By Noel Dempsey
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UK defence expenditure

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Current defence expenditure

The Ministry of Defence regularly publishes details of defence expenditure over the last several years. The headline figure for defence spending is the Total Departmental Expenditure Limits (TDEL): ‘the sum of the resource and capital expenditure, minus depreciation and impairments and fixed assets written on/off’.

The latest outturn of data from the Ministry of Defence shows that in 2019/20 £39.8 billion was spent on defence. This was a nominal increase of around £1.8 billion on the year before and a real term increase of around £1 billion.

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
<th>Real terms change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2019-20</td>
<td></td>
</tr>
<tr>
<td>Cash prices</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015/16</td>
<td>35.1</td>
<td>38.3</td>
</tr>
<tr>
<td>2016/17</td>
<td>35.3</td>
<td>37.6</td>
</tr>
<tr>
<td>2017/18</td>
<td>36.6</td>
<td>38.3</td>
</tr>
<tr>
<td>2018/19</td>
<td>38.0</td>
<td>38.9</td>
</tr>
<tr>
<td>2019/20</td>
<td>39.8</td>
<td>39.8</td>
</tr>
<tr>
<td>Planned</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020/21</td>
<td>42.5</td>
<td>41.8</td>
</tr>
<tr>
<td>2021/22</td>
<td>46.0</td>
<td>44.5</td>
</tr>
<tr>
<td>2022/23</td>
<td>49.4</td>
<td>47.0</td>
</tr>
<tr>
<td>2023/24</td>
<td>50.6</td>
<td>47.2</td>
</tr>
<tr>
<td>2024/25</td>
<td>51.9</td>
<td>47.4</td>
</tr>
</tbody>
</table>

Note:

a) The GDP deflator growth forecast for 2020-21, 2021-22 and 2022-23 have been averaged across the three years to smooth the distortions caused by pandemic-related factors
b) Cash value taken from HMT Budget 2021
c) Cash value calculated from HMT Spending Review 2020

Sources: Ministry of Defence, Defence departmental resources 2020, table 1; HM Treasury, Spending Review 2020, p. 67; HM Treasury, Budget 2021, p. 34; HM Treasury, GDP Deflator March 2021
The Prime Minister announced on the 19 November 2020 that the defence budget would increase by £16.5 billion over four years above the Conservative manifesto commitment to increase the defence budget by at least 0.5% above inflation. The Spending Review 2020 describes the funding settlement as being ‘an increase in defence spending of £24 billion in cash terms over the next four years against the 2020/21 budget’.

According to the BBC, Ben Zaranko of the IFS has suggested that these figures are potentially misleading. He believes that it ‘would be more accurate to say that by 2024/25, defence spending will be £7 billion higher’ in real terms compared with 2019/20.

By describing the increase as £24 billion in cash terms against 2020/21 the Government seems to be talking about cumulative increases – it appears the Government may have taken the cash difference between 2020/21 and each subsequent year and added them up.¹ This is opposed to the more conventional method which simply takes the difference between a starting and ending year.

A similar recent discussion regarding NHS spending changes was covered by FullFact. The way the figures have been presented by the Government in the Spending Review 2020 are not factually wrong, although they are not how people usually describe increases or decreases in funding.

The conventional method shows that, based on the spending plans published Spending Review (and updated by Budget 2021), defence spending in 2024/25 will be around £47.4 billion in real terms (assumed 2019/20 prices). This is £7.5 billion more than the budget in 2019/20 and £5.6 billion more than the budget for 2020/21.

¹ The table opposite shows an increase of £27.9 billion following this method, although this is due to planned cash expenditure amounts for 2020/21 and 2021/22 being taken from the more recent HM Treasury Budget 2021 document. Values for planned expenditure in the Spending Review 2020 are not clearly specified as being either ‘cash’ or ‘real’. It is assumed the values in the Spending Review 2020 are real terms 2019/20 prices – cash terms have been calculated by using the HMT GDP Deflator.
In the early 2000s government accounts changed from cash accounting to resource accounting and budgeting (RAB). These changes disrupted the comparability of historical time series. A ‘near cash’ (the net cash requirement) figure was produced to continue longer time-series analysis and be comparable with the old-style accounting method. The chart below shows defence expenditure since the 1950s. These figures are not comparable with those in the previous table.

### Historical defence expenditure

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount £ billion real terms at 2019/20 prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956/57</td>
<td>0</td>
</tr>
<tr>
<td>1977/78</td>
<td>0</td>
</tr>
<tr>
<td>1998/99</td>
<td>0</td>
</tr>
<tr>
<td>2019/20</td>
<td>0</td>
</tr>
</tbody>
</table>

Note: Figures based on the Ministry of Defence's 'net cash requirement'. This series allows comparison between pre and post RAB implementation.

Sources: Mitchell, British Historical Statistics; Ministry of Defence, UK Defence Statistics; Ministry of Defence, Annual Report and Accounts; HM Treasury, GDP Deflator March 2021

Defence expenditure in 1984/85 was £45.4 billion in real terms – the highest level of expenditure in the period shown. In 2009/10 defence expenditure was £44.8 billion in real terms – the third highest level of expenditure.

As a percentage of GDP, defence expenditure has decreased from around 7% in the 1950s, to around 2% today. In 2019/20 defence expenditure as a percentage of GDP, based on this methodology, was 1.8%.

Note that defence expenditure as a percentage of GDP can change depending on the numerator (defence expenditure) and the denominator (GDP estimate). These figures should not be compared against the NATO 2% target.
International comparisons

There are several problems when making international comparisons of defence expenditure. One of the most important of these is the suitability of the exchange rates used when expenditures in national currencies are converted to a common basis. The use of current exchange rates can lead to substantial distortions when comparing defence expenditures. Market exchange rates are not necessarily an accurate reflection of the purchasing power of the respective currencies – rates of exchange may be fixed by administrative decree, or in the case of a floating rate, by forces reflecting many factors, such as the movement of capital or expectations about the future.

In addition, there may be different definitions among countries on what is counted as defence spending. For example, some countries may consider that spending on a nationally armed police force could contribute to overall defence expenditure, while others may not.

These issues mean that international comparisons of defence expenditure should be treated with a substantial amount of caution. Differences of a fraction of a percentage point should be used as a basis for argument.

Furthermore, the basis of payment through which the military sector acquires resources can also differ between countries. If, for example, conscription takes place in a country, the total cost of the armed forces in that country may be lower than in a country with a similar size force which is fully professional.

The following sub-sections discusses NATO defence expenditure targets and shows international comparisons of defence expenditure based on the NATO definition for NATO member states.

NATO defence expenditure definition

Within the annual NATO defence expenditure publication NATO’s definition of defence expenditure is established ‘as payments made by a national government specifically to meet the needs of its armed forces or those of allies’.

Expenditure is counted as being ‘defence expenditure’ if it falls within one (or more) of seven areas:
UK defence expenditure

- Expenditure on the Armed Forces and “Other Forces” (e.g. national police, border guards, cost guards etc). Expenditure on “Other Forces” should only be included in proportion to the forces that are trained in military tactics, are equipped as a military force, can operate under direct military authority in deployed operations, and can, realistically, be deployed outside national territory in support of a military force
- Pensions to military and civilian personnel of military departments
- Peacekeeping, humanitarian, and weapon control (e.g. the destruction of weapons, equipment and ammunition, and the costs associated with inspection and control of equipment destruction)
- Research and development (both for successful and unsuccessful equipment)
- Expenditure for the military component of mixed civilian-military activities is included, but only when this military component can be specifically accounted for or estimated
- Financial assistance to support the defence of an ally
- Expenditure towards NATO common infrastructure

How the UK defines NATO defence expenditure

In recent years when reporting defence expenditure to NATO the UK has included several items of expenditure which had not been included previously: in 2015/16 there was the addition of war pensions (£820m), contributions to UN Peacekeeping Missions (£400m), pensions for retired civilian MOD personnel (£200m) and MOD income (£1,400m)².

NATO accepted that the items conformed with its definition of defence expenditure, though RUSI argued that more information was needed before the legitimacy of the decision could be decided.³

In 2016 the Defence Committee of the House of Commons published its enquiry into UK defence expenditure and the 2% pledge. Their full report Shifting the goalposts? Defence expenditure and the 2% pledge is available online.

² RUSI, M Chalmers, Osbourne’s Summer Surprise for Defence, 11 August 2015
³ Ibid
The NATO 2% target

In 2006, NATO allies set a target to spend 2% of GDP on defence. As described on the NATO website:

This guideline principally served as an indicator of a country’s political will to contribute to the Alliance’s common defence efforts. Additionally, the defence capacity of each member country has an important impact on the overall perception of the Alliance’s credibility as a politico-military organisation.

[...]

While the 2% of GDP guideline alone is no guarantee that money will be spent in the most effective and efficient way to acquire and deploy modern capabilities, it remains, nonetheless, an important indicator of the political resolve of individual Allies to devote to defence a relatively small, but still significant, level of resources at a time of considerable international uncertainty and economic adversity. ⁴

A second target, agreed at the same time, was to devote 20% of defence expenditure to the research, development, and acquisition of major defence equipment.

The introduction of the 2% target was perceived as an attempt to address the imbalance between the contribution of the USA and NATO’s European members: the USA has historically spent a far greater percentage of its GDP on defence than have any of the European members.

NATO imposes no sanctions or penalties on countries who do not meet the 2% target.

There is no intrinsic significance to the level of 2% of GDP for defence spending – the figure does not represent any type of critical threshold or “tipping point” in terms of defence capabilities. As implicitly acknowledged in the NATO statement above, spending 2% of GDP on outdated or inefficient systems and capabilities is unlikely to significantly change the overall capacity of the Alliance to take or sustain action. Equally, the difference between a country spending (for example) 2.02% and 1.98% of GDP is somewhat marginal and shouldn’t be used as a basis for argument.

However the target is both symbolically and politically important. The United States has repeatedly called on European allies to contribute more. At the NATO Summit in Wales in September 2014, Allies agreed to reverse the trend of declining defence budgets and aim towards the NATO guideline of spending 2% of GDP on defence expenditure within a decade. Allies agreed in the Summit Declaration that those who already spend a minimum of 2% will

⁴ NATO, Funding NATO, 2 June 2017
“aim to continue to do so” while those who don’t will halt any decline in defence expenditure and to aim to move towards the 2% guidelines within a decade.

The latest NATO estimates on defence expenditure for member states indicates that only 11 members are currently at or above the 2% target. Some of the largest increases on defence expenditure as a percentage of GDP, compared to 2015, include Latvia, Hungary, Lithuania, and the Slovak Republic (Slovakia). All states have increased defence expenditure as a share of GDP.
Military operations

The Ministry of Defence publishes information on the cost of military operations and interventions undertaken by the UK Armed Forces. The cost of these operations are reported in terms of the net additional costs, i.e. those costs over and above those that the Department would have incurred had the operation not been undertaken. For example, expenditure on pay, or savings from cancelled training exercises, are deducted from the total cost of the operation the costs incurred.

Over the last 15 years the peak in military operation expenditure was in 2009/10 when £5 billion (2019/20 prices) was spent. It is clear from the chart that operations in Afghanistan have accounted for most of the military operation expenditure. In 2019/20 total military operation expenditure was around £0.5 billion – this a reduction of around £4.5 billion from the 2009/10 peak.
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