

## Unbalancing the Force?

### Prospects for UK Defence after the SDSR

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##### Future Defence Review Working Papers

This series provides independent analysis and opinion on issues that are likely to feature in a Future Defence Review.

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##### *Issue*

While the changes announced in the SDSR will be painful to implement, more may need to be done to create a credible long-term force structure.

##### *Context*

As part of the government's austerity programme, the SDSR was required to contribute significant reductions in the defence budget. It was also asked to preserve capabilities for the Afghanistan operation, and to address the inherited over-commitment in the defence programme.

##### *Key Findings*

- The UK's defence budget will be cut by 7.5% in real terms over four years. UK defence spending is likely to fall to 2.2% of GDP in 2014, down from 2.7%.
- Despite this cut, defence's share in total departmental expenditure is due to rise from 8.7% to 9.1%. This has been paralleled by similar, relatively lenient, settlements for the Foreign Office, security and intelligence services, and Department for International Development.
- The MoD will have to meet very difficult targets for reducing costs. The attempt to reduce numbers of civilian personnel by 30% is especially challenging. If projected savings prove impossible to achieve, the MoD may be forced to look at further cuts in front-line capabilities in order to balance its books.
- As a result of the decision to ring-fence Afghanistan-related capabilities, the UK will soon have one of the most land-centric force structures of any modern volunteer military. By 2015, land forces will account for around 65% of total service personnel, compared with current levels of around 55% in the US and France, 53% in Canada, and 50% in Australia. There is a reluctance to consider steeper reductions in army personnel numbers while operations in Afghanistan are still ongoing. But there will be a strong case for a new 'interim' SDSR once substantial progress has been made on withdrawal from Afghanistan.

## **Analysis**

### **Hard Times Ahead**

The Spending Review, published on 20 October, announced that the core defence budget will be cut by 7.5% in real terms over the four years to 2014/15. This is not the first cut in defence spending in recent history. Between 1989/90 and 1999/2000, the end of Cold War confrontation created conditions in which the government felt able to cut the defence budget by 21% in real terms. This new round of cuts, by contrast, is primarily a response to a worsening fiscal environment, not to an improved strategic situation.

The Ministry of Defence (MoD) has gained agreement to 'back-load' its required savings into the last two years of the Spending Review period. As Table 1 shows, the real defence budget will not fall below current levels until 2013/14, and most of the total 7.5% cut will take place in 2014/15. The lack of real budget cuts during the first two years reflects high levels of anticipated spending on redundancy and decommissioning, together with the difficulties involved in making rapid cost savings.

The Treasury has also made explicit provision for continuing operational expenditure in Afghanistan (and/or elsewhere), while assuming that this will decline from £4.1 billion this year to £3.2 billion by 2014/15 (see Table 1 below). The size of this allocation is, however, highly dependent on operational demands.

### **Sharing the Pain**

The continuing priority of Afghanistan has had an effect on budget allocations that extends well beyond the level of funding from the Special Reserve. In particular, it seems to have been a key factor in the significant shift in government priorities in favour of defence.

Defence has, since the mid 1950s, been given budgetary allocations that have been markedly less generous than those provided to social protection, health, law and order, and education.<sup>1</sup> As a result, the share of defence in total government spending has fallen sharply over time.

By contrast this spending review has resulted in the MoD's share in total departmental expenditure rising from 8.7% to 9.1% over the next four years. The defence budget has been cut by significantly less than those for police, prisons, universities, local government and housing. It has also enjoyed a healthier settlement than education, largely because of the latter's acceptance of steep cuts in capital spending on schools. Health has obtained the best settlement of the major departments. Even here, however, the gap with defence has narrowed sharply. Since 1983, under both Conservative and

Labour governments, health spending has consistently grown at an annual rate that has been around 5% higher than that for defence. Over the next four years, by contrast, this gap is due to narrow to just 2% per annum.

This shift in spending priorities towards defence may partly reflect the greater practical difficulty involved in making rapid and deep cuts where a large share of the future defence budget is already subject to contractual commitment. However, steeper reductions have been made in the past, notably in the years after the end of the Cold War. A more convincing explanation is that operations in Afghanistan have made it much more difficult to make economies in related capabilities, as well as increasing political commitment to defence more generally. Furthermore, in contrast to departments that enjoyed more generous settlements over the last decade,

**Table 1:** Back-loading the Cuts.

	2010/11 baseline	2011/12	2012/13	2013/14	2014/15
Defence DEL (cash)	32.9	33.8	34.4	34.1	33.5
Defence DEL (real)	32.9	33.2	33.0	31.9	30.5
Operations Reserve (cash)	4.1	4.0	3.8	3.8	3.5
Operations Reserve (real)	4.1	3.9	3.7	3.6	3.2

**Table 2:** Spending Priorities Compared (Major Departments).

Department	2010/11 Baseline (£ billions)	% change over four years (real terms)
International Development	7.8	+34%
NHS (Health)	103.8	+0.4%
<b>Defence</b>	<b>32.9</b>	<b>-7.5%</b>
Education	58.4	-11%
Scotland, Wales & N Ireland	53.7	-11%
Transport	12.8	-15%
Home Office	10.1	-25%
Justice	8.9	-25%
CLG Local Government	28.5	-27%
Business, Innovation and Skills	18.6	-28%
CLG Communities	9.0	-68%

Sources: *Spending Review 2010*, October 2010, Table A.9; Alex Barker, 'The full spending league table Osborne left out', *Financial Times*, 21 October 2010; *Office of Budget Responsibility Budget Forecast*, June 2010, Table C5 (for GDP deflator).

there may be less scope for cutting back on one-off capital spending (for example, compared with schools and hospitals) without undermining long-term capabilities. Whatever the reason, the Coalition Government has clearly decided that defence deserves a higher place in the pecking order of spending priorities.

### **No Strategic Shrinkage?**

The improvement in the MoD's relative budgetary position has been paralleled by similar settlements for other departments that contribute to foreign and security policy objectives:

#### *Intelligence and Security Agencies*

As a result of the growth in concern over Al Qa'ida-related terrorist threats since the September 2001 attacks on the US, and especially since the July 2005 attacks on London, the intelligence and security agencies (the Security Service, Secret Intelligence Service, and GCHQ) have been awarded significant real increases in their budgets. The 2010 Spending Review has allowed most of this increase to be maintained, requiring the agencies to make only a modest 6.6% reduction in spending from the £2.0 billion currently spent from the Single Intelligence Account (SIA). The Strategic Defence and Security Review, published the day before the Spending Review, announced that a further £650 million will be spent on a new National Cyber Security Programme during the next four years. It is not yet clear, however, how this will be allocated between the SIA and other departmental accounts.

#### *Foreign and Commonwealth Office*

The headline figures for the Foreign and Commonwealth Office (FCO) budget suggest that it has been cut by 28% in real terms from a baseline of £1.6 billion in 2010/11. Immediately before the Spending Review was announced, however, it was confirmed that the BBC World Service's £273 million grant-in-aid would be transferred from the FCO to the BBC itself. As a result of this transfer, the estimated fall in core FCO spending (excluding the World Service) will be around 11% in real terms. This is rather greater than the reductions for defence and intelligence, but significantly less harsh than for most of the other departments that were left 'unprotected' in the June 2010 budget. It will require significant economies to be made. But it should enable the FCO to avoid the radical shrinkage of the diplomatic network that some had feared.

#### *Department for International Development*

Not least, the Spending Review has reaffirmed the government's commitment to the target of spending 0.7% of national income on international development by 2013. As a consequence, the budget for the Department for International Development (DfID) will increase from £7.8 billion in 2010/11 to £11.5 billion in 2014/15,

a 34% increase in real terms. The SDSR also announced that a growing proportion of UK overseas development assistance will be devoted to tackling conflict and instability, with the aim of doubling the amount spent on such activities over the next four years. Prime Minister David Cameron has emphasised that ‘the money that we spend through our aid budget plays a key role in ensuring that there is no strategic shrinkage.’<sup>2</sup>

Together, these commitments suggest that, while the reduction in the budget deficit remains the government’s overriding priority, it has not been tempted to focus on domestic economic and political demands at the expense of international commitments. Compared with the rapidly growing emerging economies of Asia, some shrinkage in the UK’s relative weight in international affairs is very likely over coming decades. The relative protection given to international and security capabilities in this Review suggests, however, that the government does not intend to accelerate this process unduly.

### **Two Per Cent for Number Three**

US concern about the impact of the SDSR on the UK’s military capability has recently crystallised around a prediction that the UK defence budget might fall below the 2% target for the proportion of GDP, which it believes is the minimum that NATO member states have agreed to spend on defence.

Most members already fail to meet this guideline, including Canada (1.5%), Germany (1.4%), Italy (1.4%), the Netherlands (1.5%), Poland (1.7%), Romania (1.4%), Spain (1.2%) and Turkey (1.8%). Indeed the only European countries spending more in 2009 were Greece (3.1%), the UK (2.7%), France (2.1%) and Albania (2.0%). In contrast, the US now spends 4.0% of its GDP on defence, a sharp increase from the 2000 level and more than twice the NATO-European average of 1.7%.<sup>3</sup>

On the basis of the plans announced in the Spending Review, UK defence spending will fall to an estimated 2.2% of GDP in 2014, down from 2.7% in both 2009 and 2010. If all operational spending has ended by 2014, the defence/GDP ratio is projected to fall further, to an estimated 2.0%.<sup>4</sup> Given likely fiscal retrenchment in France and Greece, the UK could be the only European state that is still spending more than 2% by that date. In an increasingly demilitarised Europe, the UK should remain relatively less demilitarised than most of its allies.

In the same vein, the government’s expectation that it will ‘continue with the fourth largest military budget in the world’ seems well-founded, and perhaps even a little cautious. UK

defence spending in 2009 was only 10.3% of that of the US (\$59 billion compared with \$574 billion). It is also likely to fall further behind the level of China, which spent an estimated \$100 billion on defence in 2009, and continues to increase its defence budget at least as rapidly as its booming economy. But the UK will probably continue to spend roughly as much on defence as other medium-ranking powers, such as Russia (\$53 billion), Japan (\$51 billion), Germany (\$47 billion), and India (\$36 billion).<sup>5</sup>

The UK's nearest comparator on defence spending and capability (as in so many other areas of foreign policy) remains France, which spent an estimated \$54 billion (or €39 billion) on defence in 2009, around 8% less than the UK. Depending on exchange rate trends, the UK and France could share the third and fourth places in the global defence spending league table for some years to come. Whether they can translate this into commensurate international influence will depend, as it always has, on factors beyond the simple arithmetic of defence budgets. Not least amongst these will be the extent to which European countries are able to work more effectively (and efficiently) together, while maintaining core national capabilities. The defence treaty between the UK and France, agreed in November 2010, provides some hope for progress in this area.

#### **An Ambitious Plan**

While the Spending Review settlement for defence appears relatively generous compared with other government departments, it will still be very tough to manage the transition from a budget that has been rising at an average of 1.4% per annum in real terms since 1999 to one that is due to fall at an average annual rate of 2%.<sup>6</sup>

As previous RUSI papers have discussed, there is a long-established trend for the unit costs of numerical defence capabilities to grow over time. Military pay is likely to continue to increase at between 1% and 2% above the rate of inflation.<sup>7</sup> New generations of equipment tend to be significantly more expensive than those that they replace. Not least, increasing requirements for expensive 'enablers' (command and control, reconnaissance, transport, etc.) and personnel support (including housing and medical support) further increase the unit costs of front-line capabilities.

Because of these trends, even modest real increases in defence spending tend to be accompanied by continuing reductions in numerical capability. Thus, for example, while the defence budget (excluding operations) rose by 9% in real terms between 1998 and 2008, numbers of service personnel fell by 10% and numbers of civilian personnel by 20%. The number of available aircraft (across

all three services) fell by 27% and the number of major naval vessels fell by 24%.<sup>8</sup>

Predictions of continuing unit cost growth ensure that, even if the defence budget had been protected in real terms after 2010, significant reductions in numerical capabilities and personnel numbers would have had to have taken place. The MoD has calculated that, with the total budget protected in real terms, and assuming no significant reduction in numerical capabilities or personnel, the inherited forward defence programme would have exceeded £38 billion over the next ten years. This greatly exceeds the £6 billion 'funding gap' estimated by the National Audit Office as recently as June 2010. But it is broadly consistent with continuing real unit cost growth at the historic trend rate of around 1.7% per annum.<sup>9</sup>

Yet the defence budget is not being protected in real terms. As a result, once account is taken of continuing growth in unit costs, the MoD will need to make cuts in planned 2014/15 capabilities of around 13%, substantially greater than the 7.5% cut announced in the Spending Review. This is comparable to the MoD's estimate that it will need to make cuts of around 16% from the planned 2014/15 programme. The SDSR was careful not to claim that it has identified all the savings that will be needed to close this funding gap, even for the next four years.<sup>10</sup>

The freeze on public sector pay for the next two years, including spending on armed forces pay, does provide some much-needed relief. As a result of the pay freeze, it is projected that the average cost of service personnel will rise by only 0.8% per annum over the next two years, well below the economy-wide inflation rate of 2.1% per annum.<sup>11</sup>

Once the pay freeze ends in 2012/13, however, it is likely that the Armed Forces Pay Review Body will seek to restore previous private-sector relativities for military personnel, not least because of concerns over recruitment and retention. For the purposes of this analysis, it is therefore assumed that service pay levels return to their historical relationship with economy-wide pay levels by 2014/15. No such adjustment is made in relation to civilian personnel, whom it is assumed will not be able to restore the sharp reduction in their relative pay that is due to take place over the next two years. With pay driven by recruitment requirements, and with plans to continue to drive down numbers, MoD civilians will be unable to quickly reverse the decline in their relative pay.

On these assumptions, it is possible to calculate the impact of planned reductions in personnel numbers on the projected

personnel budget. The SDSR announced that the total number of trained service personnel would be reduced to around 158,000 by 2015. As of April 2010, however, there were 178,000 trained service personnel in post, which means that the total reduction over five years will be around 20,000, or 11% over five years.<sup>12</sup> The SDSR also announced that the number of MoD civil servants will decrease by 25,000 to 60,000 by 2015.<sup>13</sup> The total number of MoD employees is thus due to fall by 45,000 over the next five years, equivalent to a reduction of 17%. If achieved, this would allow total personnel spending to be cut by around 9% in real terms.

The SDSR has also announced significant, and in some cases very painful, reductions in front-line capabilities. With the removal of four frigates and three other ships from active service, the number of major vessels in the Royal Navy will fall from thirty-nine to thirty-two.<sup>14</sup> The RAF is making significant reductions in the size of its aircraft fleet.<sup>15</sup> The army has also had to make some reductions, albeit proportionally less severe than in the other two services.<sup>16</sup>

In order for these front-line reductions to generate sufficient savings, however, the MoD will have to meet challenging targets for reducing support costs. The plan to reduce civilian personnel numbers by 30% over five years is more ambitious than anything ever before attempted by the MoD. Civilian numbers were reduced by 27% between 1998 and 1998, and again by 20% between 1998 and 2008.<sup>17</sup> Yet not only is the current 2010–15 plan designed to be achieved in less than half the time of these two previous reductions. Importantly, it also assumes a rapid, and radical, shift in the ratio of civilian to service personnel in favour of the latter.<sup>18</sup> The SDSR has provided few details on how such a shift can be achieved without having to transfer significant non-military tasks to (less cost-effective) service personnel.

‘Identified’ new non-front-line savings, as a result of which reductions in both civilian and personnel numbers should be possible, are said to total at least £4.3 billion over the Spending Review period (amounting to around 5% of the total budget by 2014/15). These include cutting over £300 million per year from service and civilian personnel allowances, ‘saving significant amounts from contract re-negotiations’, and increased use of simulators in training.

A reduction in annual running costs of the defence estate by £350 million is also planned, but few details are given as to how this will be achieved. While three RAF bases will be closed, some might have to be reconfigured (at additional expense) to house army personnel returning from Germany. While the size of the Royal Navy is being

reduced further, the government is committed to maintaining all three main bases – Faslane, Portsmouth and Plymouth – in service.

Observers of past defence budgets, including the 1998 SDR, are well aware of the problems that can be stored up if planners make unrealistic assumptions about future efficiency savings. The SDSR has only just begun to identify where savings can be made. As a result, starting with this year's Planning Round, many more difficult decisions are going to have to be taken. If planned efficiency savings prove impossible to achieve in the agreed timescale, the government will have to look again at some of the force structure decisions made in 2010.

### **Beyond 2015**

Despite the initial hope that the SDSR would set the MoD on a path towards a sustainable force structure for 2020, the overriding priority has been to provide the capabilities necessary to sustain current Afghanistan commitments. As a result, as the SDSR implicitly concedes, work has only just begun on identifying how to close the funding gap that remains for the period 2015–2020. The SDSR states that 'for now' it will assume that military personnel numbers will be reduced by only 3,500 (or 2%) between 2015 and 2020. At the same time, the second half of the decade will also see intensifying pressure on the equipment budget. Some major procurement programmes (notably *Astute* and *Typhoon*) are due to be completed by the middle of the decade. But orders will need to be placed for around forty Joint Strike Fighters, together with the new catapult gear necessary to launch them, if the single new carrier is to enter service (as now scheduled) in 2020. Room will also have to be found for the running costs of the new carrier and its aircraft. The Main Gate decision for the *Vanguard* replacement submarine is due around 2016, after which (unless there is another postponement) spending is likely to increase to around 4% of the total budget by 2020. New investments will be needed to support land forces, notably in medium weight armoured vehicles, and new ISTAR and cyber capabilities, as well as in a new generation of frigates for the Royal Navy.

Yet it is hard to take difficult decisions in relation to longer-term force structures while there is no agreement between the MoD and the Treasury on what planning assumption should be made on the size of the defence budget. The prime minister has made clear his 'own strong view' that the planned force structure will require 'year-on-year real-terms growth in the defence budget in the years beyond 2015'.<sup>19</sup> But decisions on this will be a matter for future Spending Reviews, the outcome of which will depend on both the economic and political conditions prevailing at the time.

If the MoD were to be allowed to return (after 2014/15) to the 1% annual real growth of the last decade, for example, this would reduce the projected 'budgetary overhang' for 2020 by around £2.5 billion. Provided that unit cost growth can be contained at around 2% per annum, the remainder of the funding gap could then be plugged through a reduction in military personnel of around 10,000 from planned 2014 levels, together with a 5–10% further reduction in front-line capability numbers.

By contrast, if it became clear that the MoD could not expect any real increases after 2014, much steeper reductions – in both personnel and front-line capabilities – would be required. In announcing the results of the SDSR, the government pointed out that, even with a budget that was level in real terms, it would have had to tackle an unfunded ten-year over-commitment in the forward programme amounting to around £38 billion. Provided that projected efficiency savings can be made – a big 'if', admittedly – the measures announced in the SDSR have probably removed most of the inherited funding gap for the next four years. But many more difficult decisions will need to be made if the remaining funding gap, most of which is concentrated in the years after 2014, is to be eliminated.

### **Beyond Afghanistan**

The main determinant of the outcome of the SDSR, beyond the need to make substantial financial savings, was the decision to ring fence capabilities that were required for support of ongoing operations in Afghanistan. As a result of this commitment, total army personnel numbers were reduced by only 7%, compared with cuts of 15% and 18% in the Royal Navy and RAF respectively. Although significant cuts were made in holdings of tanks and heavy artillery, there were no accompanying reductions in numbers of armoured and artillery regiments. By contrast, reductions in front-line aircraft and ships will be accompanied by significant reductions in personnel.

As a consequence of this differential, which continues and intensifies the trend of the last decade, the UK will have one of the most land-centric force structures of any modern volunteer military. By the time that SDSR reduction plans for 2015 are fully implemented, land forces will account for around 65% of total UK service personnel, compared with current levels of around 55% in the US and France, 53% in Canada, and 50% in Australia. Even Germany, once it moves to an all-volunteer force, is likely to have a less land-focused structure.

The SDSR has thus continued the shift towards ground forces that has been an important theme of successive adjustments – driven first by Iraq and now by Afghanistan – over the last decade. It has

not made an explicit argument that it is the UK's interest to become the most land-focused of NATO's major military powers. Indeed, on one influential reading, the government has been content to leave a large funding gap after 2015 precisely because it knows that it will want to rebalance the force away from land capabilities post-Afghanistan, but does not believe that it would be politic to say so now. Yet defence plans have a momentum of their own. And the longer that the current imbalance of capabilities continues and grows, the more difficult it may be to reverse.

If the government were to be persuaded that the nature of modern conflict dictates the maintenance of a land-centric force structure after 2015, it would probably have to revisit some of the more radical options for reductions in maritime and air capability considered, but rejected, during the SDSR. Such options would have to include most of the following: the abandonment of the commitment to introduce a new carrier into service in 2020; a further reduction in surface escort numbers, perhaps to around twelve; the decommissioning of most remaining amphibious ships; and further reductions in fast jet numbers, together with F-35 postponement and a consolidation of the fleet around Typhoon (the model adopted by Germany).

Such a programme might find favour with those who believe that high-technology air and sea platforms are largely a legacy of the Cold War, and that in future the UK need only prepare for 'wars amongst the people'. Before dismissing the requirement to deter conventional war with other well-equipped states, however, it is worth observing that other significant military powers – including rising powers such as India and China, as well as close allies such as the US and France – continue to invest heavily in air and maritime capabilities.

Planning defence capabilities in an age of uncertainty necessarily involves a balancing of risks. Given the difficulties involved in rebuilding high-technology capabilities when they have been abandoned, there is a strong case to be made that the shift towards a more land-centric force structure (taken incrementally as a result of Iraq and Afghanistan) has now gone too far. If the government were to accept that this is the case, it would be important to use Afghanistan withdrawal as an opportunity for a significant rebalancing of the force structure towards sea and air capabilities.

### **Rebalancing the Force**

If the post-2014 defence budget remains flat in real terms, this is likely to require total service personnel numbers to be reduced by around 15,000 compared to the currently planned 2020 level of 154,500. Even if all of this reduction were to fall on the army, it

would leave it with a higher proportion of total personnel than it enjoyed in 2010. Most importantly, such a reduction – to an army of around 80,000 by 2020, rather than the current plan for 94,000 – would make it possible to preserve other key capabilities that might otherwise come under threat. One possible option for achieving such a reduction, some argue, would be to maintain the SDSR's five brigade structure but reduce some of the lower-priority elements (such as heavy armour) currently included. There may also be opportunities for rationalisation as a result of the new review of force generation assumptions, the results of which are due to be available by spring 2011.


A reduction in the planned size of the army would have an additional advantage. The SDSR has committed the government to return half of the 20,000 personnel in Germany to the UK by 2015, and the remainder by 2020. Some of these returning personnel might be accommodated in housing made vacant as a result of the closure of RAF bases (for example in Kinloss). And the total requirement for new housing may be further reduced by the plan for a new employment model for service personnel, in which there is less reliance on MoD-provided housing. If withdrawal from Germany continues on schedule without a commensurate reduction in army numbers, however, it will be hard to avoid generating greater demands for capital spending to accommodate returning personnel. By contrast, were significant reductions in army personnel numbers to be made, the demands for such investment could be much less.

#### **Towards the Next (2014) SDSR**

The government has made clear that it does not intend to decide now on a detailed force structure for the period 2015–20. But it will not be able to wait until the next SDSR, scheduled to conclude in autumn 2015, in order to do so. By that time, the government will be half way through 2015/16, budgets for which will have been set in an interim Spending Review, perhaps taking place in summer 2014. Depending on the extent to which the government wants to set longer-term priorities, provisional budgets may also have been set for 2016/17.

Some within the defence community have complained about the haste with which the SDSR has been conducted, and about the necessity of subordinating strategic decisions to fiscal imperatives. Yet the experience of the SDSR suggests that there can be considerable advantages in ensuring that a Defence Review is conducted simultaneously with a Spending Review. If the SDSR had been delayed, it would have been conducted on the basis of budgetary allocations already fixed by the Spending Review. By conducting both reviews at the same time, however, the full implications of different scenarios for defence cuts were more fully

grasped by Ministers before final allocations were made. Thus, while the MoD was initially asked to examine options for savings of 10% and 20% in real terms, it ended up with a significantly better settlement. Most other Ministries were not so fortunate.

If there is an interim Spending Review, therefore, defence may benefit from arguing that it should be accompanied by a parallel interim review of defence and security capabilities. If the UK is still heavily committed to Afghanistan at that time, the balance of argument may favour a holding review, pending a more fundamental SDSR in 2015. If substantial progress has been made in the withdrawal from Afghanistan, however, an interim review may be a welcome opportunity for re-examining the balance of capabilities needed in an age of uncertainty. 

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<sup>1</sup> For further details, see Malcolm Chalmers, 'Preparing for the Lean Years', RUSI Future Defence Review Working Paper 1, July 2009.

<sup>2</sup> 'Strategic Defence and Security Review', *House of Commons Debates*, 19 October 2010, col. 798.

<sup>3</sup> NATO, 'Financial and Economic Data Relating to NATO Defence', *NATO Press Release*, 10 June 2010, Table 3.

<sup>4</sup> UK reporting of defence expenditure to NATO is on a cash basis, and therefore excludes the non-cash elements of depreciation and capital charges, but includes spending on assets in the course of construction. It accords to the near-cash estimate of defence spending. It includes the costs of operations, and also includes spending on pensions. The author is grateful to Neil Davies, Defence Analytical Services Agency, for assistance on this point.

<sup>5</sup> Data for NATO member states are taken from NATO, *op. cit.* Figures for non-NATO states are taken from Stockholm International Peace Research Institute, Military Expenditure Database, <http://www.sipri.org/>. Last accessed 30 October 2010.

<sup>6</sup> The defence budget (near-cash terms) rose by 14% between 1999-2000 and 2010/11. MoD statistics.

<sup>7</sup> HM Government, *Securing Britain in an Age of Uncertainty: The Strategic Defence and Security Review*, 2010, p. 31.

<sup>8</sup> See Malcolm Chalmers, *Capability Cost Trends: Implications for the Defence Review*, RUSI Future Defence Review Working Paper Number 5, January 2010, for further discussion.

<sup>9</sup> National Audit Office, *Major Projects Report 2009*, December 2009, and also used in National Audit Office, *Strategic Financial Management of the Defence Budget*, July 2010, pp. 11-15. These reports also estimated a funding gap of as much as £36 billion, but only on the assumption of no increase in the cash MoD budget between 2010/11 and 2018/19. The MoD's estimate of a £38 billion funding gap, which uses a baseline of a MoD budget that is constant in real terms, is thus significantly more pessimistic (but probably more realistic) than that used by the NAO. The unit cost of defence capabilities grew at an average rate of 1.7% per annum between 1988 and 2008. 'Capability Cost Trends', *op. cit.*

<sup>10</sup> 'We must *start* to tackle this legacy before we can *begin* to put Defence on a sound and sustainable footing for the future.' SDSR, p. 15. Author's emphasis.

<sup>11</sup> This estimate assumes that 25% of the MoD workforce, accounting for around 15% of MoD personnel spending, will receive the flat-rate £250 annual increase

promised in the 2010 Budget. Because members of the armed forces (up to 1\*) will continue to receive annual pay increments, it also assumes that reduced levels of recruitment will lead to 'incremental drift' in average military pay levels throughout the next four years.

<sup>12</sup> The Review states that it is planning for a total reduction of around 17,000 personnel. But this appears to refer to a reduction from previously planned levels for 2015, which seems to have included a reduction of 3,000 in RAF numbers. The calculation here uses figures from the most recent Monthly Manning Report. Ministry of Defence, *UK Armed Forces Monthly Manning Report at 1 September 2010*, 21 October 2010.

<sup>13</sup> *Strategic Defence and Security Review, op. cit.* p. 32.

<sup>14</sup> In addition to the withdrawal of the four remaining Type 22 frigates, one carrier (HMS Ark Royal) is being decommissioned immediately, a choice will be made as to whether to decommission the second carrier (HMS Illustrious) or the helicopter carrier HMS Ocean, and one of the two Albion-class landing platform docks (only commissioned in 2003/04) will be placed on extended readiness.

<sup>15</sup> Reductions include the withdrawal from service of Harrier, a reduced Tornado fleet as Typhoon comes into service, and the withdrawal of the newly-constructed £3.6 billion Nimrod maritime reconnaissance aircraft. The Sentinel airborne ground surveillance aircraft (which only began to enter service in 2008, at a cost of £800 million) is to be withdrawn once it is no longer needed in Afghanistan. The plan to order 24 Chinook helicopters has been reduced to 12.

<sup>16</sup> The regional administrative structure is being rationalised, and the number of deployable brigades reduced from six to five. Holdings of tanks and heavy artillery will be reduced by 35–40%, but without commensurate reductions in the units with whom they are deployed.

<sup>17</sup> Figures adjusted to exclude privatised posts. They also exclude unpaid employees, around 6,000 of whom are included in the current total of 85,000.

<sup>18</sup> Once adjusted for privatised posts, the number of civilian personnel increased from 50% of the number of trained service personnel in 1988 to 54% in 1998 before falling back to 48% in 2008 and 45% in 2010. The plans announced in the SDSR assume that this can be reduced to 38% by 2015.

<sup>19</sup> *Strategic Defence and Security Review, House of Commons Debates*, 19 October 2010, col. 799.

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