

Impact case study (REF3)

Institution: King's College London		
Unit of Assessment: 19 Politics and International Studies		
Title of case study: Improving UK defence industrial policy to better leverage economic gains from defence expenditure		
Period when the underpinning research was undertaken: 2013 – 2020		
Details of staff conducting the underpinning research from the submitting unit:		
Name(s):	Role(s) (e.g. job title):	Period(s) employed by submitting HEI:
Dr Benedict Wilkinson	Director of Research, King's Policy Institute	From March 2013
Prof Andrew Dorman	Professor of Defence Studies	From Aug 2000
Prof Matthew Uttley	Professor of Defence Studies	From Aug 2000
Period when the claimed impact occurred: 2015 – 2020		
Is this case study continued from a case study submitted in 2014? N		

1. Summary of the impact

In 2018/19, the UK Ministry of Defence (MoD) spent more than GBP38 billion on defence. At just over 10% of public expenditure and with a decade-long defence equipment budget of GBP183 billion, defence involves government spending on a massive scale. This expenditure could produce very significant economic and strategic benefits for the UK, but a variety of policy decisions have prevented the UK from reaping these benefits. King's research has played a critical role in identifying the UK's failure to reap the wider economic and strategic benefits of defence expenditure. Engaging with key stakeholders, this research helped to shape the 2015 Strategic Defence and Security Review (SDSR) with both immediate and longer-term practical consequences. This included the creation of the new National Security Objective 3, "*to promote UK prosperity*", meaning these wider economic benefits are now factored into all major defence procurement decisions. Consequently, an additional GBP12 billion was allocated to the defence equipment budget, despite the context of austerity in 2015 and the related plans to reduce the MoD budget by 7.5%; moreover, a refreshed defence industrial policy has been released which now includes a different 'value for money' definition on which all defence procurements are based. Finally, the Joint Economic Data Hub (JEDHub) has been created to ensure data collection that will enable the wider economic impacts of defence expenditure to be calculated and tracked in the future.

2. Underpinning research

The Ministry of Defence's annual budget (GBP38 billion in 2018/19) exceeds those of the Home Office, Cabinet Office, and the Foreign, Commonwealth and Development Office combined – and supports a decade-long defence equipment budget of GBP183 billion. However, a series of policy shifts between 2010 and 2015 meant that the UK was prevented from reaping the wider economic and employment benefits of this significant expenditure. Specifically, policy changes in the Strategic Defence and Security Review (SDSR) 2010 and subsequent National Security Through Technology (NSTT) Paper committed the UK to a 'Competition by Default' approach in which the Government would preferentially buy defence items 'off-the-shelf' with the cheapest headline price. This was part of the commitment to reducing the national deficit via a 7.5% reduction in the defence budget.

Together, these moves meant that the UK was strategically vulnerable and economically less well off because it failed to appreciate and benefit from the positive effects of defence expenditure. During the planning and writing of the SDSR 2015, researchers at King's College London used their extensive knowledge and understanding of this area to conduct work on the economics of

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defence spending with a view to informing policymakers and influencing changes to the SDSR 2015 [1].

The research involved i) systematic identification and review of government documents, articles, statistics and other published material (from e.g. private sector; academia) relating to the UK defence industry sector and defence acquisition, ii) interviews with government officials and industry representatives to clarify aspects of published official and non-official statistics covering this sector, and iii) synthesis of main findings and identification of key recommendations for policy. The research examined the assumptions of the 2010 SDSR as areas for substantive reconsideration for the 2015 SDSR, identified and assessed alternative procurement strategies on a spectrum (from self-sufficiency at one end to technological dependence on other states at the other), and articulated the 'value' of a UK defence industry militarily, economically and strategically – categories that had hitherto been disconnected.

Key findings from King's research were that i) there are major economic and employment advantages from defence; ii) these benefits were not being realised by the patterns and habits of UK government expenditure (e.g. value-for-money assessments for defence equipment were routinely made with no consideration of the employment, industrial and economic impacts that such investment could realise); iii) the calculation that a further GBP100 million spend on defence would generate GBP230 million in the wider UK economy means that defence expenditure is broadly comparable to other innovative and high-technology industrial sectors such as pharmaceuticals; and iv) there is a lack of rigorous data and analysis that is needed to underpin valid and rational decisions in government spending reviews, thereby making it hard to assess taxpayer value for money.

This research also argued that a procurement approach that favoured buying defence equipment 'off-the-shelf' from overseas, rather than from domestic suppliers, would not only lose potential benefits in the form of jobs, taxes and skills, but would bring with it declining geopolitical influence and flexibility in an increasingly unstable, fast-changing world. This linked military capability and economic benefits of investment in the UK's defence industry with the strategic benefits of security of supply (i.e. less dependence on foreign imports) and freedom of action. Subsequent work has built on these initial arguments, to classify the significant economic, employment and strategic disadvantages from a hard Brexit, largely through consolidation of the EU internal defence markets, and a related decline in UK defence markets, with knock-on effects on employment [2,3,4,5].

3. References to the research

- [1] Cornish, P. and Dorman, A. (2013). Fifty shades of purple: Preparing for the 2015 Strategic Defence and Security Review. *International Affairs*, 89(5), 1183-1202. DOI: 10.1111/1468-2346.12066
- [2] Uttley, M.R.H. & Wilkinson, B. (2017). Contingent choices: the future of United Kingdom defence procurement and defence industries in the post-Brexit era. *Global Affairs*, 2(5), 491-502. DOI: 10.1080/23340460.2016.1294370
- [3] Uttley M.R.H. & Wilkinson, B. (2016). A spin of the wheel? Defence procurement and defence industries in the Brexit debates. *International Affairs*, 92(3), 569-586. DOI: 10.1111/1468-2346.12605
- [4] Uttley, M.R.H. & Wilkinson, B.J. (2019). 'The Great Paradox of Defence: Political Economy and Defence Procurement in post-Brexit United Kingdom', in R. Matthews (ed.) *The Political Economy of Defence*. Cambridge: Cambridge University Press, p.195-216.
- [5] Dorman, A.M., Uttley, M.R.H. & Wilkinson, B.J. (2016). The curious incident of Mr Cameron and the United Kingdom defence budget: A new legacy? *Political Quarterly*, 87(1), 46-53. DOI:10.1111/1467-923X.12226

4. Details of the impact

King's research was summarised in the 2015 policy paper commissioned by Lord Sterling of Plaistow, 'A Benefit, Not A Burden: The Military, Security, and Economic Value of Britain's Defence Industry' [A]. Published ahead of the SDSR 2015, it recommended that: i) the research and development element of defence spending be protected and ideally expanded; ii) government identify the net economic benefits and costs of onshore defence industrial activity in the UK; iii) government identify the aggregate economic and technological value provided by the UK's supply chains that support the activities of the MoD and its prime contractors, and wider contributions to national innovation and the 'knowledge economy'; iv) future defence industrial policy be informed by a clear understanding of the net security benefits that defence exports provide; and, v) government clearly distinguish between situations where domestically sourced military capabilities are necessary to ensure freedom of action and those where reliance on foreign sources is acceptable. These recommendations proved to be of significant interest to policymakers and parliamentarians engaged in the preparation of the SDSR 2015, shaping thinking and having an impact on future activities in the following ways:

Reshaping debate in the lead up to the SDSR 2015

[text removed for publication]

King's research [1] gained traction across Whitehall and Westminster in the preparation for the SDSR 2015 with inclusion on reading lists for parliamentarians in the House of Commons Library [C] and key findings specifically cited in the June 2015 House of Lords debate by Lord Sterling of Plaistow and the Minister of State for Defence [D1, columns 1217 and 1236]. The research team further disseminated their findings and engaged in activities to shape the debate on the value of defence to the wider UK economy through numerous presentations to key opinion-formers as the preparations for the SDSR progressed. These included: i) a 11 September 2015 meeting convened by the MoD Chief Economist focusing on the SDSR work strand on 'prosperity', exploring how the evidence base and line of argument for prosperity could be improved; ii) a 15 September 2015 briefing of the Chairs and Members of the House of Lords Defence Committee, the House of Commons Defence Committee, the All-Party Parliamentary Group for the Armed Forces, and the Public Administration & Constitutional Affairs Committee, during a session dedicated to the report convened by Lord Astor of Hever, Parliamentary Under-Secretary of State at the MoD; iii) a 26 October 2015 briefing on UK defence industrial policy convened by the House of Lords Defence Study Group to which all members of the House were invited owing to its importance.

As a result of their key engagement work, King's researchers were invited to submit evidence to the 10 Nov 2015 SDSR consultation where Parliament, academics, industry, thinktanks, allies and partners, non-governmental organisations and the public were able to contribute ideas and suggestions on defence and security matters which would be used to inform government work. The King's submission focused on the need to shift to 'prosperity' as the key framework for defence acquisition decision-making. Evidence was also submitted to the Defence Select Committee Inquiries into i) the Commitment to spend 2% of GDP on Defence (Nov 2015) [E1] and ii) Defence Acquisition and Procurement (Oct – Nov 2016) [E2, E3]. Their work was also cited as evidence for the move to 'prosperity' in key debates in the House of Lords: "[research by] *King's College London Policy Institute on the economic benefits of hard power stated that sovereign procurement was of national benefit and not a burden. In other words, it should be regarded as a net value to the United Kingdom and not purely a cost*" [D2, column 872].

SDSR 2015 policy in action

As a result of King's research, the SDSR 2015, and the recommendations contained within it led to several subsequent major changes in UK defence industrial policy. Specifically, the SDSR 2015 included 'prosperity' as one of its core conceptual pillars. It stated that the UK's National Security Objective 3 would be to *"to promote our prosperity – seizing opportunities, harnessing innovation to strengthen our national security, and working with industry to ensure we have the capabilities and equipment that we need. Our economic and national security go hand-in-hand. Our strong economy provides the foundation to invest in our security and global influence, which in turn*

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provides more opportunities at home and overseas for us to increase our prosperity. A growing global economy helps to reduce poverty and build security for all” [F, p.69].

In this regard, King’s research directly changed UK Government policy on defence procurement by improving awareness and by informing and enriching understanding among key opinion-formers and decision-makers about the importance of leveraging defence expenditure for its wider economic and employment benefits. As Lord Sterling stated *“I believe the team’s work had a material impact in ensuring the UK pivoted away from a Competition by Default approach to one that put UK prosperity at the heart of defence decision making” [G].*

The King’s 2015 policy paper, ‘A Benefit, Not A Burden’ also highlighted that the acquisition and procurement element of defence spending should ideally be expanded. This recommendation was taken up throughout the SDSR 2015 report and was followed up with a government announcement that extra budget would be allocated to defence equipment in the 2016 budget. The plans stated that *“Over the next decade MOD will spend over £178 billion on equipment and equipment support, £12 billion more than in plans prior to the 2015 SDSR” [H1].* By 2017/18 the UK had once again met the NATO requirement to spend 2% of GDP in defence, investing GBP18.9 billion with UK industry, equating to GBP290 per resident, which supported 115,000 jobs across the country [H2].

In 2017, the MoD released the report ‘Industry for Defence and a Prosperous Britain: Refreshing Defence Industrial Policy’ [I]. This document focused on ensuring that British industry would work alongside the Armed Forces *“to protect our people, project influence overseas and promote national prosperity” [I].* Central to ensuring this was the refreshed ‘value for money’ definition, which was based on the notion of prosperity suggested by King’s researchers, meaning that MoD procurement choices would be required to give positive weighting to options that would create prosperity in the UK, even if they were more expensive than off-the-shelf options from overseas. As noted by Lord Sterling, *“I believe that the evidence generated through this project has made a substantial contribution to the image of defence expenditure as delivering good value for the taxpayer, as well as underpinning the case for better defence economic data collection by the MoD” [G].*

Beyond the SDSR 2015 – lasting impact and engagement

King’s research has continued to influence debate in the areas in and around defence spending. At the heart of this has been the UK Government’s move to adopt the suggestion to capture more defence economic statistics to identify the net economic benefits and costs of defence industrial activity in the UK. To do so, the Government has been working to establish a Joint Economic Data Hub (JEDHub) [G]. Comprising key representatives from the MoD, the Department for Business, Energy and Industrial Strategy along with the Defence Growth Partnership and the UK Defence Solutions Centre, the Hub will contain new forms of economic data that are collected to support the MoD’s ability to evaluate the economic and wider employment effects of defence expenditure [H2]. As a result of his research and influence on the SDSR 2015, Wilkinson was asked by the MoD to be the sole Academic Advisor to the Hub since its establishment in 2018; the JEDHub is currently in its pilot phase and will enable for the first time, a robust analysis of the economic and employment effects of defence expenditure.

In addition, in March 2020 King’s hosted an international Defence Economics Conference where the Minister for Defence Procurement launched a cross-government review of the UK’s Defence and Security Industrial Strategy. Wilkinson, Uttley and Dorman were asked to contribute a major analysis of UK expenditure on defence research and development for the review, leading to a number of recommendations which reflect their earlier work on prosperity. These were i) to rapidly increase investment in defence R&D as part of the wider Government commitment to reach 2.4% GDP spend on R&D by 2027, and to ensure the UK remains at the forefront in terms of defence capability development; ii) to ring-fence defence R&D expenditures in the budget, with an additional commitment to increase beyond standard levels of inflation in 5-year cycles; and, iii) to shape defence R&D funding to ensure that the UK has national systems capabilities in specified areas but that it also remains a technologically attractive collaborative partner.

As the Deputy Director of the Review noted, attesting to *“the significant impact”* of King’s research, these recommendations were *“core elements of numerous briefings given by the review team across Government, including to the Cabinet Secretary, Defence Secretary and other national*

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security department Ministers, [and] central to the case made [to] increase expenditure on defence R&D significantly (confirmed last November [2020] by the Spending Review statement that £1.5 billion more would be spent in the next four years on Defence R&D)... In this regard the team's research was critical in policy decision making around UK defence expenditure and central in making the case for increased defence R&D budgets" [J].

5. Sources to corroborate the impact

- [A] Andrew Dorman, Matthew Uttley, and Benedict Wilkinson, (2015) *A Benefit, Not A Burden: The Military, Security, and Economic Value of Britain's Defence Industry*, King's College London
- [B] [text removed for publication]
- [C] House of Commons Library Briefing papers. [C1] The 2015 SDSR: a primer Briefing Paper Number 07235 (19 November 2015) [C2] The 2015 SDR: A reading list Briefing Paper Number 07366 (5 November 2015)
- [D] Hansard transcripts. [D1] House of Lords debate (17 June 2015) 'Defence: Budget'. [D2] House of Lords debate (8 Dec 2016) 'Brexit: Armed Forces and Diplomatic Service'
- [E] Evidence submitted by King's researchers to the Defence Select Committee Inquiries. [E1] Written evidence to the Inquiry into the Commitment to Append 2% of GDP on Defence [17 Nov 2015] [E2] Written evidence to the Inquiry into Defence Acquisition and Procurement Inquiry [10 Oct 2016] [E3] Oral evidence to the Inquiry into Defence Acquisition and Procurement Inquiry [15 Nov 2016]
- [F] HM Government (2015) National Security Strategy and Strategic Defence and Security Review 2015: A Secure and Prosperous United Kingdom
- [G] Testimonial from the Rt. Hon. The Lord Sterling of Plaistow GCVO, CBE, 1 Feb 2021.
- [H] Gov.uk news items [H1] (2016) Defence budget increases for the first time in six years. [H2] (March 2019) Defence Secretary sets out ambitious Defence Prosperity Programme
- [I] Ministry of Defence (2017) Industry for Defence and a Prosperous Britain: Refreshing Defence Industrial Policy
- [J] Testimonial from: Nick Toogood, Deputy Director, Defence, Security and Industrial Strategy Review, 22 Feb 2021.