

The UK government will be able to keep to its commitment to spend 2% of national income on defence through to 2020 as a result of both an annual real term increase of 0.5% a year, and significant changes in the UK's calculation of its defence budget for NATO reporting purposes, according to a new RUSI Briefing Paper.

Entitled 'Osborne's Summer Surprise for Defence: Guaranteed Real-Terms Spending Increases', and authored by RUSI's Research Director, Professor Malcolm Chalmers, the paper examines the defence spending announcements made recently in the Budget.

In his Summer Budget on 8 July, Chancellor George Osborne announced that defence would receive annual real-terms increases in its budget of 0.5 per cent a year, to around £38.9 billion by 2020/21. For the first time since 2010, the MOD has become a 'protected' department, with its budget fixed in advance of the Spending Review. As a result, this year's SDSR should be able to avoid the severe capability reductions that were the main feature of the last Review in 2010.

Accounting Rules

The 0.5% commitment allowed the Summer Budget to commit the Government to 'meet the properly measured NATO pledge to spend 2% of national income on defence every year of this decade'. However, the RUSI Briefing Paper states that 'his achievement was only made possible ... by a number of significant changes in the UK's calculation of its defence budget for NATO reporting purposes.'

'On the basis of the rules previously used for its NATO returns, the UK would have been on course to spend £36,820 million on defence in 2015: equivalent to 1.97 per cent of GDP. In the return actually made to NATO, by contrast, the UK is projected to spend £39,019 million, equivalent to 2.08 per cent of GDP. In total, therefore, the UK has added around £2.2 billion to its NATO count.'

This has been achieved by adding several new items to the UK's NATO return: war pensions (some £820 million); contributions to UN peacekeeping (some £400 million); pensions for retired civilian personnel (perhaps around £200 million); part of the MoD's income (in total, about £1.4 billion).

The paper suggests that maintaining the 2 per cent commitment through to 2020 'is likely to require yet further adjustments in the UK's counting methodology'. By indicating that 'the contribution made by the secret intelligence agencies' will be included in the future NATO count, the Budget statement has already pointed to how much of this gap could be closed. Total annual agency spending should be at least £2,200 million, sufficient to close the gap up to 2018/19. The further allocation of up to £1.5 billion to a new 'Joint Security Fund' could be enough to close the gap through to the end of the Parliament.

NATO Credibility

Professor Chalmers warns of 'a risk that the UK's readiness to alter its counting rules - adding potentially around 14 per cent, or £5.7 billion, to the total amount eligible for counting as defence spending by the end of this Parliament - could undermine the credibility of NATO's 2 per cent spending target.'

Yet, he goes on to argue, the change is just as likely to strengthen the credibility of the 2 per cent target. 'For the UK's ability to meet this target over the coming five years reflects the fact that the government is now prepared to commit to a period of steady real-terms growth in its core defence budget. If, even after such an effort, the Alliance's leading European military spender had ended up being pilloried for having fallen just below the 2 per cent target, it would have dealt a serious blow to the credibility of Alliance burden-sharing commitments as a whole, with negative consequences for transatlantic relations.'

Delivering on Defence

While other departments continue to make their case to the Treasury, the Spending Review is now, for practical purposes, largely over for the Ministry of Defence. Professor Chalmers states 'Now that the MoD budget has been protected, there is likely to be sustained political pressure for it to deliver. The MoD will need to drive further efficiencies in its programmes, and ensure that

defence capabilities remain relevant to the new and unexpected security challenges emerge over the next five years. Compared with the gloomy predictions of cuts which were prevalent only four months ago, however, this is a good set of problems to have.'

Over the next three months, the MoD's contribution to the Strategic Defence and Security Review (SDSR) will therefore be able to focus on how to spend a predetermined budget in the most effective manner possible. The service chiefs can now contribute to this process with some confidence that any savings that can be made in future programmes will be available to be reinvested elsewhere.'

Download report 'Osborne's Summer Surprise for Defence: Guaranteed Real-Terms Spending Increases' , a RUSI briefing paper published by the Royal United Services Institute as part of its SDSR 2015: Hard Choices Ahead series at <https://www.rusi.org/defencespendingjuly2015>