open (EVO). These and others were to be installed on the planned next generation system of radios and compute facilities which was designated Project Morpheus which in turn was to be a part of the larger LE TacCIS project (Land Environment Tactical Communication & Information System). Under the envisaged new system, the MoD would be able to install new applications itself on the Morpheus and not have to pay and rely on the original contractor (as is the case with Bowman). For reasons unclear to this observer, GD has failed to deliver on the EVO work which has caused delays to the related follow-on programmes. Bowman is now expected to be in service much longer than expected, perhaps beyond 2030.[10]

GD has also invested £12 million at Oakdale in an Armoured Fighting Vehicle Centre of Excellence in nearby Oakdale which obviously has a role in the Ajax programme.

In 2014 GD won a competition against BAE Systems for a family of tracked armoured vehicles known then as the Scout programme and now as Ajax. The most complex vehicle in the fleet is the

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[6] BAE Systems awarded £2.4 billion munitions contract to equip UK Armed Forces | Newsroom | BAE Systems

[7] Airbus Protect - Cybersecurity - Safety - Sustainability

[8] Airbus in the United Kingdom | Europe | Our Worldwide Presence | Airbus

[9] GD wins U.K. defense work - Washington Technology; GD Wins Another UK Bowman Contract (Nov. 8) (defense-aerospace.com) ; GD Awarded Contract To Provide Bowman - ProQuest; UK MoD awards Bowman radio logistic support contract to GD - Army Technology (army-technology.com)

[10] British army's £3.2bn battlefield radio 'next procurement disaster', MPs warn | Financial Times (ft.com); Trinity Breathes Life Into Morpheus By Julian Nettlefold (battle-updates.com)

reconnaissance version which includes a turreted 40 mm cannon. The contract was for the concurrent development and production of the vehicles for a firm price, which made it high risk for the contractor.

The words below give details from Oxford Economics on the Army's most-publicised project.

> In 2014, the MOD placed a £3.5 billion order for 589 of the Ajax, which will be part of the British Army's next generation of Armoured Fighting Vehicles. spend on the Ajax programme is expected to rise to £6.3 billion over the next five years, as the manufacturing and support programme continues. The vehicle's manufacturer, General Dynamics Land Systems-UK, has invested more than £20 million in its Assembly, Integration and Test Facility at Merthyr Tydfil in Wales, As of 2020, more than 800 jobs are supported in Wales either directly with the company or at suppliers (up from 680 in 2018). This includes highly skilled jobs in engineering and software, with many located in Merthyr Tydfil, which is one of the country's most deprived areas. The jobs at General Dynamics Land Systems-UK offer average wages nearly twice as high as the local average.[11]

As a quick update on the Ajax programme, which was at one point in danger of cancellation, fixes have been identified and implemented to contain the vibration and noise problems, vehicle assembly has been resumed, extensive reliability trials are being conducted in Bovington and it now appears that the programme will continue to completion. Other than support (repair and maintenance) work for produced vehicles, it is not yet clear what work will occupy the Merthyr Tydfil plant once Ajax production is finished. This is something to be addressed in the implementation phases of the Land Industrial Strategy. [12]

QinetiQ operates on behalf of the MoD the 20.5 square kilometre, multi-purpose range at Aberforth on the cost and Carmarthen. The number of staff involved is not available on line.

Welsh firms in supply chains and SMES

Firms benefitting from defence spending by playing a role in supply chains are difficult to identify and assess without a major research effort. As is common in major defence platforms, big defence firms make extensive use of external contractors and the Oxford Economics reports cover how many 'indirect' jobs are created by BAE Systems and Airbus in South Wales.

Welsh firms winning other defence work not tied to BAE Systems, Airbus and GD in Wales are more difficult to identify. Helpfully the industrial association ADS (Aerospace, Defence & Security) has 30 member companies in Wales. Its website lists them, their location and in some cases their business areas.[13] The weight of activities in terms of defence as opposed to civil aerospace or security varies from firm to firm. MAKE UK Defence is another industrial body serving defence SMEs in particular but its website shows it as having only three of its 700-plus members in Wales. [14]

Conclusion

Across the UK and in multiple reports, defence firms are associated with higher-than-average salaries and productivity rates along with taking on a large number of apprentices to meet their anticipated future needs. The pay levels suggest that their multiplier effect on local economies is

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[11] The wider value of the British Army (d2rpq8wtqka5kg.cloudfront.net)
[12] Land_Industrial_Strategy.pdf (publishing.service.gov.uk)
[13] ADS Group Member Companies in Wales
[14] Make UK Defence - VeryConnect

significant but also that the beneficiaries of these salaries also pay significant amounts in income tax back to the Government.

Defence acquisition regulation and guidance has been modified in recent years to allow a wide range of considerations, including impact on prosperity, to be a factor in procurement decisions. But government defence is not likely, and perhaps should not, pay significant cost premiums and take significant commercial and technical risk to place defence contracts with firms with limited prospects of success.

Looking forward, the GDUK related businesses in Wales must be a particular source of concern, located as they in areas needing economic stimuli.

More positively, Airbus has indicated that it would build its H.175 helicopter at Broughton if it won the MoD contract for Next Medium Helicopter. The procurement of those machines has been deferred with no decision to start a formal competition being in place. Also, audiences should be aware that there can be a significant difference between what companies say they will do in the run up to a competition and what they actually include in their bids when they feel that low-cost considerations are likely to weigh heavily.

Building defence industrial capability from a low level is a long-term activity as acquiring the skills and knowledge involved takes time and efforts need to be based on education opportunities available at both degree-level STEM fields and at the technician and craftsperson levels. But with defence capability resting increasingly on computing, electronics and software projects, the defence industrial sector must increasingly compete against the civil commercial world for its labour. The availability of a capable land motivated labour force is a significant consideration for any investor, including those in the defence world.

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