



BRIEFING PAPER

Number CBP 8175, 8 November 2018

UK Defence Expenditure

By Noel Dempsey

Contents:

1. UK Defence Expenditure
2. International Comparisons
3. Military Operations



Contents

Summary	3
1. UK Defence Expenditure	4
1.1 Historical defence expenditure	4
2. International Comparisons	6
NATO defence expenditure definition	6
How the UK defines defence expenditure	7
NATO 2% target	7
Defence expenditure of NATO members	9
3. Military Operations	11

This briefing paper updates and replaces [Defence Expenditure \(SN00113\)](#) and [Defence Expenditure – NATO 2% Target \(CBP7343\)](#).

Cover page image copyright *The plaque outside the South Door of the Ministry of Defence Main Building in Whitehall, London* attributed to [Defence Imagery](#) – licenced under the OGL (Open Government Licence).

UK Defence Expenditure: summary

This paper summarises UK defence expenditure (historic, current, and planned), international comparisons of defence expenditure of NATO Allies, and the financial cost of UK military operations.

It provides an overview of how UK defence spending is currently defined (as well as its historical definition), explains the difficulties in comparing defence expenditure internationally, details how NATO defence expenditure is reported (particularly the 2% target), and how the cost of UK military operations is calculated.

UK DEFENCE SPENDING

Real £ billion at 2017/18 prices



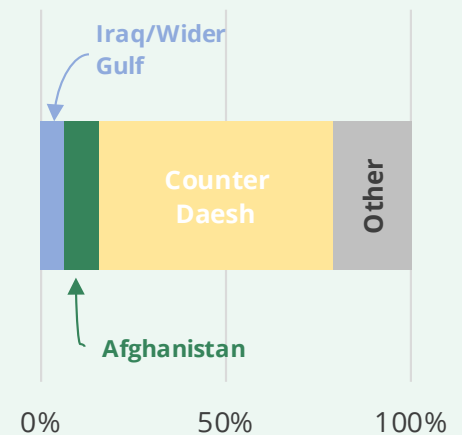
UK NATO 2% TARGET

Defence expenditure as % of GDP

2.1%

MILITARY OPERATIONS

Distribution of military operations



UK DEFENCE SPENDING

UK defence spending over the last five years has been stable at around £36 billion in real terms.

By 2019/20 defence spending is planned to be £37.6 billion.

NATO 2% TARGET

The UK has **achieved** the NATO 2% target in each of the last eight years.

Since 2010 only the UK and five other member states have ever achieved the target.

MILITARY OPERATIONS

In 2017/18 the total cost of UK military operations was around **£855 million**.

Operations specifically against Daesh in 2017/18 cost around £541 million - this is up from £22 million in 2014/15.

THE NATO 2% TARGET EXPLAINED

In 2006, NATO allies set a target to spend 2% of GDP on defence. The introduction of this target was perceived to be an attempt to address the imbalance of contribution between the USA and NATO's European members. There is no intrinsic significance to the level of 2% - the figure does not represent any type of critical threshold in terms of defence capabilities. The 2% is viewed by many as being politically and symbolically important.

1. UK Defence Expenditure

The MOD's [Defence Departmental Resources](#) publication contains details of UK defence expenditure. The headline figure for defence spending is the Total Departmental Expenditure Limits: 'the sum of resource and capital expenditure, minus depreciation and impairments and fixed assets written on/off'.¹

In 2017/18 defence spending amounted to £36.9 billion. This is a nominal increase of £1.6 billion on 2016/17 and a real terms increase of £0.7 billion after inflation measured by HMT's [GDP deflator](#).

UK DEFENCE EXPENDITURE

Reported outturn and planned defence total departmental expenditure limits

		Cash £ billion	Real £ billion at 2017/18 prices	Annual real terms change	
				£ billion	%
2006/07	Outturn	34.0	41.4		
2007/08	Outturn	37.4	44.4	+3.0	+7.2%
2008/09	Outturn	38.6	44.6	+0.2	+0.5%
2009/10	Outturn	40.2	45.9	+1.3	+2.9%
2010/11	Outturn	39.5	44.2	-1.7	-3.7%
2011/12	Outturn	37.2	41.1	-3.1	-7.0%
2012/13	Outturn	34.3	37.1	-4.0	-9.6%
2013/14	Outturn	34.6	36.7	-0.4	-0.9%
2014/15	Outturn	34.4	36.1	-0.7	-1.8%
2015/16	Outturn	35.1	36.6	+0.5	+1.3%
2016/17	Outturn	35.3	36.0	-0.6	-1.7%
2017/18	Outturn	36.9	36.6	+0.7	+1.8%
2018/19	Plans	37.8	37.2	+0.6	+1.7%
2019/20	Plans	38.8	37.6	+0.4	+1.1%

Notes: Outturn figures are from MOD and Plans figures are from Budget 2018. Defence Spending in 2003/04 to 2008/09 is the sum of the Resource DEL plus Capital DEL minus Depreciation and Impairments and from 2009/10 Fixed Assets Written On/Off have also been removed from the Total DEL figure. From 2011/12 the depreciation/impairments figure now includes stock written off.

Sources: MOD, Defence Department Resources 2018, table 1; HM Treasury: Budget 2018, p. 23-24; HMT, GDP Deflators September 2018.

House of Commons Library

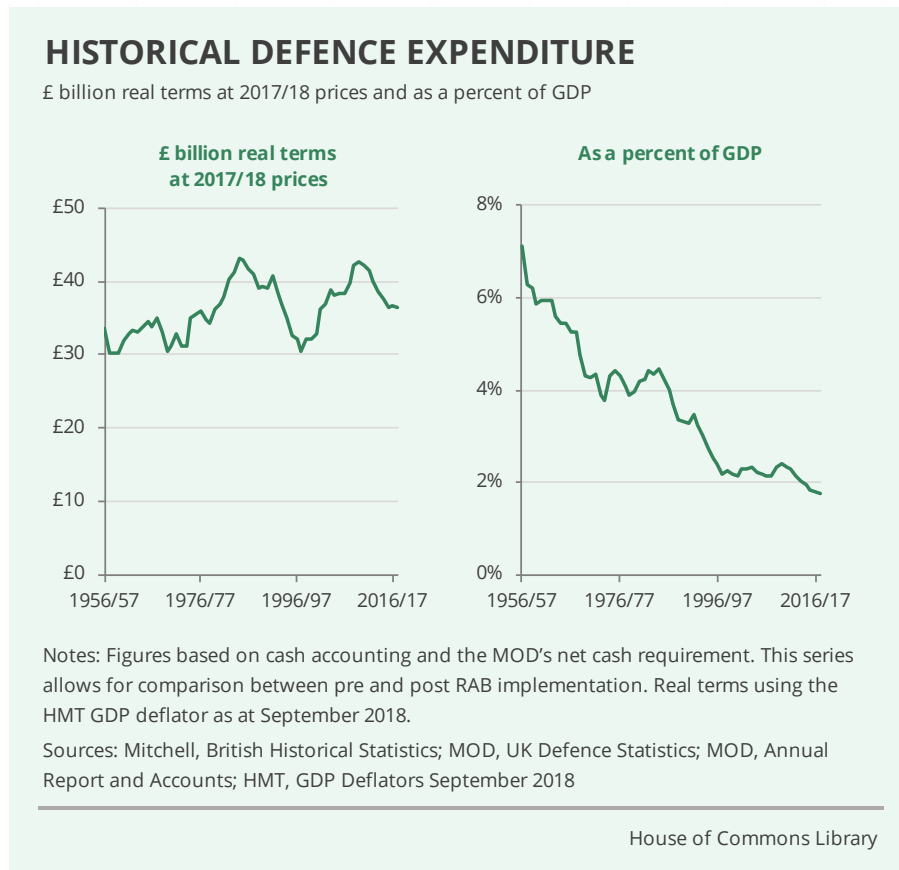
Between 2018/19 and 2019/20 defence spending is planned to increase by an annual average of 1.4% in real terms. Defence spending in 2019/20 is planned to be £1 billion more in real terms than in 2016/17.

1.1 Historical defence expenditure

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 data although a 'near cash'

¹ MOD, [Defence departmental resources 2017](#), p. 4.

(the net cash requirement) figure was produced to continue longer time-series analysis and be consistent with the old accounting method. The chart below shows defence expenditure under cash accounting and net cash requirement since the 1950s. These figures are not comparable with those in the table above.



The chart shows a clear pattern in defence expenditure in the latter half of the Cold War era and into the 2010s: expenditure increased in real terms during the 1980s only to fall in the 1990s (due to the 'Peace Dividend'²) and then rose again in the 2000s due to the conflicts in Afghanistan and Iraq.

Defence expenditure in 1984/85 was £43.2 billion in real terms – the highest level of expenditure in the period shown. In 2009/10 defence expenditure was £42.7 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 2017/18 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 how one calculates the numerator (defence expenditure) and the denominator (GDP estimates are used). These figures should not be compared against other estimates of defence expenditure as a proportion of GDP, for example from NATO.

² Ibid, p. 5.

2. International Comparisons

There are problems when making international comparisons of military 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.³

The following sub-sections discuss 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'.⁴

Expenditure is counted as being 'defence expenditure' if it falls within one (or more) of seven areas:⁵

- **Expenditure on the Armed Forces and "Other Forces"** (e.g. national police, border guards, coast 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

³ Although the professional force may well be more effective, i.e. the size of professional force necessary to perform a specific defence role may be smaller than that required with conscripts.

⁴ NATO, [Defence expenditure of NATO countries \(2010-2017\)](#), p. 13.

⁵ Ibid.

- **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 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).⁶

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.⁷

In 2016 the Defence Committee of the House of Commons published its enquiry into UK defence expenditure and the 2% pledge.⁸ Their full report [Shifting the goalposts? Defence expenditure and the 2% pledge](#) is available online.

In response to a Parliamentary Question in July 2018, the Government stated that when MOD pension expenditure is removed from the 2017/18 submission to NATO, the UK's defence expenditure as a proportion of GDP according to NATO would be 1.97%.⁹

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

⁶ RUSI, M Chalmers, [Osbourne's Summer Surprise for Defence](#), 11 August 2015.

⁷ Ibid.

⁸ Defence Committee, [Shifting the goalposts? Defence expenditure and the 2% pledge](#), 21 April 2016.

⁹ [HL9629](#)

considerable international uncertainty and economic adversity.¹⁰

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.¹¹

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 considered to be 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 “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.¹²

¹⁰ NATO, [Funding NATO](#), 2 June 2017.

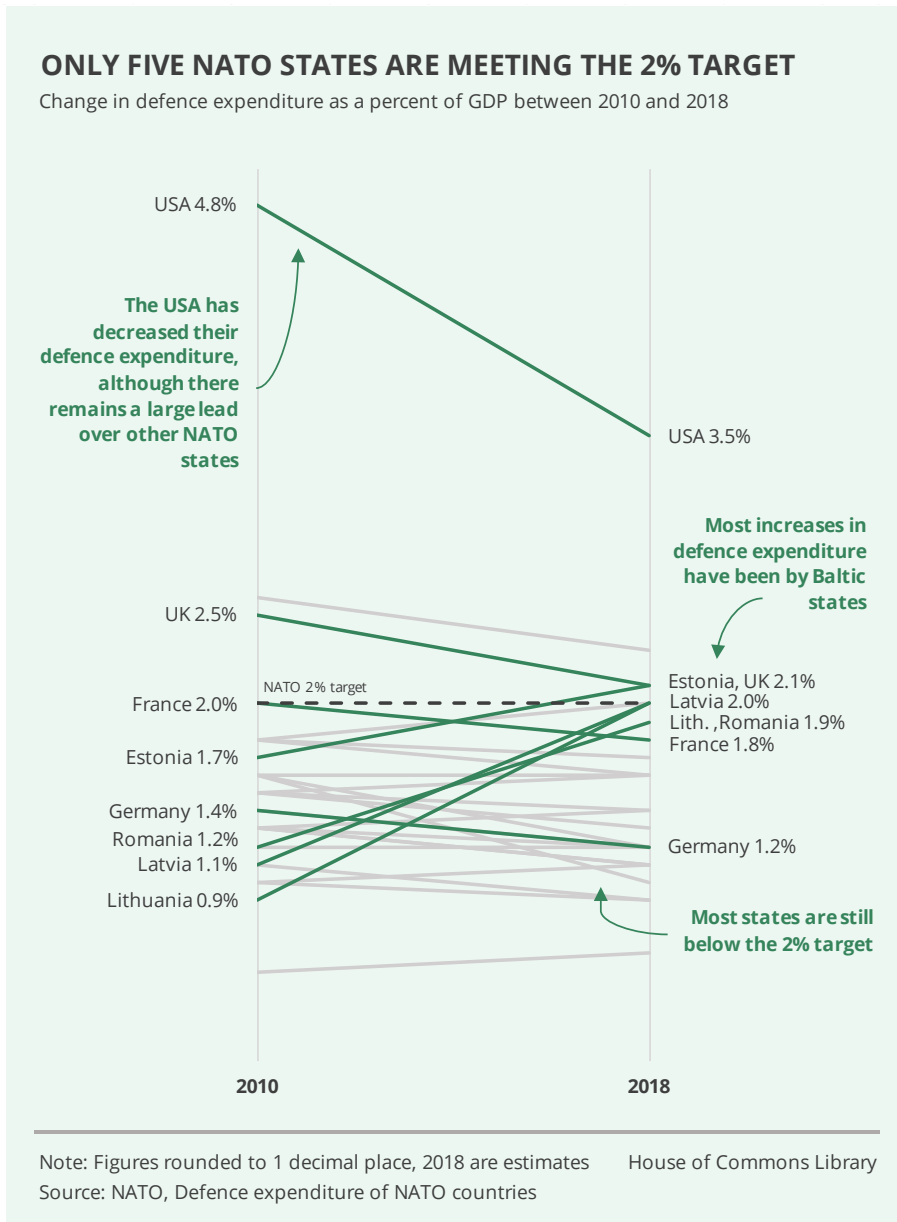
¹¹ NATO, [Secretary General's Annual Report 2014](#), p. 11.

¹² House of Commons Library, [NATO Wales Summit 2014: outcomes](#) (SN06981).

Defence expenditure of NATO members

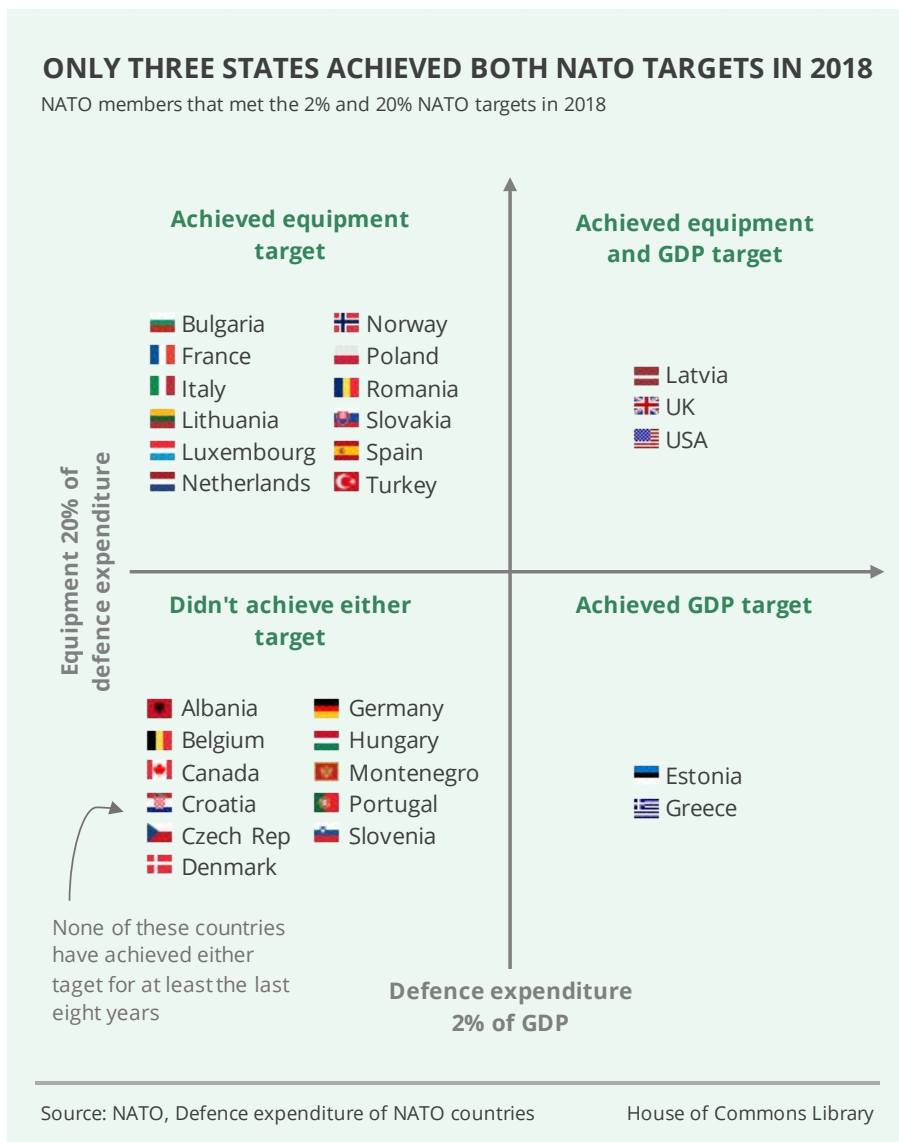
The chart below shows defence expenditure as a percentage of GDP based on the returns to NATO under the NATO definition of defence expenditure in 2010 and 2018.

As the 2% GDP target is for NATO, only NATO figures should be used when judging if a member state has achieved the target.



In 2010 only three member states (the United Kingdom, Greece and the United States) achieved the 2% target. France was marginally under the target (1.96%).

Estimates for 2018 show that only five member states have achieved the 2% target. The majority of member states did not meet the target. Indeed since 2010 it has only been the United Kingdom, Greece, the United States to have consistently met the target each year.



Only 15 of the 28 NATO states achieved the 20% equipment target, and of these only three achieved both the equipment and GDP target.

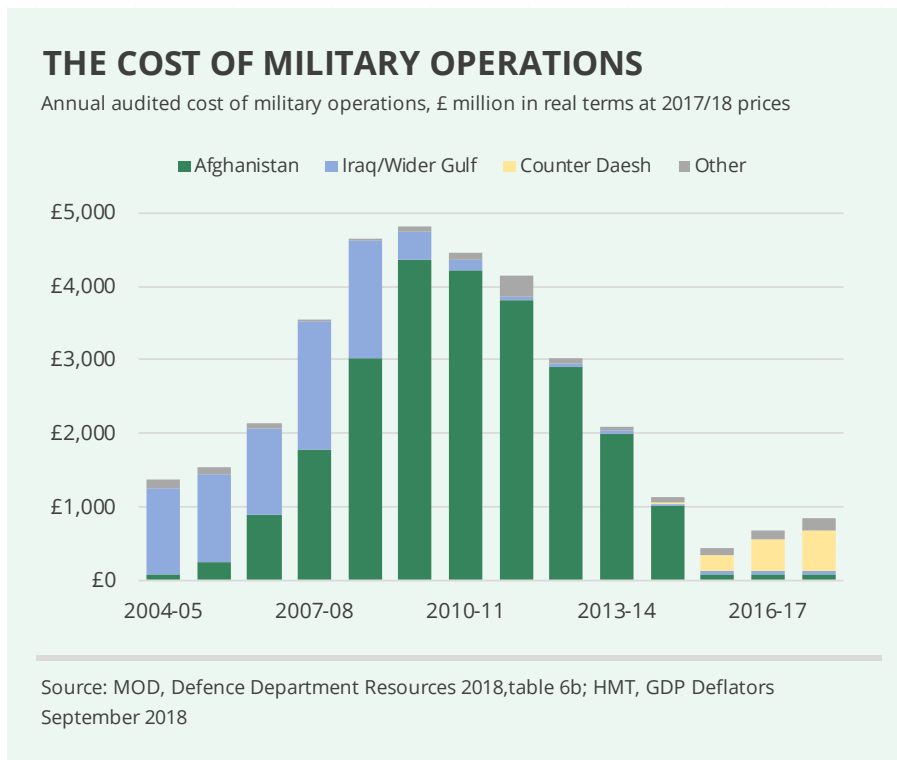
For most member states personnel costs accounted for the single largest area of defence expenditure, with either equipment costs or 'other' costs accounting for the second highest share of expenditure.

In 2018 the largest share of expenditure for the UK went towards 'other' costs¹³ (39%) – this was the highest share towards the category among NATO states. Expenditure towards personnel accounted for 37%, equipment 22% and infrastructure 2%.

¹³ Other expenditure includes operations and maintenance expenditure, other R&D expenditure and expenditure not allocated among above-mentioned categories.

3. Military Operations

The MOD 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.'¹⁴



Over the last 14 years the peak in military operation expenditure was in 2009/10 when £4.8 billion (in real terms) was spent. It is clear from the chart that operations in Afghanistan have accounted for the majority of the military operation expenditure.

In 2017/18 total military operation expenditure was around £0.8 billion – this a reduction of around £3.9 billion from the 2009/10 peak although an increase of £0.2 billion from 2016/17.

In 2017/18 counter-Daesh operations cost around £0.5 billion. In 2014/15 (the year which operations began) the expenditure was £0.02 billion (2017/18 prices).

¹⁴ MOD, [Defence Department Resources 2017](#), p. 11.

About the Library

The House of Commons Library research service provides MPs and their staff with the impartial briefing and evidence base they need to do their work in scrutinising Government, proposing legislation, and supporting constituents.

As well as providing MPs with a confidential service we publish open briefing papers, which are available on the Parliament website.

Every effort is made to ensure that the information contained in these publicly available research briefings is correct at the time of publication. Readers should be aware however that briefings are not necessarily updated or otherwise amended to reflect subsequent changes.

If you have any comments on our briefings please email papers@parliament.uk. Authors are available to discuss the content of this briefing only with Members and their staff.

If you have any general questions about the work of the House of Commons you can email hcenquiries@parliament.uk.

Disclaimer

This information is provided to Members of Parliament in support of their parliamentary duties. It is a general briefing only and should not be relied on as a substitute for specific advice. The House of Commons or the author(s) shall not be liable for any errors or omissions, or for any loss or damage of any kind arising from its use, and may remove, vary or amend any information at any time without prior notice.

The House of Commons accepts no responsibility for any references or links to, or the content of, information maintained by third parties. This information is provided subject to the [conditions of the Open Parliament Licence](#).