



SDSR 2015: Ends, ways and means, or making ends meet?

Foreword – Sir Edward Leigh MP

The allocation of government spending during a programme of deficit reduction is always going to be a complicated and highly divisive task. These programmes, such as the one currently being undertaken in the United Kingdom, when paired with the often quoted adage that there are no votes in defence, certainly appears to have the potential to spell disaster for the share of public finances dedicated towards defence spending.

In the budget of July 2015, however, Chancellor George Osborne pledged to commit the country to the NATO defence spending target of an annual 2% of national income to be dedicated to the military for the duration of this parliament.

While such a commitment is clearly welcome news in an international political environment of great uncertainty and at a time when national sovereignty is constantly at risk from the threat of terrorism, Harry Malins raises the important point that it is not just that this money is being spent but how it is being spent that is important.

The Strategic Defence and Security Review in 2015 does, he is right to say, provide a unique opportunity to set the right direction for defence policy leading far into the future and, with now a clearer idea of the level of funds available for defence spending over the coming years, the warning issued here of the importance of thorough consideration by all involved and effected by the Review would indeed be well heeded by those concerned.

Sir Edward Leigh MP

Harry Malins

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Executive summary

The world has become more dangerous since the UK undertook its last Strategic Defence and Security Review (SDSR), in 2010; however, the fiscal environment remains constrained.

With the new Conservative government planning to undertake a "full" review in 2015, it is essential to get the process right if the output is to be fit for purpose. This means drawing on a number of lessons from previous reviews:

1. Publication should be wait until 2016 to ensure sufficient time for the analysis required, rather than rushing out the publication of a glossy PR document over the summer;
2. There must be absolute clarity on the UK's national objectives and how the SDSR will contribute to these;
3. There should be an iterative discussion between the Treasury and MoD on resource requirements and availability, and robust analysis to demonstrate exactly where savings may be found;
4. The SDSR must be based on an understanding of how decisions made will impact the UK's industrial base and operational sovereignty;
5. Consultation with stakeholder groups including academia, allies, industry and MPs is essential; and
6. Continuity of leadership and "buy-in" from those responsible for implementation are required if the SDSR is to have a meaningful impact.

Over the medium- to long-term, the government should also address the numerous organisational barriers to effective defence and security planning that exist within Westminster and Whitehall.

There is little to be gained from a rushed SDSR; but there is a great deal to be lost if proper thought is not put into the future of our armed forces in an increasingly dangerous world

About the Bow Group

Founded in 1951 the Bow Group is the oldest Conservative-supporting think tank in the UK and a leader in the marketplace of ideas. It exists to publish the research of its members, stimulate policy debate through a programme of events, and provide an intellectual home to conservatives. The Bow Group's Patrons include Lord Lamont, Lord Howe, Lord Tebbit, Dr David Starkey and Professor Roger Scruton.

Although firmly housed in the conservative family, the Bow Group does not take a corporate view and it represents all strands of conservative opinion.

Introduction

Now that we have a stable, Conservative majority in the UK, with a clear mandate given to David Cameron on May 7th, one of the first tasks facing the new government will be the development of a Strategic Defence and Security Review (SDSR).

There was little focus on defence or foreign policy during the election campaign, with debate limited to the renewal of Trident, and to whether the parties would commit to the NATO requirement to spend at least 2% of GDP on defence. Promises to develop a new SDSR were one of the few areas of common ground in the

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manifestos of the major parties, although the way in which each would be carried out and the potential implications for defence varied – in some cases considerably. However, the notion that "there are no votes in defence" largely held out, with serious decisions on defence deferred until after the election.

The recent budget commitment to meeting the 2% NATO target every year of this decade is commendable, and has already done much to reaffirm our international standing. However, the size of the defence budget is not the be all and end all – it's what you do with it that counts. It is not yet clear how the 2% of GDP allocated to defence will be spent, or whether spending growth will translate to increased effectiveness of the armed forces. The reality is that the fiscal environment in the UK remains constrained by the deficit, and no government is going to provide the MoD with a blank cheque to spend as it sees fit. All the more reason for the MoD to develop a rigorous plan that enables it to pursue the UK's national objectives while living within its means.

This is where the SDSR comes in. According to UK Defence Doctrine, the SDSR is a long-term plan based on the requirements of the armed forces in 10 years' time. The direction for defence is set by the SDSR based on expectations relating to the future operating environment, informed by the reality of finite



resources. This is a complex endeavour, in which the defence planner must balance a number of potentially divergent interests

and influences in order to commit to a view of a highly uncertain future, upon which the very survival of the nation may depend. It is no wonder that past reviews have been criticised for getting things wrong.

However, the complexity of the task should not mean that we accept defeat from the outset. Indeed, the seriousness of what is at stake should be all the more reason to ensure that we develop an SDSR that is as rigorous as it can be, particularly in a time of severely constrained resources. The document should not become, as David Cameron has suggested it will be, merely a refresh that is "in the same vein" as the 2010 version.ⁱ If the outcomes are similar, this should not be because the 2010 SDSR has just been "dusted off", but because serious thought and analysis has led to the same conclusions; however, given the major changes that have occurred in the geopolitical and threat environment since 2010, it would be surprising if this were the case.

These include the UK's withdrawal from Afghanistan, the Arab Spring, the rise of the Islamic State (IS) in Syria and Iraq, Russian revanchism – including Mr. Putin's actions in Crimea and Eastern Ukraine, and the increased frequency of incursion into UK air space by Russian bombers – as well as the decline in NATO defence budgets, increased defence spending among emerging powers, investment in anti-access/area denial (a2/ad) capabilities by Russia and China,

the US 'pivot' to the Asia-Pacific region, progress with the Iranian nuclear negotiations, and other developments too numerous to list.

Each of these has significant implications for UK defence and security strategy: the world does not look the same in 2015 as it did in 2010, and our expectations for the defence and security environment over the next 10 years must be informed by this.

How should the SDSR be approached?

We therefore need to be confident that the process by which the 2015 SDSR is developed will take the lessons from previous reviews into account, and will result in output that is fit for purpose rather than just a rushed PR document.

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Timing and duration

Firstly, the timing and duration of the review process must be appropriate to the level of analysis required. The 1997/98 SDR, undertaken by the Blair government, was developed over a drawn-out period of time: the official process was launched in May 1997 and initially expected to take six



months. This was extended to nine months, and the SDR was finally published after 14 months, in July 1998. This enabled consultation with academia, allies, industry, and a number of other key stakeholders. It resulted in a coherent review which gave full consideration to the multiple complex inputs required.

In 2010, however, the process lasted just five months, having been launched in May, with the output published in October. The result was that some of the key personnel working on the SDSR were unavailable at important times – many of them on their summer holidays – and the majority of the work was therefore conducted over a period of six weeks. There was limited consultation with external experts and allies in an attempt to avoid the leaks to the press that had characterised the 1997/98 review.

In a series of interviews conducted with leading industry and government figures by Roland Berger Strategy Consultants in 2014, many participants argued strongly that it would be preferable to delay the publication of the next SDSR to 2016 in order to ensure that there is sufficient time for preparation.ⁱⁱ Critics of this approach argue that it is important for the SDSR to be tied to the Comprehensive Spending Review (CSR) so that there is some iteration between the MoD's views on its requirements and the resources made available by the Treasury, and that the SDSR must therefore follow the same timeline as the CSR. However, this logic does not hold.

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It would be better for the MoD to take the time to put real thought into its resource requirements during the period of the CSR without the diversions associated with finalising and publishing a fully-formed, glossy SDSR document. This would enable the MoD to have an informed discussion with the Treasury about its top-level budgetary requirements before the publication of the CSR, and then to spend sufficient time on the finer detail of how resources are allocated.

A further argument for delaying the publication of the SDSR to the year following a General Election is that this gives key Ministers and Officials sufficient time to 'settle in' to their roles. The Conservative victory and reappointment of Michael Fallon as Secretary of State for Defence has ensured some continuity this time, but the commitment to holding an

SDSR every five years in the same year as an election will inevitably mean that reviews are often conducted by Ministers who are new to their posts, and may have little real understanding of defence at the time when the review is conducted.

Inputs and assumptions

If the next SDSR is to have a chance of becoming the document that the armed forces need, it will require a coherent and well-developed set of inputs and assumptions.

Firstly, there must be absolute clarity on UK national objectives, with direction on these given by the government. The SDSR is not there to develop UK grand strategy, but it is essential that it should be informed by it. Previous reviews have been criticised for lacking a strategic underpinning, while it is often argued that the UK lacks a grand strategy, and instead tends to 'muddle through' as events unfold.ⁱⁱⁱ However, it can be argued that since World War II, the UK has had a clear and consistent grand strategy based on free trade and a rules-based international order, supported by close economic relations and a permanent alliance with fellow democracies – particularly the US.^{iv}

The next SDSR should therefore be informed both by UK Foreign Policy, and by a new National Security Strategy (NSS). UK Defence Doctrine states that "the SDSR identifies the means and ways across Government which are needed to deliver the ends described in the NSS."^v The quality of the defence review will therefore be highly

dependent on the quality of the NSS; however, the previous NSS was subject to many of the same shortcomings as the SDSR. Parliament's Joint Committee on the National Security Strategy criticised it for involving insufficient preparatory time and expert consultation, and for failing to involve Parliament or the public in

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its development. According to the Committee, the next NSS should be undertaken in time to inform CSR security allocations, there should be a classified version of the NSS to ensure that it can address sensitive issues comprehensively, and the NSS "should set clear objectives for the UK's future place in the world and geopolitical priorities."^{vi}

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Similarly, there must be absolute clarity on the financial resources available to the armed forces and security services. In 1997/98, the SDR was developed prior to the CSR and used to inform the Treasury's allocations. The result was that while the SDR was foreign policy-led, it did not receive sufficient funding as the resources required for the choices made were never realistically going to be available. The relationship between the SDSR and the CSR should be iterative, with the early phases of the SDSR process informing the Treasury of the high-level budgetary requirements to meet the needs outlined in the NSS. Based on this, the MoD should be given firm numbers upon which to base its assumptions in finalising the SDSR. While many advocates of the defence sector would like to see a world in which the MoD is given a blank cheque by the Treasury, this is never going to materialise in reality, least of all in a highly constrained fiscal environment.

The need to get the inputs to the SDSR right is a key reason for ensuring that the process is given sufficient development time. The team developing the 2010 SDSR was reliant on poor quality financial information throughout, with predicted savings figures relating to specific programmes remaining imprecise even after

publication.^{vii} Moreover, while the MoD undertook significant preparatory work in advance of the 2010 SDSR, with over 40 individual policy and capability studies produced prior to the review process, and a Green Paper published in February 2010, in the event much of this work was effectively sidelined as responsibility transferred from the MoD to the Treasury



and Cabinet Office, while the scope of the review changed under the coalition government. It appears that the MoD has already undertaken significant preparatory work in advance of the next SDSR,^{viii} although few details have been released. It is to be hoped that this work was extensive and will be taken into full consideration in developing the review.

One area of particular concern is that decisions made in the next SDSR will be taken without due consideration for their impact on the UK's sovereign capability – in other words, the indigenous capability of the UK's defence industry to provide the equipment that our armed forces need. A recent report by KCL highlighted the "dearth of data and rigorous analysis"^{ix} underlying defence spending decisions. Without this analysis, not only do we fail to understand the economic impact of spending decisions, we also risk degrading our technical expertise to the extent that in future we will be dependent on foreign suppliers for our most essential defence equipment. In an environment of limited threat this may be acceptable, but it minimises our ability to act independently when we really need to, when the global threat environment deteriorates.

Consultation

This point gives a clear justification for additional consultation with key stakeholders in developing the next SDSR. Industry's inputs on the economic and strategic impacts of spending choices are essential to informed decision making. Only the Defence sector can provide the level of analysis on our industrial base that is required to make truly informed decisions in relation to sovereign capability.

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The UK's closest allies must also play a role: given that our armed forces are likely to be operating in coalition in most conflict scenarios for the foreseeable future, this seems an obvious point. As in the economic theory of relative comparative advantage, there is a strong argument for specialisation in military capability among close allies. This approach would give NATO the best chance of becoming greater than the sum of its parts at a time when resources are even more constrained than usual. This is not to suggest that the UK should get rid of its capacity to act independently, but that in some areas where we have more to offer – for example our special forces, intelligence services, and (historically) our maritime capability – we should maintain the highest capability while benefitting from our allies' strengths and investment in areas where we are weaker. The SDSR is an opportunity at least to give this approach consideration, and must therefore involve close consultation with the UK's closest allies.

There are also clear arguments for consulting groups such as academia, and Members of Parliament as representatives of the British public, in developing the next SDSR. Such consultation should not be a mere token gesture, but should be genuine and extensive, with the output clearly reflected in the final document.

Organisation and leadership

The organisation within which the SDSR is developed, and leadership of the process are also of huge importance, and this is another area that has been criticised in past reviews. According to UK Defence Doctrine, "Defence strategy...is a Department of State function, owned by the Secretary of

State for Defence. Its delivery is the joint responsibility of the Permanent Under Secretary (PUS) and Chief of the Defence Staff (CDS)."^x There is a strong argument for a coordinated approach across government given the inclusion of 'Security' within the remit of defence reviews as of 2010, and it is therefore appropriate that steering and oversight should be provided by the National Security Council and Cabinet Office, as was the case in 2010. However, in 2010 the Treasury also had an explicit role in leading the SDSR which seems less appropriate to Defence Strategy. While the Treasury should be involved, with the final say over the overall budget, as discussed above, any role beyond this will inevitably lead to the accusation that the SDSR is financially driven, and therefore not strategic.



It is also essential to ensure that those leading the SDSR – in particular, the Secretary of State, PUS and CDS – have contributed to its development, and are accountable for its output. In 2010, there were changes in two of these roles in October – just as the SDSR was published – with transitions to both a new CDS

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(General David Richards succeeding Air Chief Marshall Sir Jock Stirrup) and a new PUS (Ursula Brennan succeeding Sir William Jeffrey), while Liam Fox resigned as Secretary of State in October 2011, just one year after the SDSR's publication. Under such circumstances there can be no real accountability for delivering the SDSR. Equally, it is essential to involve the three service chiefs in order to ensure that they are 'bought in' to the final report and accountable for its delivery.

A further barrier to an effective review is the organisational shortcomings within Whitehall and the MoD, which should be addressed over the medium-term in order to improve the UK's defence planning. Whitehall has been the target of criticism from defence planners for many years, with Defence Secretary John

Nott identifying three obstacles to implementing the reforms recommended in his 1981 Defence White Paper (the 'Nott Review'): the system of annual Treasury budgetary control, "so organized as to prevent any serious long-term financial planning"; the "disciplined and hierarchical nature" of the Services, which had a

"negative influence on any radical forward thinking," and the tendency for civil servants to focus on shielding their Ministers from trouble.^{xi} These problems all still exist in some form today. More recently, Whitehall has been criticised for lacking the appropriate methodologies, processes, culture and structure for defence planning, with one of the root causes being widespread and wilful avoidance of personal accountability.^{xii}



Within the MoD, organisational barriers to effective defence planning include inter-service rivalry, resulting in tribalism in which each service fights to defend its own perceived interests at the expense of the others; stifling of open and objective internal debate due to factors such as personal career interests; and excessive bureaucracy. The development of effective defence reviews requires an organisation staffed with highly skilled employees in which debate occurs freely and openly, with a level of detachment from entrenched interests. It must be highly flexible, adaptable, and accountable. The changes that are required within the MoD and Whitehall to achieve an organisation that is suited to effective defence planning are highly challenging and would take years to realise. However, they would have far-reaching benefits for the UK's national security and defence, and the process of improvement should begin now.

Conclusions

There is little optimism within the Defence sector that the next SDSR will be a significant improvement on the 2010 exercise; however the Conservative government has an opportunity to provide the strategic direction that our armed forces and security services need at a time of increasing instability. To miss this opportunity by delivering an SDSR that is not fit for purpose would be to risk undermining the long-term security of the UK. There are clear measures that the government can take, at no real cost, to deliver an SDSR that will provide a strong foundation for our armed forces. The principle that the first duty of government is the defence of the realm is fundamental to conservative thinking, and now that we have a majority Conservative government for the first time in 18 years, it would be appropriate to reflect this principle by conducting the SDSR that the UK really needs.

About the Author

Harry Malins is a Senior Consultant at Roland Berger Strategy Consultants, where he focuses on Aerospace & Defence, having started his career in industry at Rolls-Royce and BAE Systems. He is currently undertaking a part-time PhD in War Studies at KCL, focusing on the relationship between grand strategy, defence planning and industry. Harry has an MBA from ESCP Europe, an MA in Conflict Resolution from Georgetown University, and achieved First Class honours in History, Philosophy and English at Durham University.

Notes

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- vii Dover, Robert and Mark Phythian, "The Politics of the Strategic Defence and Security Review: Centralisation and Cuts", Political Quarterly, 2012
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- xi Nott, cited in Baylis, John, *British Defence Policy* (London: The Macmillan Press, 1989)
- xii Shaw, Jonathan, *Britain in a Perilous World: The Strategic Defence and Security Review We Need* (London: Haus Publishing, 2014)