



House of Commons  
Defence Committee

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# **Shifting the goalposts? Defence expenditure and the 2% pledge**

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**Second Report of Session 2015–16**





Defence Committee

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# Shifting the goalposts? Defence expenditure and the 2% pledge

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**Second Report of Session 2015–16**

*Report, together with formal minutes  
relating to the report*

*Ordered by the House of Commons  
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## The Defence Committee

The Defence Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Ministry of Defence and its associated public bodies

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[Richard Benyon MP](#) (*Conservative, Newbury*)

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### Powers

The committee is one of the departmental select committees, the powers of which are set out in the House of Commons Standing Orders, principally in SO No 152. These are available on the internet via [www.parliament.uk](http://www.parliament.uk).

### Publication

Committee reports are published on the Committee's website at [www.parliament.uk/defcom](http://www.parliament.uk/defcom) and in print by Order of the House.

Evidence relating to this report is published on the [inquiry page](#) of the Committee's website.

### Committee staff

The current staff of the Committee are James Davies (Clerk), Dr Anna Dickson (Second Clerk), Dr Megan Edwards (Committee Specialist), Ian Thomson (Committee Specialist), Eleanor Scarnell (Committee Specialist), Claire Cozens (Committee Specialist), John Curtis (Committee Specialist), David Nicholas (Senior Committee Assistant), Carolyn Bowes (Committee Assistant) and David Gardner (Committee Assistant).

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## Summary

This Report presents analysis of the Government's commitment to spend 2% of GDP on defence until the end of the current Parliament.

It examines the nature of the commitment; which budgetary items have been incorporated to constitute the calculated 2% of GDP; the significance of the 2% figure; and what this enables Britain to afford within the remit of defence.

The Report commends the UK Government's commitment to UK defence and finds that its accounting criteria fall firmly within existing NATO guidelines. However, those criteria have been amended to include several significant items not previously included when calculating defence expenditure. Since these items are instrumental in attaining the minimum 2% figure, the Government can be said to have 'shifted the goalposts' in comparison with previous years. There is a risk that the promise of new money to defence could be undermined by the inclusion of items in the re-calculation of defence expenditure that previously had not fallen within the MoD budget.

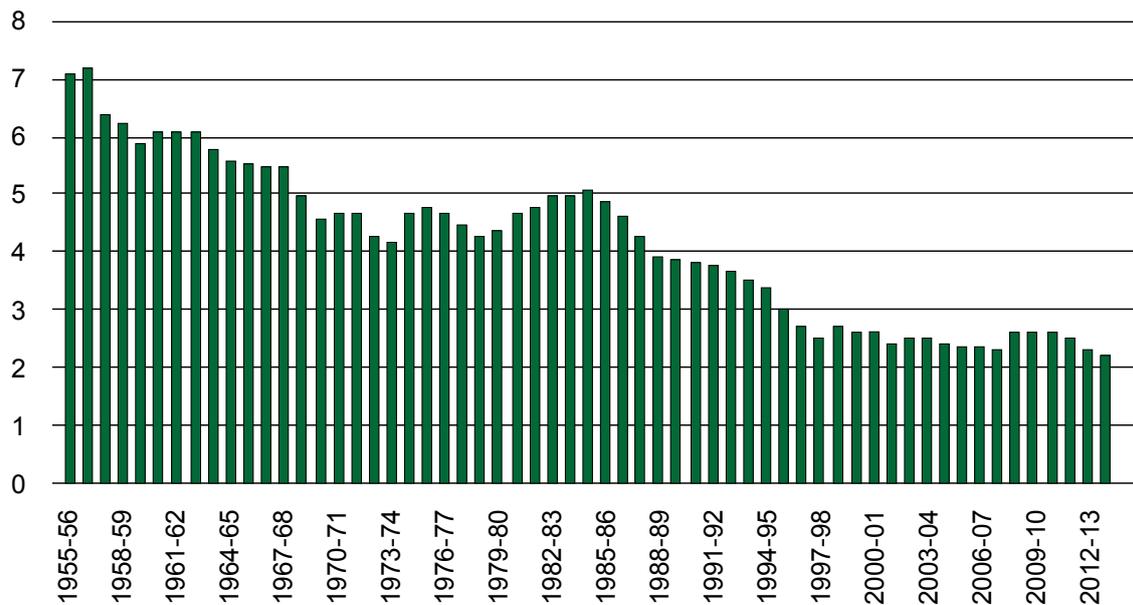
Our Report also considers to what extent meeting the 2% minimum is a political statement, and to what extent it guarantees sufficient and robust defence of the United Kingdom. We highlight the fact that the 2% figure is a NATO-led minimum target. In itself, it does not guarantee security if allocated ineffectively, inefficiently or without due regard to emerging threats.

# 1 The UK's commitment to 2%

## Background

1. UK defence expenditure has steadily decreased from an historic level of approximately 7% of GDP in 1955–56, to 3.80% in 1990–1991 at the end of the Cold War. As the graph below indicates, from 1969 until 1988 (the year before the fall of the Berlin Wall) the UK had spent between 4% and 5% of GDP on defence every year. This was substantially more than all NATO Allies except the USA. The last Strategic Defence and Security Review (SDSR) in 2010 resulted in a reduction of 8% in defence spending. This led in turn to a 20% reduction in the UK's conventional military combat capability. In 2013, with UK GDP at £1.61 trillion and a defence budget of £37.1 billion, defence expenditure totalled 2.30% of GDP.<sup>1</sup> By 2014, UK GDP was £1.7 trillion, the defence budget had fallen to £36.9 billion, just 2.17% of GDP, and for the first time the UK stood at serious risk of falling below the NATO minimum.

### Defence Expenditure as a Percentage of GDP, 1955–2014



Sources: British Historical Statistics, Mitchell (1955 to 1975); UK Defence Statistics, DASA (from 1975 to 1990); HM Treasury, Public Expenditure Statistical Analysis 2014 (1990 to 2014); Annual GDP: Office for National Statistics

## Current UK defence expenditure

2. The idea that NATO members should spend at least 2% of GDP on defence was conceived in 2006<sup>2</sup> to address the imbalance between American, British and European NATO contributions. NATO members reaffirmed their pledge to meet this benchmark at the September 2014 NATO Wales summit.

3. In his Financial Statement of 8 July 2015, George Osborne stated that the Government was “committing today to meet the NATO pledge to spend 2% of our national income

<sup>1</sup> International Institute for Strategic Studies, [The Military Balance 2015](#), February 2015, Chapter Four: Europe

<sup>2</sup> [Q48](#) [Jonathan Parish]

on defence, not just this year but every year of this decade”.<sup>3</sup> That commitment saw defence join the ranks of health, schools and international development as a ‘protected’ government Department with a ring-fenced budget. In addition, the Chancellor of the Exchequer announced an annual real-terms increase in defence expenditure of 0.5% until 2020–21.<sup>4</sup>

4. The Chancellor also announced the creation of a Joint Security Fund (JSF), which would offer “up to an additional £1.5 billion a year” by the end of the current Parliament. Funds allocated through the JSF to the military and intelligence have the potential to contribute an increase of 1% per year to the defence budget in real terms.<sup>5</sup> Exact contributions to defence spending, however, will depend on successful bids by the Ministry of Defence (MoD), as other relevant Departments will also be eligible to seek funding from this source.

5. Using the criteria applied prior to the July 2015 budget announcement, the predicted UK defence expenditure for 2015–16 was £36.8 billion, equivalent to 1.97% of GDP—just short of the 2% minimum.<sup>6</sup> Achieving the commitment to spend 2% of GDP on defence has, in part, been facilitated by revisions to the criteria used to calculate the UK defence budget that is reported to NATO.<sup>7</sup> The UK’s revised criteria have resulted in a predicted £39 billion spend in 2015–16, equivalent to 2.08% GDP. We consider these revisions in detail in Part Two of this Report.

## The Treasury Reserve

6. In Tony Blair’s 2007 speech aboard HMS Albion, he asserted that UK defence expenditure had remained roughly constant, during the decade of his premiership, at 2.5% of GDP if the costs of the campaigns in Afghanistan and Iraq were included. These costs were, however, met from the Treasury Reserve, and not from the core defence budget. In response to the Committee’s question as to whether any items previously funded from the Treasury Reserve are currently funded from the defence budget, the MoD stated that:

NATO’s aim is to capture total government spending on Defence, not just what is spent from the Defence budget itself. The core Ministry of Defence budget is therefore not the same thing as total government spending on Defence as reported to NATO. There is other government spending on Defence that is not included in the MOD budget but is within NATO guidelines of Defence spending.<sup>8</sup>

The Net Additional Costs of Military Operations (NACMO) in Afghanistan and Iraq referred to by Tony Blair were met by the Treasury Special Reserve, as are the NACMO costs associated with most military operations today. [ ... ] The MOD core Defence budget did not, and does not, meet the costs of

3 HC Deb, 8 July 2015, [col 337](#)

4 HM Treasury, Spending review and autumn statement 2015, [Cm 9162](#) November 2015, para 1.72

5 Malcolm Chalmers, ‘[Osborne’s Summer Surprise for Defence](#)’, RUSI Briefing Paper, July 2015, p 2

6 Malcolm Chalmers, ‘[Osborne’s Summer Surprise for Defence](#)’, RUSI Briefing Paper, July 2015

7 Ministry of Defence [Annual Report and Accounts 2014–2015](#), HC 32, London Stationery Office, 16 July 2015, p 143; Malcolm Chalmers, ‘[Osborne’s Summer Surprise for Defence](#)’, RUSI Briefing Paper, July 2015

8 Ministry of Defence [DET0012](#)

military operations; instead additional funding is provided by the Treasury Special Reserve. These costs are included in the calculation of total UK Defence spending in line with NATO guidelines.<sup>9</sup>

In an effort to clarify the relationship between the Treasury Reserve and defence expenditure reported to NATO, the Committee asked the MoD when the inclusion of the costs of operations began. The MoD told the Committee in a written response:

The Treasury have always funded operational spending. The UK has included operational spending in its total Defence spending calculation to NATO since at least 2009, regardless of funding source.<sup>10</sup>

The Committee has been frustrated in its attempts to establish from the MoD exactly when the decision was taken by the MoD to include the costs of current operations in calculating the percentage of GDP on defence. It appears that the MoD is unable to provide a breakdown showing if operational spend was included in earlier submissions to NATO. This the Committee finds remarkable, given the magnitude of the sums involved. If, indeed, this has constituted a previous ‘shifting of the goalposts’ of defence expenditure, it may explain the sudden increase, shown on the bar graph above, between 2007–08 and 2008–09. It is a cause of concern to the Committee that the MoD has been unable to identify which years included costs of operations in its calculation of UK defence expenditure submitted to NATO, and which did not.

## Future defence expenditure

7. Whilst the Government has committed to an increase in defence expenditure of 0.5% annually over the next five years, UK GDP is projected to increase by about 2.4% annually over the same period.<sup>11</sup> Using the new calculation criteria, this implies that UK defence expenditure will fall from 2.08% of GDP in 2015–16 to 1.85% GDP in 2020–21. To fulfil the 2% commitment during this timeframe, further financial contributions will therefore be required: £2.7 billion in 2019–20, and £3.5 billion in 2020–21.<sup>12</sup> The Government has indicated<sup>13</sup> that this deficit will be remedied by an additional inclusion of intelligence funding, given that a significant proportion of annual expenditure from the Single Intelligence Account (SIA), which funds the UK intelligence agencies, is in support of military activities. Further sums from the new £1.5 billion Joint Security Fund should secure the 2% minimum until 2020, assuming that such an accounting strategy falls within the NATO guidelines.

8. The trajectory of defence expenditure for the near future is set out in the 2015 Comprehensive Spending Review. Details of the Joint Security Fund remain unclear, and will be subject to negotiation: whilst the MoD and Intelligence Services may be primary beneficiaries of the JSF, the Foreign and Commonwealth Office (FCO) will also be eligible to bid for its security-related activities. Thus, the exact amount available to defence is hard to predict.

9 Ministry of Defence ([DET0012](#))

10 Ministry of Defence ([DET0012](#))

11 Office for Budget Responsibility, ‘[Economic and Fiscal Outlook](#)’, November 2015, Table 4.1

12 Malcolm Chalmers, ‘[Osborne’s Summer Surprise for Defence](#)’, RUSI Briefing Paper, July 2015, p 5

13 Malcolm Chalmers, ‘[Osborne’s Summer Surprise for Defence](#)’, RUSI Briefing Paper, July 2015, p 5

9. Ultimately, key strategic issues face the UK. The nature and breadth of these have altered significantly since the 2010 SDSR, and their assessment is important in determining the funding required. The protection now given to defence results, in part, from increased strategic risks. Britain has historically enjoyed “the luxury of a warfare away game”.<sup>14</sup> The deterioration in relations with Russia and in European security since 2010, as well as the persistent and evolving threat from international terrorism and the conflicts in Africa and the Middle East, have all increased the pressure and requirement for enhanced defence resources.

### Is the UK expenditure of 2% of GDP sufficient to safeguard UK defence?

10. The 2010 SDSR aimed to ‘secure Britain in an age of uncertainty’.<sup>15</sup> The UK arguably now exists in a world even less certain than in 2010. The 2015 SDSR includes a commitment thoroughly to review current defence capabilities, deficiencies and potential remedies. The Government asserts that its new 0.5% annual increase in defence expenditure will be sufficient to fund its manifesto commitment to increase the annual MoD equipment budget by 1%, and maintain the Regular Army at 82,000 personnel.<sup>16</sup> A key question, however, is whether this is sufficient to maintain effective defence of the UK. With limited resources, ‘full-spectrum capability’—and the ability of the UK to engage internationally—may not be achievable.

**11. We welcome the Government’s commitment not to fall below the NATO recommended minimum of spending 2% of GDP on defence each year for the rest of the current Parliament. This sends an important message to all the UK’s partners and potential adversaries. We recognise, nevertheless, that meeting the minimum—at a lower proportion of GDP than ever before—does not mean that defence is adequately resourced, following decades of successive cuts in expenditure. We also note that the NATO minimum would not have been fulfilled if UK accounting practices had not been modified, albeit in ways permitted by NATO guidelines.**

*12. We would like further clarity regarding the nature of operational funding from the Treasury Reserve. That the MoD has been unable to provide a robust data set identifying which years included costs of operations in its calculation of UK defence expenditure submitted to NATO is a concern to the Committee; we invite the MoD to do so.*

14 General Sir Richard Barrons, Commander Joint Forces Command, RUSI Land Warfare Conference, July 2015

15 HM Government, ‘Securing Britain in an Age of Uncertainty – The Strategic Defence and Security Review’, [Cm 7948](#), October 2010

16 Malcolm Chalmers, ‘[Osborne’s Summer Surprise for Defence](#)’, RUSI Briefing Paper, July 2015, p 3

## 2 What constitutes “2%”?

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### NATO definitions of defence expenditure

13. As we note in the previous section, the Government has revised the criteria according to which defence expenditure is calculated. In written evidence to the Committee, the Ministry of Defence set out the details of the criteria used by NATO to assess defence expenditure and the areas which the MoD has now included in its expenditure return for the first time:

NATO determines the definitions for categorising defence spending. NATO recognises that this may result in differences between the defence spending figures quoted by nations and NATO’s reporting. However, the NATO definitions allow NATO to provide reports on Allies’ defence spending on a comparable basis. This is an important factor which enables NATO to report progress against the Defence Investment Pledge, which Allies agreed at the Wales Summit.<sup>17</sup>

14. The MoD went on to explain that the UK, along with other NATO Allies:

Updates its approach to ensure that it is categorising defence spending fully in accordance with NATO guidelines, by capturing all spending contributing to the defence of the United Kingdom. This properly includes: elements of the Government’s cyber security spending and parts of the Conflict, Stability and Security Fund relating to peacekeeping.<sup>18</sup>

15. In oral evidence, Peter Watkins, Director General for Security Policy at the MoD, said that NATO guidelines allowed the UK to “include public spending that contributes to our defence”. While the “vast bulk” of expenditure was spent by the Ministry of Defence, the guidelines allow the UK to include expenditure from other funds, such as the Conflict, Stability and Security Fund which is controlled jointly by the MoD and the Department for International Development (DfID).<sup>19</sup>

16. Jonathan Parish, Deputy Assistant Secretary-General for Defence Policy and Planning at NATO, told us that the changes made by the MoD to the accounting procedures were consistent with NATO definitions of defence expenditure. He explained that, every two years, NATO conducts a survey of member nations and that “the survey, the questions within it and the definitions associated with all those questions are agreed by the nations”.<sup>20</sup>

17. Following that exercise, the UK had “changed what it was presenting as expenditure”, but Mr Parish confirmed that those changes “were fully in accordance with the NATO definitions” and that the UK was “perfectly entitled to include within the NATO definitions” those aspects of defence expenditure which had not previously been included.<sup>21</sup>

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17 Ministry of Defence ([DET0003](#))

18 Ministry of Defence ([DET0003](#))

19 [Q97](#)

20 [Q55](#)

21 [Q55](#)

18. Professor Malcolm Chalmers, Deputy Director of the Royal United Services Institute (RUSI), set out the key changes to the criteria, and identified the following items which were not previously included by the UK in defence expenditure calculations:

War pensions (around £820 million); assessed contributions to UN peacekeeping missions (around £400 million); pensions for retired civilian MoD personnel (perhaps around £200 million) and a large part of MoD income.<sup>22</sup>

19. In a recent RUSI briefing paper, Professor Chalmers outlined how these changes have helped the MoD to achieve the 2% minimum:

This achievement was 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 counting rules previously used for its NATO returns, the UK would have been on course to spend £36,820 million on defence in 2015–16, including £500 million on operations: equivalent to 1.97 per cent of GDP. Applying the new counting rules, by contrast, the UK is projected to spend £39,019 million in 2015–16, equivalent to 2.08 per cent of GDP. In total, therefore, the UK has added around £2.2 billion to its NATO count.<sup>23</sup>

20. Professor Julian Lindley-French, Vice-President of the Atlantic Treaty Association and Senior Fellow of the Institute of Statecraft, offered a different viewpoint:

Let's be specific here: the UK has suddenly discovered the 2004 NATO definition that refers to other forces. It refers specifically to other forces that are "structured, equipped and trained to support defence forces and which are realistically deployable". I would suggest that the Government has creatively applied those criteria of other forces, and in doing so has added some 14% or £5.7 billion to the defence budget. That includes intelligence assets, military pensions, the cost of overseas stabilisation missions, UN peacekeeping missions and, it would appear, pay-outs to retired civil servants and MOD income. That, I would suggest, is being creative with the books.<sup>24</sup>

21. Professor Lindley-French continued:

If one includes pre-2010 accounting methods, [defence expenditure] is between 1.5% and 1.6% by 2020. If we take this new figure, I would suggest it is around 1.8% by 2020, which means we are indeed seeing a shifting of the goalposts.<sup>25</sup>

22. We asked the MoD for more clarity regarding the breakdown of the 2% expenditure figure in order for us fully to understand how that figure was achieved. The MoD, in writing to the Committee, responded with the following three tables<sup>26</sup>:

22 Malcolm Chalmers, 'Osborne's Summer Surprise for Defence', RUSI Briefing Paper, July 2015, p 5

23 Malcolm Chalmers, 'Osborne's Summer Surprise for Defence', RUSI Briefing Paper, July 2015, p 5

24 [Q55](#)

25 [Q57](#)

26 Ministry of Defence ([DET0012](#))

**SDSR 2015: Breakdown**

UK Defence Expenditure 2015	%	Breakdown of other	%
Equipment and R&D	23		
Personnel	38		
Infrastructure	3		
Other	36	Ammunition and explosives	0.4
		Petroleum Products	1.3
		Other equipment and supplies	16.6
		Rents	3
		R&D (not dedicated to major equipment) <sup>27</sup>	1
		Property management	4.8
		IT and communications	3.3
		Utilities	0.9
		Transport and movement	1.5
		Professional fees	1.9
		External education and training	0.6
		Other costs	0.5

23. By comparison, the constituent breakdown of expenditure in 2010, which totalled 2.6% of GDP is as follows:

**SDSR 2010: Breakdown**

UK Defence Expenditure 2010	%	Breakdown of other	%
Equipment and R&D	24.5		
Personnel	35.7		
Infrastructure	1.6		
Other	38.3	Ammunition and explosives	1
		Petroleum Products	1.6
		Other equipment and supplies	16.3
		Rents	2.5

<sup>27</sup> MOD's research and development expenditure, covering both that for major equipment and that not dedicated to major equipment, includes expenditure on the centralised research budget, the Defence Science and Technology Programme, under the Department's Chief Scientific Adviser. The Government continues to dedicate 1.2% of the Defence budget to Science and Technology.

UK Defence Expenditure 2010	%	Breakdown of other	%
		R&D (not dedicated to major equipment)	0.9
		Property management	4.2
		IT and communications	4
		Utilities	0.9
		Transport and movement	2.2
		Professional fees	1
		External education and training	0.5
		Other costs	3.3

24. Whilst interesting, the defence expenditure items tabulated above fail to identify the specific new inclusions within the defence budget resulting from the changed, 2015 accounting strategy. By comparison with the breakdowns for 2015 and 2010, defence expenditure at the end of the Cold War in 1991 totalled 4.6% of GDP, made up as follows:

UK Defence Expenditure - 1991	%
Equipment and R&D	19.4
Personnel	41.7
Infrastructure	4.4
Other	34.5

25. *In the tabulated percentage breakdown of defence expenditures in 2010 and 2015 provided by the MoD, the new inclusions of the 2015 accounting strategy are difficult to identify. The only way that the MoD can refute claims of ‘creative accounting’ is to outline, clearly and unambiguously, what the new inclusions are, how much (both in GBP and as a percentage of the total defence expenditure) they constitute, and from which Department each was funded previously. We recommend that the MoD to provide this information, in a clear and unambiguous manner.*

26. *While the MoD may legitimately include the costs of operations, funded by HMT, as part of the NATO 2% calculations, the Committee is surprised to see no breakdown of those figures for 2010, when significant operations continued in Afghanistan and the programme of Urgent Operational Requirements was still delivering. We recommend accordingly that the MOD separate the costs of operations for each of the two tables pertaining to 2010 and 2015.*

27. *As training is an essential ingredient in the provision of military capability, the Committee is surprised to see no costs associated with individual and collective training*

*in either the 2010 or 2015 breakdown of expenditure. The MoD is again asked to break-out these costs for each period and into the future, in order that the Committee may assess the relative expenditures on equipment, personnel and training.*

28. Whilst the Government's revised accounting strategy to achieve defence expenditure at 2% of GDP conforms to NATO guidelines, it incorporates items—such as more than £1 billion in war pensions and MoD civilian pensions—not previously included in the defence budget. We believe that this 'redefinition' of defence expenditure undermines, to some extent, the credibility of the Government's assertion that the 2% figure represents a significant increase in defence expenditure. *We therefore recommend that the MoD provide its own calculation of what UK defence expenditure would currently be without the new inclusions contained within the 2015 return to NATO, i.e., if the 2010 accounting strategy were employed.*

### The commitment to a 0.5% annual increase in defence expenditure

29. Professor Chalmers told the Committee that the undertaking to increase defence expenditure by 0.5% each year represented a significant step forward, moving the MoD into the category of a "protected Department":

That is new money, and in the context of an overall spending review in which quite a number of other Departments are being asked to produce scenarios for cuts of 25% and 40%, it is very significant indeed. What is most significant, I think, is that defence has been moved from the category of unprotected Department to the category of protected Department. [ ... ] The proper comparator, then, is not between 0.5% and zero, but between 0.5% and the prospect of a cut comparable to the 2010 cut of about 8% in real terms.<sup>28</sup>

[ ... ]

In terms of capabilities, it is not the 2% commitment that counts, it is the commitment to 0.5% annual real increase on one hand and the commitment to the Joint Security Fund on the other. That is the real money that will fund UK defence capabilities.<sup>29</sup>

30. Professor Chalmers previously argued, however, that the 0.5% increase needed to be considered in the context of a growing economy:

While the MoD budget is set to grow by 0.5 per cent per annum over the next five years, national income (GDP) is projected to grow by an average of 2.4 per cent per annum over the same period. If these assumptions are correct, UK NATO-countable spending would fall from 2.08 per cent of GDP in 2015/16 to 1.85 per cent of GDP in 2020/21, assuming the recently introduced counting methods are still used. A further £2.7 billion per annum would be needed in 2019/20, and a further £3.5 billion in 2020/21, in order to bring NATO-countable defence spending up to 2.00 per cent of GDP.<sup>30</sup>

28 [Q6](#)

29 [Q8](#)

30 Malcolm Chalmers, '[Osborne's Summer Surprise for Defence](#)', RUSI Briefing Paper, July 2015, p 5

31. In oral evidence, Professor Lindley-French cautioned that the commitment to a 0.5% annual increase in defence expenditure, while welcome, would present challenges to the Government:

If we are going to achieve the 0.5% year-on-year real-terms increase, given defence cost inflation running at 2%, we need to be seeing a 2.5% nominal cash increase per year. [ ... ] An economy of the size of circa \$3 trillion a year, which is the GDP of the UK roughly, increasing at 2%—that’s an awful lot of money, potentially £6 billion extra, over the period 2015-16 to 2020-21, than the pre-July statement assessments of the UK defence investment. That is a lot of money.<sup>31</sup>

32. Revising the criteria by which the MoD calculates the level of defence expenditure may have helped the UK to maintain the NATO 2% minimum during this financial year. However, that cannot be relied upon to fulfil the 2% pledge in future years. According to Professor Chalmers:

There is a significant amount of money—around £1.5 billion of spending in the 2015-16 budget—which is one-off and is not in the baseline for the spending review. The Defence Recuperation Fund is worth £500 million in 2015-16 and that is a one-off payment this year and last. There is also around £1 billion of budget exchange money—money which was not spent back in 2012-13 but is being used in 2015-16—which again is not part of the spending review baseline. That £1.5 billion will drop out of the budget in 2016-17, although the core will grow by 0.5%. So in order to meet the 2% target in 2016-17, I think the Government will have to include more items in the NATO return than they have previously. [ ... ] The summer Budget makes it pretty clear that the Treasury’s anticipation is that elements of SIA (security and intelligence agencies) spending will be included in the defence budget in future years, although it is not, as I understand it, included this year.<sup>32</sup>

33. Professor Chalmers concluded that introducing further revisions of the accounting criteria in order to continue to meet the 2% minimum ran the risk of creating an adverse impact on UK defence expenditure announcements:

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.<sup>33</sup>

34. General Sir Richard Shirreff, previous Deputy Supreme Allied Commander Europe (DSACEUR), argued that it was important that the MoD addressed this analysis of the 2% figure and that if it could not “we have a problem”.<sup>34</sup> However, when asked to clarify this apparent sleight of hand, Peter Watkins, Director General for Security Policy at the Ministry of Defence, was unable to offer any insight into the MoD response to Professor Chalmers’ figures:

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31 [Q70](#)

32 [Q8](#)

33 Malcolm Chalmers, ‘[Osborne’s Summer Surprise for Defence](#)’, RUSI Briefing Paper, July 2015, p 6

34 [Q76](#)

I think the £5.7 billion is a figure calculated by Professor Chalmers of RUSI, who has used a whole raft of assumptions and so on. We do not necessarily have complete insight into them.<sup>35</sup>

35. At the time of the announcement of the SDSR 2015, Earl Howe, Minister of State for Defence, set out the Government's approach to categorising defence spending in a Written Answer to the House of Lords:

As with other NATO Allies, from time to time we update our approach to ensure we are categorising defence spending fully in accordance with NATO guidelines, seeking to capture all spending contributing to delivering the defence of the United Kingdom. Our 2011-12 NATO return was £36.6 billion. This included the Ministry of Defence budget, the cost of operations, and the Armed Forces Pension Scheme but did not reflect all UK defence spending. Our 2015-16 NATO return of £39 billion also included Ministry of Defence-generated income which directly funds defence activity, elements of the Government's cyber security spending, parts of the Conflict, Stability and Security Fund relating to peacekeeping, war pensions and pension payments to retired MoD civil servants.<sup>36</sup>

36. When he came before us, the Secretary of State for Defence, Rt Hon Michael Fallon MP, declared that the financial settlement for defence represented significant new money:

Let me make it clear that there is new money from the settlement in July available for defence. It is really from three sources. The budget itself will increase by 0.5% above inflation for every year of this Parliament. Secondly, we will have access to the brand-new Joint Security Fund; the details of that and of how much access there is are in the SDSR. Thirdly, as a key part of the July settlement, we are able to reinvest our efficiency savings directly in our own programmes rather than seeing them recouped by the Treasury. This is all about new money.<sup>37</sup>

**37. *It has been argued that the NATO 2% minimum has been achieved as much by moving the goalposts as by the introduction of new money. If the MoD is to disprove the assertion that its 2% figure is substantially dependent on 'creative accounting', it must set out in detail the exact proportion of the 2% that constitutes 'new money'.***

**38. *The 2% NATO minimum will be met this year, in part, by the inclusion of one-off items of expenditure. Given the fact that those items cannot be counted as expenditure in future years, we expect the MoD also to set out clearly how the commitment to spend 2% of GDP on defence expenditure over the lifetime of the current Parliament will be met.***

## Joint Security Fund and Intelligence Services funding

39. The inclusion of UK intelligence funding is a significant factor in the composition of the 2% commitment. Whilst this is a new addition in the UK's reporting of defence expenditure, its inclusion can be supported by reference to the financial reporting policy

35 [Q99](#)

36 Lords Written Answer [HL 1238](#), 8 July 2015

37 [Q96](#)

of the United States. An estimated 90% of US National Intelligence Program expenditure (around \$53 billion in 2013) is incorporated into the US Department of Defense budget.<sup>38</sup> However, it remains the case that including legitimate categories of expenditure which were previously excluded from its own calculations, means that the MoD is not comparing like-with-like in successive financial years.

40. In his 2015 Financial Statement, the Chancellor announced the creation of a Joint Security Fund (JSF).<sup>39</sup> In its written evidence to the Committee, the MoD indicated that this fund could provide “an additional £1.5 billion a year” to defence expenditure:

UK defence is better off following the Summer Budget announcement that the defence budget will rise by 0.5% per year to 2020/21, and that up to an additional £1.5 billion a year will be made available in a new Joint Security Fund.<sup>40</sup>

In oral evidence, Professor Chalmers estimated that the additional allocation from the JSF could contribute an increase of 1% per year in real terms to spending on the military and intelligence agencies:

The Budget statement has already pointed to how this gap [in defence expenditure] would be closed. Total annual spending from the Single Intelligence Account (SIA) is set to total around £2,200 million by 2020/21 and will be sufficient to close the gap up to 2018/19.<sup>41</sup>

41. The level of financial contributions from the Joint Security Fund, however, is difficult to guarantee; the exact contribution to defence spending will be reliant on successful bids by the MoD for funding from this source.<sup>42</sup> Although the MoD and intelligence services are likely to be the primary beneficiaries, the Foreign and Commonwealth Office (FCO) will also be eligible to bid for security-related activities. Professor Chalmers also noted that separate Departments applying to this central fund could further confuse funding streams:

The relationship with the existing Conflict, Stability and Security Fund (which allocates a budget of £1 billion annually to the MoD, Home Office, Department for International Development, Foreign Office and agencies) will have to be clarified, given the potential for duplication in mandate and administration.<sup>43</sup>

In summary, these sources of new money have significant potential to benefit defence expenditure. A number of uncertainties surround them, however, which must be clarified before their exact contributions to UK defence expenditure can be comprehensively understood.

**42. The additional funding of security through the newly created Joint Security Fund has the potential to help sustain defence spending at 2% of GDP. The MoD cannot, however, guarantee specific levels of financing from the JSF, as it is subject to its bids**

38 Marshall C Erwin and Amy Belasco, ‘[Intelligence Spending and Appropriations: Issues for Congress](#)’, Congressional Research Service, 18 September 2013, Summary

39 HC Deb, 8 July 2015, [col 337](#)

40 Ministry of Defence ([DET0003](#))

41 Malcolm Chalmers, ‘[Osborne’s Summer Surprise for Defence](#)’, RUSI Briefing Paper, July 2015, p 5

42 Malcolm Chalmers, ‘[Osborne’s Summer Surprise for Defence](#)’, RUSI Briefing Paper, July 2015, p 2

43 Malcolm Chalmers, ‘[Osborne’s Summer Surprise for Defence](#)’, RUSI Briefing Paper, July 2015, p 2

for funds being successful. Successful bids to the JSF from other Departments will lower its potential contribution to defence expenditure. *Should significant funds be awarded to other Departments, we would wish the MoD to provide reassurance against their being “re-badged” as defence expenditure at a later date, as a ‘quick fix’ to address future shortfalls in the accounting of the 2% commitment.*

43. The Joint Security Fund is advertised by the Government as being worth £1.5 billion per annum by 2020. This does not clarify how much, in total, will be available in each specific year up to that date. *The MoD should state when we will know how much, in total, the Joint Security Fund will be worth in each year until the end of the current Parliament.*

### Provision for innovation: science, research and technology

44. In October 2015, the Rt Hon Lord Robertson of Port Ellen, a former Secretary of State for Defence and former Secretary General of NATO, noted that achieving a prescribed level of defence expenditure was productive only if it was spent on the ‘right things’:

As I often said in NATO, the 2% only makes sense if it is spent on the right things—deployable troops, precision weapons, logistics and specialist people. 2% extra on the relics of the past adds no value and wastes taxpayers’ money.<sup>44</sup>

45. During the course of our inquiry, we considered how the new settlement for defence expenditure would be allocated by the MoD. Air Marshal Sir Stephen Hillier gave us details of how the 2% figure would be broken down:

Based on our return to NATO, it will be 23% on equipment, 38% on personnel—that is military and civilian—3% on infrastructure, and then there is the other 36% covering a range of things from operations, maintenance, research and development, et cetera. On your specific question about science and technology, we committed to 1.2% of the defence budget in the SDSR, and we will sustain that.<sup>45</sup>

46. Further information on this was provided by the MoD in its *SDSR 2015 Defence Key Facts*. That document stated that the 2015 defence budget, at 2% of GDP, would represent £34.4 billion. Research and development had been allocated 2.9% of that sum, which equates to approximately £1 billion within the defence budget. Of that, the SDSR stated that only 1.2% (approximately £0.4 billion), would be spent on science and technology.<sup>46</sup>

47. In oral evidence, several of our witnesses highlighted the importance of R&D expenditure in the military sphere. General Sir Richard Shirreff supported increased expenditure on R&D and previously argued that the history of warfare was “the history of technological development of weapons and counter-weapons”.<sup>47</sup> He added that

44 The Rt Hon Lord Robertson of Port Ellen, ‘[The Strategic Defence and Security Review and Its Implications](#)’, Gresham College, 27 October 2015

45 [Q108](#)

46 Ministry of Defence, ‘[SDSR 2015: Defence Key Facts](#)’, November 2015

47 ‘[Defence spending: Pay more for weapons research or face “disastrous” consequences, experts warn MoD](#)’, Independent, 20 June 2015

underinvestment in R&D by European militaries had led to an unhealthy imbalance between Europe and the UK and that it was unacceptable to “expect the Americans to spend our R&D for us”.<sup>48</sup>

48. Jonathan Parish further expanded upon the provision for research and development within the current UK defence budget:

People do tend to focus on the 2%, but there is a 20% associated with it. It is 2% on defence expenditure and 20% of that on new equipment, including research and development. If the 2% were spent just on salaries and pensions, it would be worthless, but by having that 20% element to it as well, you are encouraging the nations actually to transform their Armed Forces—to produce something that is better, more modern, more effective. We must not focus just on that 2% figure; we also have to bear in mind that associated 20% figure.<sup>49</sup>

A dedicated 20% of defence expenditure invested in new equipment, including research and development, is an encouraging statistic. A broader question would be to consider whether this is sufficient to retain cutting-edge technological militaries, and whether more expenditure in this remit is required in order to do so.

49. *The defence budget includes expenditure of 2.9% (£1 billion) and 1.2% (£0.4 billion) on Research and Development and Science and Technology respectively. In the light of increasing demands to be able to counter multi-dimensional (also known as asymmetric, hybrid or ambiguous) warfare, such as cyber and information operations, we wish to see evidence of how such expenditure is sufficient to address the fundamental research and development requirements now facing the UK.*

## External pressures on the defence budget

### Levels of pay

50. The Government has announced scope to reduce public sector pay awards compared to the private sector, with an annual cap of 1% until 2019–20. Such reductions should enable military personnel numbers to be maintained without increasing overall spending, if pay increases are limited to this level. There is a risk, however, that this cap could create difficulties in the event of a widening disparity between public and private sector pay. Furthermore, the MoD may face increased pressure to raise or remove the cap for certain categories of service personnel, especially those skills specialists who may readily find greater financial reward elsewhere. Professor Chalmers noted that despite the announcement of the cap of 1% on public sector workers until 2019–20, “some more generous settlements are likely to be needed if the MoD is to retain specialist skills”.<sup>50</sup> In a similar vein, the *Plymouth Herald* recently reported that Royal Navy engineers would be offered up to £24,000 in bonuses to stay and that:

£29 million of taxpayers’ money has been set aside to stop them quitting and senior NCOs get the lump sums if they agree to serve for another three years.

48 [‘Defence spending: Pay more for weapons research or face “disastrous” consequences, experts warn MoD’, Independent, 20 June 2015](#)

49 [Q37](#)

50 Malcolm Chalmers, [‘Osborne’s Summer Surprise for Defence’](#), RUSI Briefing Paper, July 2015, p 3

It has been decided that petty officers, who earn between £30,446 and £37,462, will be offered £21,000 for three years' return of service. Meanwhile the rank above them, chief petty officers, who earn £33,702–£43,876, will be given £24,000.<sup>51</sup>

### **Efficiency savings**

51. As we note earlier in our Report, the Secretary of State explained that a component of the 2% figure comes from efficiency savings identified by the MoD. Those savings would be reinvested rather than being recouped by HM Treasury.<sup>52</sup> The SDSR stated that the Cabinet Secretary had identified “more than £11 billion of savings from MOD, the security and intelligence agencies and cross-government counter-terrorism spending”. It went on to state that those efficiency savings would be reinvested in the UK’s “national security priorities”.<sup>53</sup>

52. In oral evidence, Air Marshal Sir Stephen Hillier, Deputy Chief of Defence Staff (Capability), MoD gave further details on those savings:

According to the figure to which we are working in the first five years, we will add £11 billion-worth of spending power to allow us to enhance capabilities. As the Secretary of State has said, some of that comes from the Joint Security Fund, some of it comes from re-prioritisation of the spend that we were already assuming and the majority of it comes from an efficiency programme in defence. That is where we get the additional capability from.<sup>54</sup>

53. ***The MoD must outline what the impacts would be if skilled employees are lost due to the increased disparity between public and private sector pay, and how these will be mitigated and afforded within the budget.***

54. ***The MoD must also justify how an annual public sector pay award cap of 1% until 2019–20 will be sufficient to avoid pressure on the budget from pay. It may prove difficult to maintain this stance in relation to wider economic pressures.***

55. ***A detailed explanation is required regarding how the £11.2 billion in ‘efficiency savings’, publicised in the 2015 SDSR, will be achieved. Whilst we welcome the announcement that any efficiency savings will be reinvested in “national security priorities”, it is less clear whether this will result in the savings being added to the defence budget specifically. We recommend that the MoD should provide the Committee with regular updates on the extent to which the identified savings are being realised and whether those savings are being reinvested, in full, in defence.***

51 [‘RN engineers “are offered £24k a year just to stay in their jobs”](#)’, Plymouth Herald, 23 April 2014

52 [Q96](#)

53 HM Government, National Security Strategy and Strategic Defence and Security Review 2015, [Cm 9161](#), November 2015

54 [Q100](#)

## 3 UK defence expenditure and the 2% minimum

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### Introduction

56. In this section we consider the wider context of UK defence expenditure; whether measuring it as a percentage of GDP is a useful metric; and whether 2% is a useful barometer. The current NATO recommended minimum of 2% of GDP on defence was initiated a decade ago, and is described by NATO as follows:

In 2006, NATO member countries agreed to commit a minimum of two per cent of their Gross Domestic Product (GDP) to spending on defence. This guideline principally serves 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 organization.

[ ... ]

While the two per cent 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.<sup>55</sup>

57. At the NATO summit in Wales in September 2014, member nations restated the need to reverse the trend of declining defence budgets and aim towards fulfilling the NATO 2% guideline within a decade:

Allies whose current proportion of GDP spent on defence is below this level (2% GDP) will: halt any decline in defence expenditure; aim to increase defence expenditure in real terms as GDP grows; aim to move towards the 2% guideline within a decade with a view to meeting their NATO Capability Targets.<sup>56</sup>

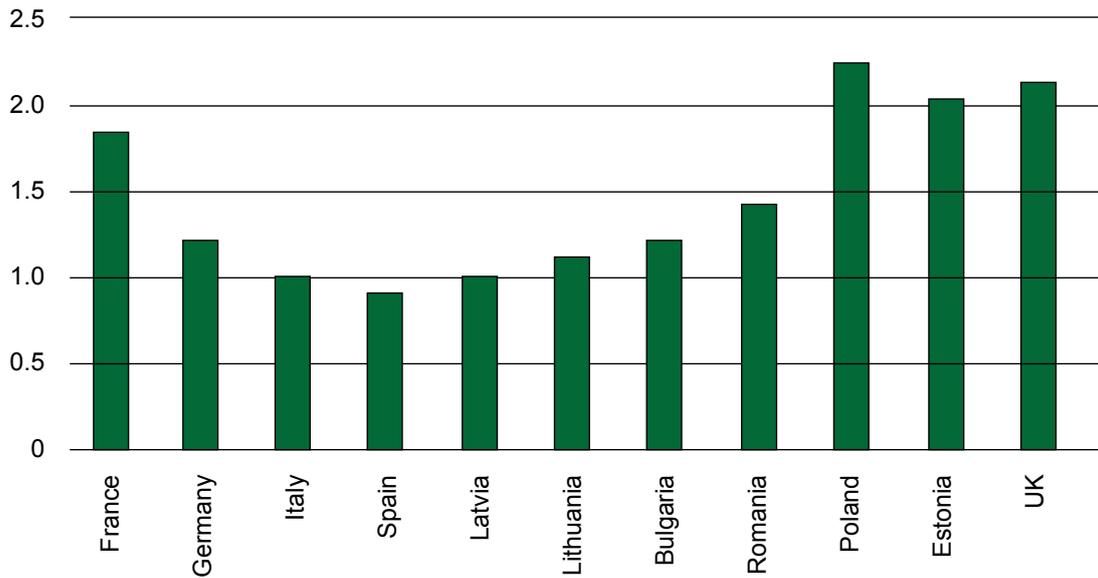
58. The graph below is a comparative study of European NATO member states' defence expenditure in 2015. Ten of the twelve new member states within Central and Eastern Europe spent less than 1.5% of GDP on defence. Of the new member nations, only Poland and Estonia met the NATO minimum of 2% of GDP, spending 2.2% and 2.0% respectively.

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55 Defence Expenditure – NATO 2% Target, Standard Note [SN07134](#), House of Commons Library, October 2015, p 5

56 [NATO Wales Summit Declaration](#), NATO website, 5 September 2014

### European Defence Expenditure as a Percentage of GDP, 2015



Source: Malcolm Chalmers, [‘Osborne’s Summer Surprise for Defence’](#), RUSI Briefing Paper, July 2015, p 6

59. At the time of the Wales Summit, doubt still remained whether the UK would continue to meet the 2% minimum.<sup>57</sup> However, as we have seen, in his Financial Statement of 8 July 2015, George Osborne announced the Government’s intentions: it would be “committing today to meet the NATO pledge to spend 2% of our national income on defence, not just this year but every year of this decade”.<sup>58</sup>

60. The MoD, in written evidence, set current UK defence expenditure into the wider economic context:

It is worth noting that the UK has historically spent above 2% of GDP on defence. In recent years, this has included substantial amounts of operational spending from the Treasury Reserve and come at a time of modest growth in GDP following the financial crisis in 2008–09. Defence spending will meet the 2% guideline despite an expected reduction in operational spending of almost 50% in the last year and the predicted increase in GDP of 3.6%, in part due to developments in international accounting guidelines. We are also one of seven countries to meet the NATO guideline to spend 20% of defence spending on major equipment and Research & Development, ensuring that we have one of the best-trained and best-equipped Armed Forces in the world. The UK will encourage NATO Allies for progress against the Defence Investment Pledge ahead of the Warsaw Summit.<sup>59</sup>

61. However, as we note in the first chapter of our Report, UK defence expenditure as a percentage of GDP has been steeply in decline since the 1950s, falling from around 7% in 1955 to just 2% in the current financial year.<sup>60</sup> The disparity between historical UK defence expenditure and the current levels was highlighted by Professor Hartley:

57 [‘David Cameron ‘endangering special relationship with America’ by not protecting defence spending’](#), Daily Telegraph, 14 January 2015

58 HC Deb, 8 July 2015, [col 337](#)

59 Ministry of Defence ([DET0003](#))

60 See Introduction

The long-term trend cannot be ignored. Going back a long time to the early 1950s, we spent 10% of our GDP on defence. In the mid-1980s, it was about 5%. We are down to 2%. The long-term trend will be further reductions.<sup>61</sup>

### The political importance of 2%

62. In its written evidence, the MoD highlighted the fact that the 2% minimum was of political as well as financial importance for NATO members as it represented an “indicator of Allies’ political willingness to contribute to our common defence and security efforts and meeting this commitment underpins Britain’s place in the world”.<sup>62</sup>

63. Several witnesses also highlighted this as a significant factor. Dr Linda Risso, University of Reading, noted that, while the 2% NATO minimum had “significant limits”, it had been restated because of its “political significance”:

It is—and will be—used to identify those members who are committed to a strong and effective alliance and that see NATO being able to respond rapidly to threats on its periphery [ ... ] The members who do not contribute find it hard to have their voice heard in the North Atlantic Council.<sup>63</sup>

64. Jan Techau, the Director of Carnegie Europe, described the 2% minimum as “barely useful” as it did not measure defence spending in real terms or actual output. It is his view that a “smarter yardstick” of defence expenditure would produce “a more sophisticated picture of reality”. However, Mr Techau also acknowledged that a more nuanced measurement “would not have the same political impact”.<sup>64</sup>

65. Professor Chalmers also noted the political importance to the UK of continuing to meet the 2% threshold:

I think it is a meaningful commitment in terms of the political impact there would have been if, having played as a country a key role in putting that target in a NATO Heads of Government statement for the first time [ ... ] and having pushed for that as a country, we had then not met it, I think that that would have been damaging to our reputation politically.<sup>65</sup>

66. Professor Chalmers also commented that setting a GDP minimum expenditure figure did bring some benefits. In particular, he emphasised its value as an indicator of “burden sharing” between nations and argued that it signified the “relative priority a society gives to defence compared with other things”.<sup>66</sup> Dr Robin Niblett, Director of Chatham House, agreed:

The first thing to say is that it is an important political commitment to be making in the current climate—the domestic climate, the European climate,

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61 [Q9](#)

62 Ministry of Defence ([DET0003](#))

63 Dr Linda Risso ([DET0001](#)), para 5

64 Jan Techau, ‘[The Politics of 2 Percent: NATO and the Security Vacuum in Europe](#)’, Carnegie Europe website, 2 September 2015

65 [Q9](#)

66 [Q19](#)

or the NATO/international climate—even if the numbers have arrived conveniently at that level. [ ... ] So, I think that the 2% target is important at that level. [ ... ] It is my sense that 2% is good politically.<sup>67</sup>

67. Professor Lindley-French stressed the importance of the figure to the United States and noted that in American political circles, the 2% commitment had “a very powerful symbolic meaning”.<sup>68</sup> However, he cautioned against too great a focus on the 2% metric:

It still reflects a “How much defence and how much threat can we afford?” approach to our strategic defence policy, rather than sound strategic planning upon which to base the future defence of this country and, indeed, of the alliance.<sup>69</sup>

68. When challenged to analyse the 2% minimum further, Professor Keith Hartley highlighted the important distinction between sufficient expenditure and the efficiency with which money is spent:

Economists cannot give you an answer and say, “Right, we should spend x on defence.” What we can say is, “If we spend 2.1%, 2.2% or, going the other way, 1.9%, 1.8%, what are the impacts on defence capability?” Ultimately, Governments then have to make a choice about the appropriate level. [ ... ] What we can do is to question the efficiency with which we are spending the existing defence expenditure, the 2% [ ... ]. A lot of the debate about 2% at the moment is symbolic. We are already spending it, and we were spending more than that over the past two years.<sup>70</sup>

69. Professor Chalmers also cautioned against a concentrated focus on percentages as a barometer by which to measure the effectiveness of defence expenditure:

The main focus should be elsewhere, not least because in relation to Russia the main element of NATO deterrence of Russia is not how much we spend. We could spend twice as much as we do now on defence, and if article 5 guarantees to exposed states were not credible then all that money would be for nothing. Similarly, we could spend no more than we do now and, by the measures we took, increase the degree of certainty in Russian leaders’ minds that we would respond to aggression effectively, which would make a big difference. NATO as a whole, of course, has very significant military capability, but it is not necessarily in the right place and would not necessarily be there at the right time.<sup>71</sup>

70. Professor Hartley believed that consideration of defence expenditure should move away from a focus on 2% as it was “an input measure”, rather than an assessment of outputs.<sup>72</sup> Dr Niblett expanded on this point and highlighted the disparity between having sufficient funding and effective spending:

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67 [Q5](#)

68 [Q37](#)

69 [Q37](#)

70 [Q3](#)

71 [Q11](#)

72 [Q11](#)

The obvious thing to say is that more equipment and higher spending on defence does not necessarily equal results. [ ... ] What is behind the amount that you are spending is as important as what you are spending. Obviously you want to spend it on the right equipment. If you do not have the capacity to follow up a threat or a sanction or a deterrent with military capacity, your political commitment is meaningless, but a larger defence commitment with a weak political backing for it in a post-Afghanistan-Iraq context does not make that 2% or 3% more powerful. I think the United States is a classic example of that.<sup>73</sup>

71. Claudia Major of the German international and security affairs think-tank, SWP, went further:

The arbitrary correlation between GDP and defence spending sends absurd messages. [ ... ] It does not care about output, or what countries get for their money, be it tanks or well-trained soldiers. Yet, what counts is what resources NATO ultimately has at its disposal, not how much its member states pour into their defence establishments.<sup>74</sup>

72. In meeting NATO Capability Targets, NATO members work towards an environment that supports their collective defence. In such a concept, spending the designated 2% of GDP on defence in effective ways, clearly has value. It is undoubtedly true that failure to achieve the NATO recommended defence expenditure would send a fundamentally negative signal to allies and adversaries alike: in political significance, 2% has value. What is more questionable is whether GDP is the only barometer that the UK should be adhering to in determining defence expenditure. A GDP minimum percentage as a figurehead pinnacle is no substitute for spending enough genuinely to provide effective defence of the UK. The fundamental question is: should, and could, the UK spend more?

**73. The 2% minimum figure has value as a political statement in reinforcing the UK's commitment to defence both domestically and internationally. It also serves as a barometer against which to measure and compare defence expenditure amongst NATO Allies. However, achieving a pre-determined threshold for defence expenditure does not automatically deliver the ability to protect ourselves or our allies against the varied threats to NATO and UK defence and security. The 2% pledge, while necessary, may not be sufficient. We believe that the focus should not be merely on a headline figure, but on whether this expenditure can possibly provide a sound defence for the UK.**

**74. Despite the UK's high ranking, relative to other NATO members, UK defence expenditure has fallen far too low in our national priorities. The world today is at its most dangerous and unstable since the end of the Cold War. While 2% is arguably a useful metric by which to measure the sufficiency of the UK commitment to NATO, it does not solely determine whether our total expenditure on defence is sufficient, given that the UK has significant additional commitments such as our defence of the Falkland Islands. Some of the costs of these UK commitments are additional to the NATO requirement, and therefore constitute an additional requirement for UK defence expenditure. Until and unless the MoD quantifies the net additional costs**

73 [Q11](#)

74 Claudia Major, ['Time to scrap NATO's 2 Percent pledge?'](#), Carnegie Europe website, 28 April 2015

**of the UK's commitments beyond NATO, we cannot be confident that 2% is enough, whether in political or capability terms. We remain to be convinced that the current financial settlement is sufficient to rectify the decline of defence as a national priority.**

## 4 UK defence: what can we afford?

### Introduction

75. Despite the fact that the UK has continued to meet the 2% minimum for defence expenditure, the question remains whether it is sufficient in terms of capability, given the range and breadth of threats facing both the UK and NATO. In its written evidence—submitted before the publication of the Strategic Defence and Security Review—the MoD stated that the SDSR would “determine priorities for investment to ensure that the UK has a full suite of capabilities with which to respond to defence and security threats”.<sup>75</sup> The challenge presented to the MoD in terms of delivering this ambition was put into context by Professor Lindley-French:

If you look at the \$90 billion being spent by the Russians as part of their modernisation programme, the \$150 billion or so being spent by the Chinese and what other countries around the world are doing, what strikes me is how few assets—both platforms and systems—the UK gets for its money.<sup>76</sup>

76. In oral evidence, Jonathan Parish sought to reassure us that 2% represented a meaningful level of defence expenditure, and told us that if all members met the 2% minimum “they would be achieving all the capability targets that they have been given”.<sup>77</sup> He continued:

Certainly, as defence planners in NATO, we feel that if the 28 nations—well, the 27 which actually have defence budgets—met their 2%, we would be more than capable of providing the capabilities that we need to do what the alliance has been requested to do by its political authorities.

77. However, not all of our witnesses were convinced that the 2% minimum was sufficient to provide the UK—and more widely NATO—with the necessary capabilities to meet the threats we face. General Shirreff declared himself “pretty sceptical” that if all NATO members met the 2% commitment “capabilities would suddenly be miraculously resolved”, not least because of “a generation” of underfunding of defence by European countries.<sup>78</sup> General Shirreff concluded that 2% was not enough to “resolve some of the huge risks—perhaps gambles—that were taken in 2010”, even if the UK’s figure had been achieved without “creative accounting”.<sup>79</sup>

78. In a similar vein, Professor Lindley-French did not believe that 2% was a sufficient level of defence expenditure for the UK:

Whilst the July decision to maintain defence spending at 2% GDP until 2020 enabled Britain’s Armed Forces to step back from the brink of irrelevance, it is only just.<sup>80</sup>

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75 Ministry of Defence ([DET0003](#))

76 [Q64](#)

77 [Q48](#)

78 [Q49](#)

79 [Q94](#)

80 Julian Lindley-French, ‘[SDSR 2015: The Second Battle of \(Max\) Hastings](#)’, 1 October 2015

79. In support of his position, Professor Lindley-French stated that the EU average was now 1.36% compared to US defence expenditure of 4.40%. He argued that this imbalance was “doing profound damage” to the ability of NATO forces to work together, and impeded interoperability.<sup>81</sup> Dr Niblett also warned that 2% was “under what you would need if you are really going to say that security is a key problem for the world going forward”.<sup>82</sup>

80. In oral evidence, Professor Lindley-French set out some of the challenges that face both the UK and our NATO Allies including the collapse of “many of the fragile states in north Africa and the Middle East”, a resurgent Russia that “seeks to straighten its defensive line”, and how to “defend the Baltic States anyway in a real emergency”.<sup>83</sup> In facing those challenges, he did not believe that 2% was sufficient to generate “the non-American force to support our objectives in both those flanks simultaneously”. In the absence of a higher level of defence expenditure within Europe, the UK and other European allies would have to “live with a higher level of risk”.<sup>84</sup>

81. In 2016, General Sir Richard Shirreff gave a wider view of the context of capabilities:

The threat to defence is posed by a resurgent Russia. The Russian invasion of Crimea, its support for separatists and its invasion of eastern Ukraine has effectively ripped up the post-Cold War settlement of Europe [ ... ] The implications for UK’s [2010] SDSR are clear. Britain’s current National Defence Strategy states, among other things, that there is no existential threat to its shores. At a stroke therefore Putin has rendered this strategy obsolete.<sup>85</sup>

82. Professor Chalmers explained that one reason why the UK’s expenditure on defence was higher than that of other European nations is that the UK sees the need to retain some “national options”:

We want to be able to do things by ourselves, or perhaps with some smaller neighbours, as we did in Helmand, for example, and we do not want to have to wait for the permission of the French or the Germans or others before we can do something. That is part of being on the Security Council and part of being a major expeditionary power. There is more we can do in co-operation. There is always more that we can explore, particularly in relation to being a framework nation which brings some smaller states along with it—the Scandinavians, the Dutch and so on—to bulk up numbers.<sup>86</sup>

83. Dr Niblett, however, questioned the extent to which the UK could afford the ability to be self-sufficient:

The UK is not going to be able to deter much by itself. It is going to have to deter with its NATO allies, and there are certain types of threats that it will have to deal with European allies, and even in collaboration with EU structures,

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81 [Q48](#)

82 [Q5](#)

83 [Q95](#)

84 [Q95](#)

85 ‘General Sir Richard Shirreff, ‘United Kingdom’ in *‘Alliance at Risk: Strengthening European Defense in an Age of Turbulence and Competition’*, Atlantic Council, February 2016, p 6

86 [Q12](#)

I would argue. I think thinking creatively about how you use the limited resources you have got, and making sure the mix is right across a spectrum of threats, is going to be absolutely critical.<sup>87</sup>

84. General Sir Richard Shirreff stated that in terms of defence the UK needed to “think through what collective defence means in the 21st Century”, in face of a Russian asymmetric approach seeking to undermine the integrity of a state from within, below the threshold which would trigger a multinational Article 5 response.<sup>88</sup> Furthermore, with limited resources, ‘full-spectrum capability’—plus the ability to engage internationally as Britain historically has—may be unachievable. Should this be true, an assessment of UK defence aspirations, the deficiencies that must be remedied to fulfil these, and the cost of doing so, may be instrumental in assessing the defence expenditure required—and whether 2% of GDP is sufficient.<sup>89</sup> It should be remembered that, when the UK last faced a threat from Russia during the 1980s, between 4% and 5% of GDP was spent on defence every year.

**85. Our inquiry has highlighted concerns regarding the adequacy of 2% as an acceptable level of defence expenditure in the UK. As a result, the Government must be clear that 2% is a minimum—not a target—and be prepared to increase defence expenditure further, in order to reflect the increasing threats faced by both the UK and our allies.**

### Additional capabilities

86. Despite his view that the 2% minimum is appropriate, Mr Parish cautioned that the UK’s expenditure on defence would increase UK defence capabilities only if it were spent effectively.<sup>90</sup> This view was echoed by Dr Niblett who raised doubts about the ability of the Ministry of Defence to mitigate the rising costs of defence procurement:

Does it buy you what you need? I am conscious that the UK has a big pipeline of big-ticket items coming up. I suppose my question would be, will they be on budget? If they are not on budget, you are going to find that things could then crunch in the outer years of the commitment.<sup>91</sup>

87. Professor Hartley also highlighted the fact that rising costs of equipment would continue to put pressure on the MoD budget:

We cannot ignore one elephant in this room: the rising cost of equipment. The long-term trend in real terms has been upwards. [ ... ] I can see in the future that the UK will find it very, very costly—and France and Germany—to replace its Typhoons, if they are to be replaced.<sup>92</sup>

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87 [Q11](#)

88 ‘General Sir Richard Shirreff, ‘United Kingdom’ in *‘Alliance at Risk: Strengthening European Defense in an Age of Turbulence and Competition’*, Atlantic Council, February 2016, p 7

89 ‘General Sir Richard Shirreff, ‘United Kingdom’ in *‘Alliance at Risk: Strengthening European Defense in an Age of Turbulence and Competition’*, Atlantic Council, February 2016

90 [Q69](#)

91 [Q5](#)

92 [Q12](#)

88. These pressures are of particular concern, given the range of areas in the UK Armed Forces which require additional expenditure. In oral evidence, General Sir Richard Shirreff provided the following list of capability gaps which the MoD needed to address:

What I would like to see is sufficient money spent to put right the gaps that are evidently there, particularly as a result of 2010 and preceding defence reviews. I would like to see across the board—for a start, maritime patrol aircraft is an obvious one. I would like to see something done to address the issues of manpower across all three services. I would like to see something done to address the issues of sustainability and logistics in order to deliver a genuinely credible manoeuvre capability in the Army. I would like to see something done about the deficiencies in Royal Naval escorts, for example.<sup>93</sup>

89. The 2015 Strategic Defence and Security Review has sought to address a number of these gaps. The SDSR announced plans to acquire nine new Boeing P8 Maritime Patrol Aircraft, and undertook to “maintain our fleet of 19 frigates and destroyers”. It also announced the creation of a new class of lighter, flexible general purpose frigates which might lead to an overall increase in frigate numbers. Other large-scale commitments include the completion of two aircraft carriers, seven ‘hunter-killer’ submarines (SSN) and four nuclear deterrent submarines (SSBN). Two new strike brigades will also be created, able to “deploy rapidly over long distances using the new Ajax armoured vehicles and new mechanised infantry vehicles”.<sup>94</sup>

**90. The minimum of 2% can be considered sufficient only if all major defence deficiencies are met. We welcome the Government’s commitment in the 2015 SDSR to fill key capability gaps, such as re-acquiring maritime patrol aircraft. We wish, nevertheless, to be reassured about the provisions planned to ensure success of future projects. Should, for instance, the ‘concept study’ to investigate the potential for a new class of lighter, flexible general purpose frigate be unsuccessful, we wish to be informed at the earliest opportunity of the MoD’s contingency plans to deliver the extra ships to satisfy the total originally promised. Similarly, we wish to see future provisions planned for equipping the new strike brigades with the new Ajax armoured vehicle variant.**

## Manpower

91. Earlier in this Report, we highlighted the potential pressure of personnel and pay on the defence budget. Regarding this concern, both General Shirreff and Jonathan Parish argued that there must be no compromise on personnel training. Mr Parish told us that while new equipment would lead to “a significant improvement” in capabilities, they need to be accompanied by “the right manpower, which is trained, by the right stocks and supplies that go with it, and, critically, by training all these elements together with the other elements that are key around them, to deliver the combined effect that you want”. Mr Parish emphasised that:

It is not just about the platforms, but everything else that goes around them, to get the maximum out of the platforms.<sup>95</sup>

93 [Q42](#)

94 HM Government, National Security Strategy and Strategic Defence and Security Review 2015, [Cm 9161](#), November 2015

95 [Q79](#)

92. SDSR 2015 undertakes to maintain the size of the Regular Armed Forces, not to reduce the Army to below 82,000, and to increase the Royal Navy and Royal Air Force by a total of 700 personnel.<sup>96</sup> Our witnesses were not, however, convinced that keeping to the status quo would ensure that the full potential of new equipment could be maximised. Professor Lindley-French told the Committee:

The danger right now is that, as the Chief of the Defence Staff suggested in a speech to RUSI recently, we end up with an exquisite force of great equipment, but insufficient manpower, with insufficient training and education, to properly exploit the force that is available to the country.<sup>97</sup>

93. Professor Hartley reinforced this point, highlighting the deeper issue of accepting the limitations in defence capabilities that come with any limitation to expenditure:

You could have a larger Navy or Air Force or Army, but the other services would perhaps have to go with a given defence budget. Do you have a smaller Army or a smaller Air Force?<sup>98</sup>

94. Dr Niblett also touched upon the importance of balancing the commendable commitment to large equipment procurements with the imperative requirements to protect personnel and operational capacity:

I am conscious that the UK has a big pipeline of big-ticket items coming up. What personnel choices are going to be made? The Army has been cut to a bit below 82,000 reasonably quickly [ ... ] you could end up with all the nice equipment and even the personnel, but without the operational capability to sustain them.<sup>99</sup>

95. Moreover, Dr Niblett emphasised the potential detriment to personnel that could be introduced as a result of any imbalance between equipment and personnel expenditures:

That may therefore put even more pressure on the Navy and on the Air Force, which has had a big cut in personnel in recent years.<sup>100</sup>

96. In further discussion of the topic of personnel numbers, Professor Chalmers told the Committee:

I think if I were given that freedom within the budget settlement, then I would relax the manpower ceiling for the Army because I think it is too rigid. The overall personnel ceiling is fine and is consistent with the budgetary settlement, but having a specific ceiling on the Army Regular numbers is unhelpful in terms of flexibility and trade-offs. It is likely actually to reverse some of the efficiency trends of the past five years, where front-line commands have been able to trade-off between civilians and service and contracting out.<sup>101</sup>

96 HM Government, National Security Strategy and Strategic Defence and Security Review 2015, [Cm 9161](#), November 2015

97 [Q70](#)

98 [Q4](#)

99 [Q5](#)

100 [Q5](#)

101 [Q32](#)

97. Intrinsically linked to the concept of manpower is that of training to utilise most optimally the advanced technology available to the Armed Forces. A primary example of this is the support required to maximise the potential of the F-35 aircraft. As Justin Bronk of RUSI argued:

The F-35 represents a significant challenge and a significant opportunity in the realm of training and maintenance for the UK. On the one hand, operating the single-seat, stealthy jet effectively and training pilots with advanced and highly sensitive capabilities will require significant investment in next-generation synthetic training facilities and networks. On the other, these investments will enable the UK to train for complex, high-threat war-fighting situations affordably and regularly in a way that can currently only be done at great expense in the US.<sup>102</sup>

98. In gaining optimum value from the advanced technology of the F-35, interoperability is a key concern. Enhanced management of F-35 accrued data could suffer due to competing interoperability requirements within the current equipment programme. Achieving interoperability sufficient to employ the abilities of the F-35 to full potential

Will likely be an expensive process given the number of platforms that will require upgrading and the £350 million cost of upgrading the communications and Tactical Information Exchange Capability on the small front-line Tornado GR4 and Harrier GR9 fleets in 2008–09. The US Battlefield Airborne Communications Node system which provided a theatre-wide datalink relay and translation capability in Afghanistan cost around \$1 billion. This raises a question about the balance of investment. [ ... ] The current equipment programme does not appear to provide for a coherent strategy to approach this requirement.<sup>103</sup>

99. Ultimately, if the UK effectively upgrades the necessary cross-platform interoperability, the efficiency and impact of the F-35 will be greatly enhanced. If the UK does not invest in this manner, we shall risk wasting a significant proportion of the F-35's potential capabilities.

100. *The MoD must provide evidence that, should a disparity arise between procurement aspirations and affordability within the threshold expenditure of 2% of GDP, finances will be available to mitigate this which will not be removed from another part of the budget to which they have already been committed.*

101. *It has been suggested that maintaining a Regular Army of 82,000 personnel, and a combined number of 700 extra personnel for the Royal Air Force and Royal Navy, may not be enough reliably to operate the equipment promised in the 2015 SDSR. The MoD, therefore, needs to provide robust justification for the personnel numbers deemed sufficient for each of the Armed Forces.*

102. *The Government's decisions to rectify some major UK defence equipment deficiencies are most welcome. What is unclear, however, is whether the proposed strength in manpower and expertise is adequate to utilise such new capabilities effectively. We wish to see evidence of how the UK will afford, within the budget, training*

102 Justin Bronk, 'Maximum Value from the F-35', RUSI, February 2016, Executive Summary (viii)

103 Justin Bronk, 'Maximum Value from the F-35', RUSI, February 2016, Executive Summary (vii - viii)

*programmes that are sufficient to address this and not depleted by efficiency savings. It is imperative that training and personnel numbers do not suffer to the point where they render us in possession of a so-called Hollow Force: 'exquisite' equipment<sup>104</sup> that cannot be maximised to its full potential.*

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104 General Sir Nicholas Houghton, ['Annual Chief of Defence Staff Lecture'](#), RUSI, 18 December 2013

## Conclusions and recommendations

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### The UK's commitment to 2%

1. We welcome the Government's commitment not to fall below the NATO recommended minimum of spending 2% of GDP on defence each year for the rest of the current Parliament. This sends an important message to all the UK's partners and potential adversaries. We recognise, nevertheless, that meeting the minimum—at a lower proportion of GDP than ever before—does not mean that defence is adequately resourced, following decades of successive cuts in expenditure. We also note that the NATO minimum would not have been fulfilled if UK accounting practices had not been modified, albeit in ways permitted by NATO guidelines. (Paragraph 11)
2. We would like further clarity regarding the nature of operational funding from the Treasury Reserve. That the MoD has been unable to provide a robust data set identifying which years included costs of operations in its calculation of UK defence expenditure submitted to NATO is a concern to the Committee; we invite the MoD to do so. (Paragraph 12)

### What constitutes "2%"?

3. In the tabulated percentage breakdown of defence expenditures in 2010 and 2015 provided by the MoD, the new inclusions of the 2015 accounting strategy are difficult to identify. The only way that the MoD can refute claims of 'creative accounting' is to outline, clearly and unambiguously, what the new inclusions are, how much (both in GBP and as a percentage of the total defence expenditure) they constitute, and from which Department each was funded previously. We recommend that the MoD to provide this information, in a clear and unambiguous manner. (Paragraph 25)
4. While the MoD may legitimately include the costs of operations, funded by HMT, as part of the NATO 2% calculations, the Committee is surprised to see no breakdown of those figures for 2010, when significant operations continued in Afghanistan and the programme of Urgent Operational Requirements was still delivering. We recommend accordingly that the MOD separate the costs of operations for each of the two tables pertaining to 2010 and 2015. (Paragraph 26)
5. As training is an essential ingredient in the provision of military capability, the Committee is surprised to see no costs associated with individual and collective training in either the 2010 or 2015 breakdown of expenditure. The MoD is again asked to break-out these costs for each period and into the future, in order that the Committee may assess the relative expenditures on equipment, personnel and training. (Paragraph 27)
6. Whilst the Government's revised accounting strategy to achieve defence expenditure at 2% of GDP conforms to NATO guidelines, it incorporates items—such as more than £1 billion in war pensions and MoD civilian pensions—not previously included in the defence budget. We believe that this 'redefinition' of defence expenditure undermines, to some extent, the credibility of the Government's assertion that the

2% figure represents a significant increase in defence expenditure. We therefore recommend that the MoD provide its own calculation of what UK defence expenditure would currently be without the new inclusions contained within the 2015 return to NATO, i.e., if the 2010 accounting strategy were employed. (Paragraph 28)

7. It has been argued that the NATO 2% minimum has been achieved as much by moving the goalposts as by the introduction of new money. If the MoD is to disprove the assertion that its 2% figure is substantially dependent on ‘creative accounting’, it must set out in detail the exact proportion of the 2% that constitutes ‘new money’. (Paragraph 37)
8. The 2% NATO minimum will be met this year, in part, by the inclusion of one-off items of expenditure. Given the fact that those items cannot be counted as expenditure in future years, we expect the MoD also to set out clearly how the commitment to spend 2% of GDP on defence expenditure over the lifetime of the current Parliament will be met. (Paragraph 38)
9. The additional funding of security through the newly created Joint Security Fund has the potential to help sustain defence spending at 2% of GDP. The MoD cannot, however, guarantee specific levels of financing from the JSF, as it is subject to its bids for funds being successful. Successful bids to the JSF from other Departments will lower its potential contribution to defence expenditure. Should significant funds be awarded to other Departments, we would wish the MoD to provide reassurance against their being “re-badged” as defence expenditure at a later date, as a ‘quick fix’ to address future shortfalls in the accounting of the 2% commitment. (Paragraph 42)
10. The Joint Security Fund is advertised by the Government as being worth £1.5 billion per annum by 2020. This does not clarify how much, in total, will be available in each specific year up to that date. The MoD should state when we will know how much, in total, the Joint Security Fund will be worth in each year until the end of the current Parliament. (Paragraph 43)
11. The defence budget includes expenditure of 2.9% (£1 billion) and 1.2% (£0.4 billion) on Research and Development and Science and Technology respectively. In the light of increasing demands to be able to counter multi-dimensional (also known as asymmetric, hybrid or ambiguous) warfare, such as cyber and information operations, we wish to see evidence of how such expenditure is sufficient to address the fundamental research and development requirements now facing the UK. (Paragraph 49)
12. The MoD must outline what the impacts would be if skilled employees are lost due to the increased disparity between public and private sector pay, and how these will be mitigated and afforded within the budget. (Paragraph 53)
13. The MoD must also justify how an annual public sector pay award cap of 1% until 2019–20 will be sufficient to avoid pressure on the budget from pay. It may prove difficult to maintain this stance in relation to wider economic pressures. (Paragraph 54)

14. A detailed explanation is required regarding how the £11.2 billion in ‘efficiency savings’, publicised in the 2015 SDSR, will be achieved. Whilst we welcome the announcement that any efficiency savings will be reinvested in “national security priorities”, it is less clear whether this will result in the savings being added to the defence budget specifically. We recommend that the MoD should provide the Committee with regular updates on the extent to which the identified savings are being realised and whether those savings are being reinvested, in full, in defence. (Paragraph 55)

### UK defence expenditure and the 2% minimum

15. The 2% minimum figure has value as a political statement in reinforcing the UK’s commitment to defence both domestically and internationally. It also serves as a barometer against which to measure and compare defence expenditure amongst NATO Allies. However, achieving a pre-determined threshold for defence expenditure does not automatically deliver the ability to protect ourselves or our allies against the varied threats to NATO and UK defence and security. The 2% pledge, while necessary, may not be sufficient. We believe that the focus should not be merely on a headline figure, but on whether this expenditure can possibly provide a sound defence for the UK. (Paragraph 73)
16. Despite the UK’s high ranking, relative to other NATO members, UK defence expenditure has fallen far too low in our national priorities. The world today is at its most dangerous and unstable since the end of the Cold War. While 2% is arguably a useful metric by which to measure the sufficiency of the UK commitment to NATO, it does not solely determine whether our total expenditure on defence is sufficient, given that the UK has significant additional commitments such as our defence of the Falkland Islands. Some of the costs of these UK commitments are additional to the NATO requirement, and therefore constitute an additional requirement for UK defence expenditure. Until and unless the MoD quantifies the net additional costs of the UK’s commitments beyond NATO, we cannot be confident that 2% is enough, whether in political or capability terms. We remain to be convinced that the current financial settlement is sufficient to rectify the decline of defence as a national priority. (Paragraph 74)

### UK defence: what can we afford?

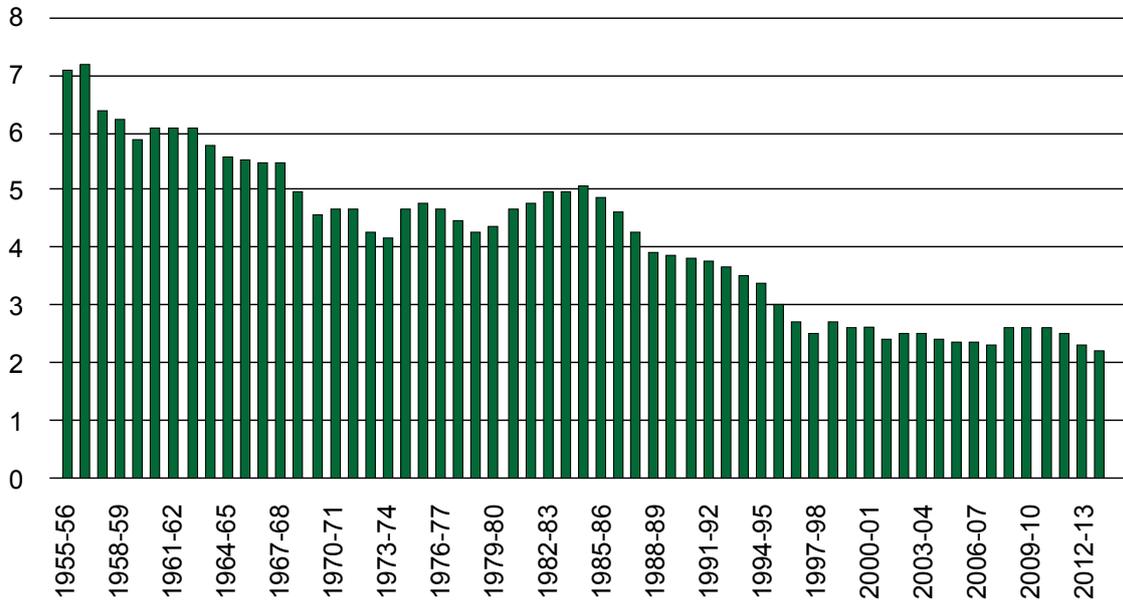
17. Our inquiry has highlighted concerns regarding the adequacy of 2% as an acceptable level of defence expenditure in the UK. As a result, the Government must be clear that 2% is a minimum—not a target—and be prepared to increase defence expenditure further, in order to reflect the increasing threats faced by both the UK and our allies. (Paragraph 85)
18. The minimum of 2% can be considered sufficient only if all major defence deficiencies are met. We welcome the Government’s commitment in the 2015 SDSR to fill key capability gaps, such as re-acquiring maritime patrol aircraft. We wish, nevertheless, to be reassured about the provisions planned to ensure success of future projects. Should, for instance, the ‘concept study’ to investigate the potential for a new class of lighter, flexible general purpose frigate be unsuccessful, we wish to be informed

at the earliest opportunity of the MoD's contingency plans to deliver the extra ships to satisfy the total originally promised. Similarly, we wish to see future provisions planned for equipping the new strike brigades with the new Ajax armoured vehicle variant. (Paragraph 90)

19. The MoD must provide evidence that, should a disparity arise between procurement aspirations and affordability within the threshold expenditure of 2% of GDP, finances will be available to mitigate this which will not be removed from another part of the budget to which they have already been committed. (Paragraph 100)
20. It has been suggested that maintaining a Regular Army of 82,000 personnel, and a combined number of 700 extra personnel for the Royal Air Force and Royal Navy, may not be enough reliably to operate the equipment promised in the 2015 SDSR. The MoD, therefore, needs to provide robust justification for the personnel numbers deemed sufficient for each of the Armed Forces. (Paragraph 101)
21. The Government's decisions to rectify some major UK defence equipment deficiencies are most welcome. What is unclear, however, is whether the proposed strength in manpower and expertise is adequate to utilise such new capabilities effectively. We wish to see evidence of how the UK will afford, within the budget, training programmes that are sufficient to address this and not depleted by efficiency savings. It is imperative that training and personnel numbers do not suffer to the point where they render us in possession of a so-called Hollow Force: 'exquisite' equipment that cannot be maximised to its full potential. (Paragraph 102)
22. The Government's decisions to rectify some major UK defence equipment deficiencies are most welcome. What is unclear, however, is whether the proposed strength in manpower and expertise is adequate to utilise such new capabilities effectively. We wish to see evidence of how the UK will afford, within the budget, training programmes that are sufficient to address this and not depleted by efficiency savings. It is imperative that training and personnel numbers do not suffer to the point where they render us in possession of a so-called Hollow Force: 'exquisite' equipment that cannot be maximised to its full potential. (Paragraph 102)

## Annex 1: Historical defence expenditure

### *Defence expenditure<sup>105</sup> as a percentage of GDP, 1955–2014<sup>106</sup>*



### *Defence expenditure as a percentage of GDP listed by year*

The below figure displays the tabulated amounts, as a percentage of GDP, spent on defence from 1955 to 2014.

Year	Defence expenditure as a percentage of GDP
1955–56	7.1
1956–57	7.2
1957–58	6.4
1958–59	6.3
1959–60	5.9
1960–61	6.1
1961–62	6.1
1962–63	6.1
1963–64	5.8
1964–65	5.6
1965–66	5.6
1966–67	5.5
1967–68	5.5

<sup>105</sup> At a point which the MoD has not identified, a decision was taken to include the cost of current operations—despite their being met from the Treasury Reserve—in calculating the percentage of GDP spent on defence. This was probably first done in 2008–09, accounting for the rise in expenditure between financial years 2007–08 and 2008–09 (see the chart of historical defence expenditure, above).

<sup>106</sup> Sources: British Historical Statistics, Mitchell (1955 to 1975); UK Defence Statistics, DASA (from 1975 to 1990); HM Treasury, Public Expenditure Statistical Analysis 2014 (1990 to 2014). Annual GDP: Office for National Statistics

Year	Defence expenditure as a percentage of GDP
1968–69	5.0
1969–70	4.6
1970–71	4.7
1971–72	4.7
1972–73	4.3
1973–74	4.2
1974–75	4.7
1975–76	4.8
1976–77	4.7
1977–78	4.5
1978–79	4.3
1979–80	4.4
1980–81	4.7
1981–82	4.8
1982–83	5.0
1983–84	5.0
1984–85	5.1
1985–86	4.9
1986–87	4.6
1987–88	4.3
1988–89	3.9
1989–90	3.9
1990–91	3.8
1991–92	3.8
1992–93	3.7
1993–94	3.5
1994–95	3.3
1995–96	3.0
1996–97	2.7
1997–98	2.5
1998–99	2.7
1999–00	2.6
2000–01	2.6
2001–02	2.4
2002–03	2.5
2003–04	2.5
2004–05	2.4
2005–06	2.4
2006–07	2.4
2007–08	2.3
2008–09	2.6
2009–10	2.6
2010–11	2.6

Year	Defence expenditure as a percentage of GDP
2011-12	2.5
2012-13	2.3
2013-14	2.2

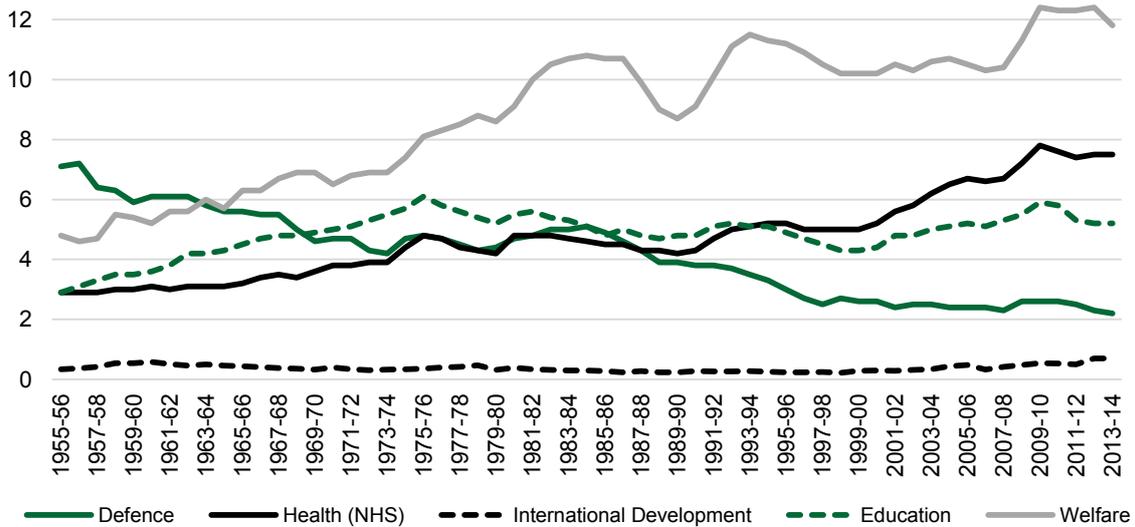
# Annex 2: Comparative governmental expenditure analysis

## Introduction

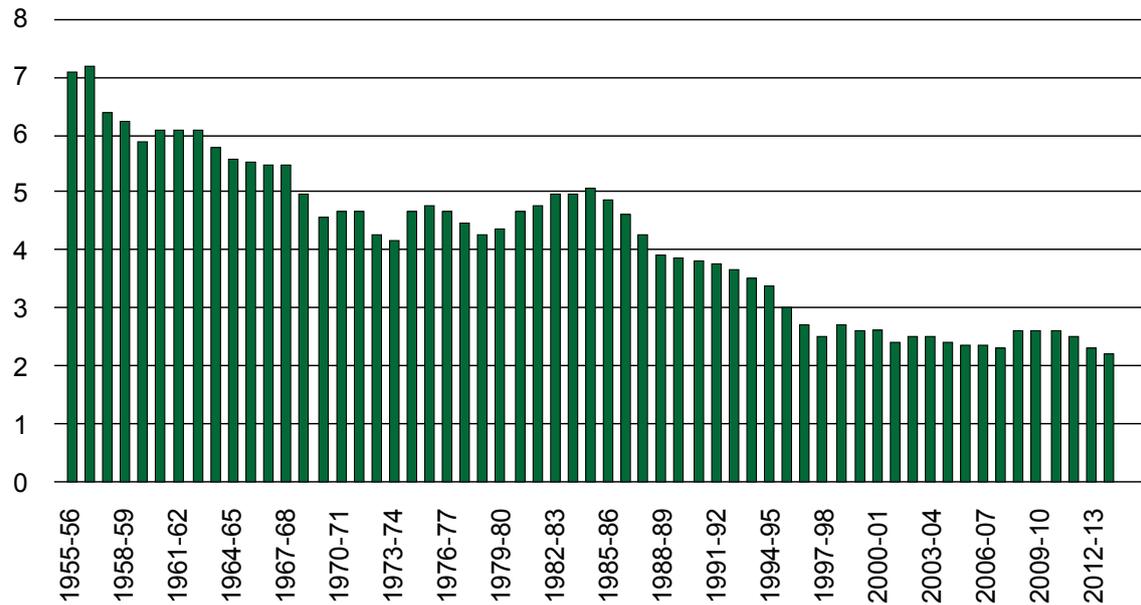
Presented below are graphical representations of the historical UK expenditure on Defence, Health (NHS), Education, Welfare and Overseas Development Assistance, as a proportion of GDP.

It can be seen that, since the end of the Cold War at the end of the 1980s, expenditure on Health has almost doubled as a proportion of GDP. Since the end of the 1990s, expenditure on Overseas Development Assistance has more than doubled. Between 1955 and 1975, expenditure on Education also doubled, after which it has remained approximately constant at this enhanced level. By contrast, between 1988 and 2013, Defence expenditure almost halved as a proportion of GDP.

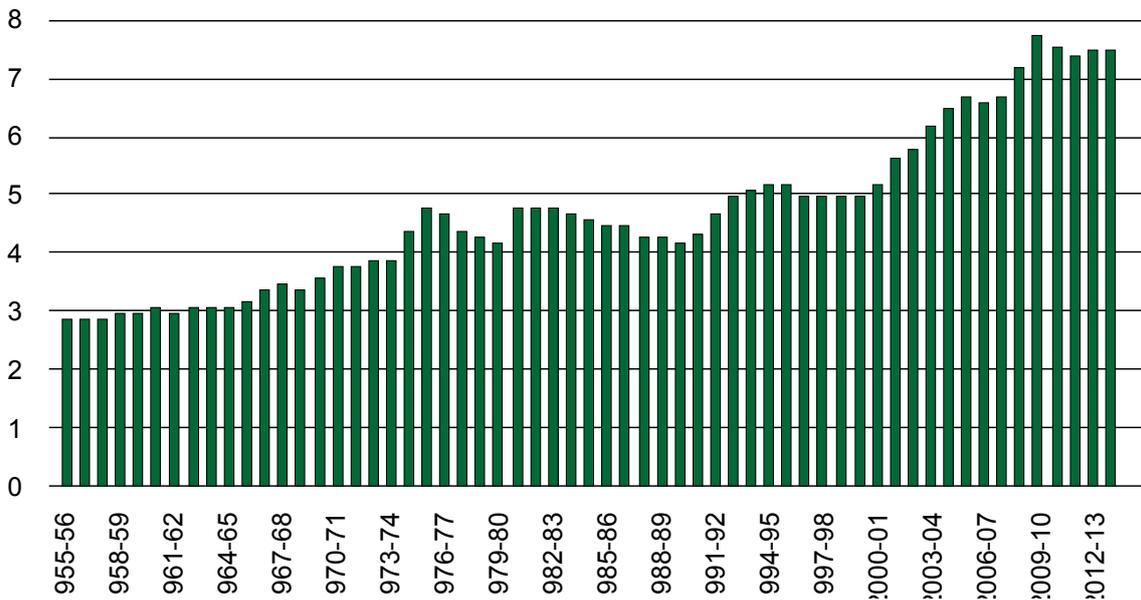
### Comparative study of expenditures as a percentage of GDP, 1955–2014



**Defence expenditure as a percentage of GDP, 1955–2014<sup>107</sup>**



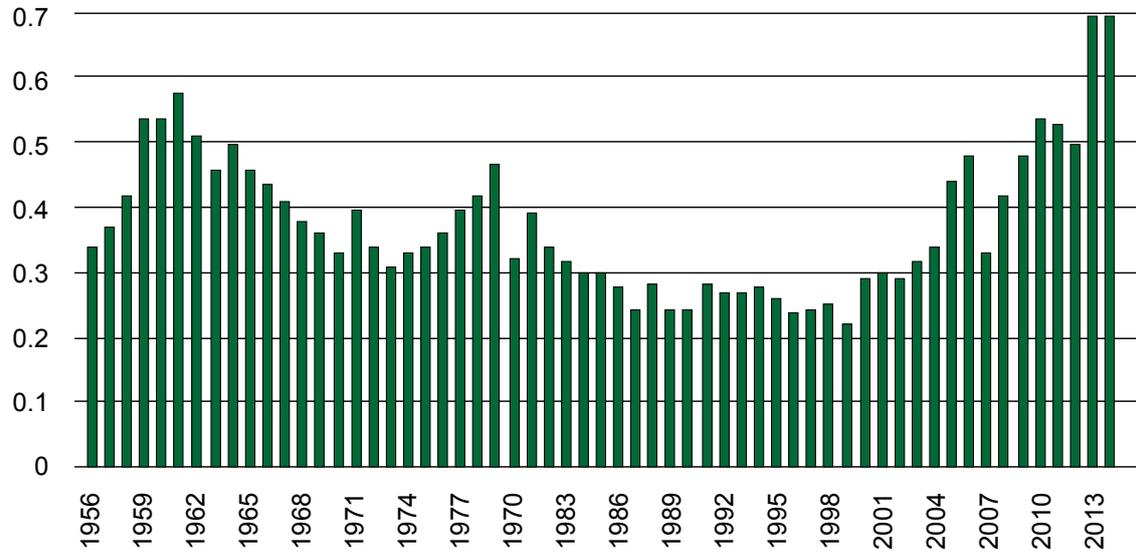
**Health (NHS) expenditure as a percentage of GDP, 1955–2014<sup>108</sup>**



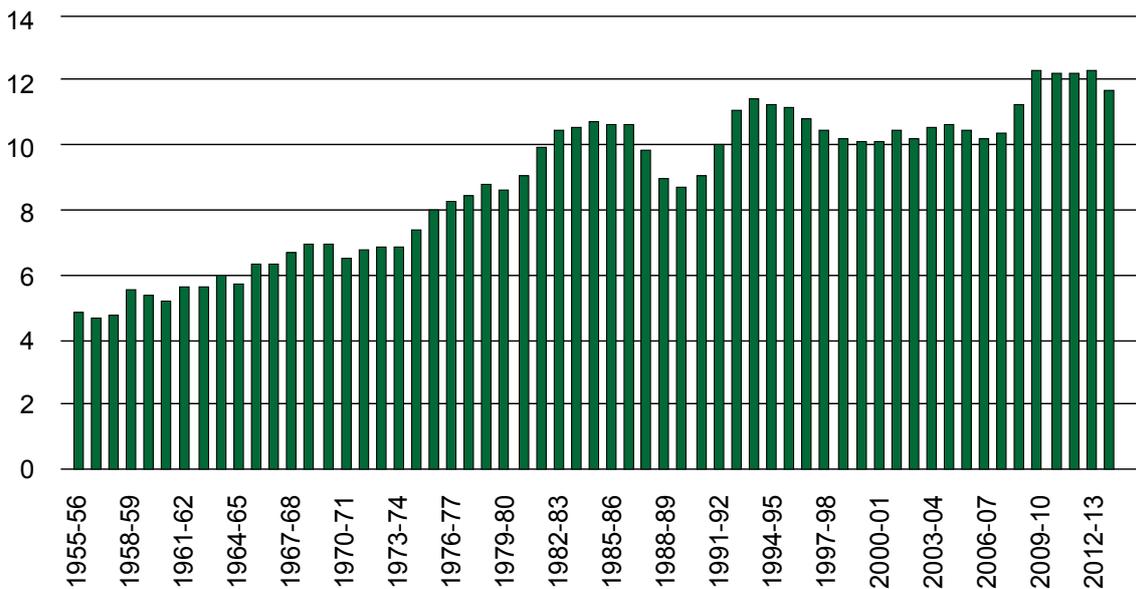
107 Sources: British Historical Statistics, Mitchell (1955 to 1975), UK Defence Statistics, DASA (from 1975 to 1990), HM Treasury, Public Expenditure Statistical Analysis 2014 (1990 to 2014). Annual GDP: Office for National Statistics

108 Sources: ONS, Annual Abstract of Statistics: 1955/56 to 1990/91; HM Treasury, Public Expenditure Statistical Analyses: 1992/93 to 2014/15

**International Development (Overseas Development Assistance) expenditure as a percentage of GDP, 1955–2014<sup>109</sup>**



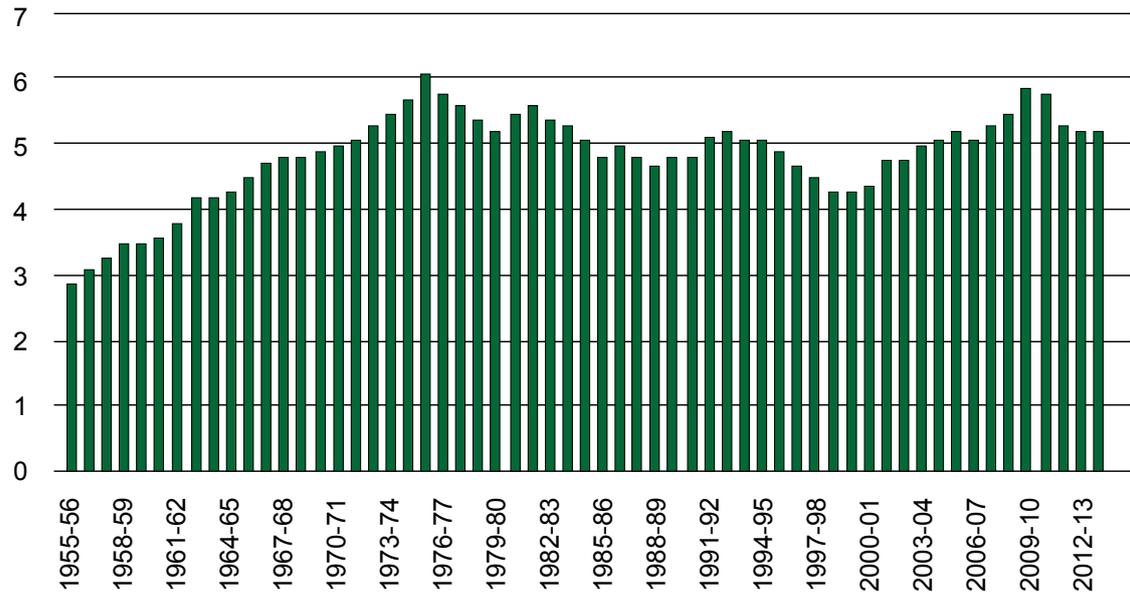
**Welfare expenditure as a percentage of GDP, 1955–2014<sup>110</sup>**



109 Sources: 1955 to 1959: OECD, Net ODA from DAC countries from 1950 to 2014 (April 2015); exchange rates from Crafts and Woodward, *The British Economy since 1945*; 1960: OECD Table DAC1 (extract Aug 2015); 1961 to 1969: HC Deb, 19 July 1976, col 333-4W; 1970 onwards: Department for International Development, Provisional UK ODA as a proportion of GNI 2014 (April 2015)

110 Sources: Department for Work and Pensions, benefit expenditure and caseload tables

**Education expenditure as a percentage of GDP, 1955–2014<sup>111</sup>**



<sup>111</sup> Sources: Institute of Fiscal Studies, Long-run public expenditure data by function: 1955/56 to 1997/98; HM Treasury, Public Expenditure- Statistical Analyses: 1998/99 to 2014/15

# Formal Minutes

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**Tuesday 12 April 2016**

Members present:

Rt Hon Dr Julian Lewis, in the Chair

Richard Benyon	Jim Shannon
Douglas Chapman	Rt Hon John Spellar
Mr James Gray	Bob Stewart
Johnny Mercer	Phil Wilson

Draft Report (*Shifting the goalposts? Defence expenditure and the 2% pledge*), proposed by the Chair, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 102 read and agreed to.

Annexes agreed to.

Summary agreed to.

*Resolved*, That the Report be the Second Report of the Committee to the House.

*Ordered*, That the Chair make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 13 April at 10.00am.]

## Witnesses

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The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

### Tuesday 13 October 2015

*Question number*

**Professor Malcolm Chalmers**, Royal United Services Institute, **Professor Keith Hartley**, University of York, and **Dr Robin Niblett**, Director, Chatham House

[Q1–35](#)

### Tuesday 17 November 2015

**Professor Julian Lindley-French**, Senior Fellow, Institute of Statecraft, **Jonathan Parish**, Deputy Assistant Secretary-General for Defence, NATO, and **General Sir Richard Shirreff KCB CBE**, former Deputy Supreme Allied Commander Europe

[Q36–95](#)

### Tuesday 1 December 2015

**Rt Hon Michael Fallon MP**, Secretary of State for Defence, **Air Marshal Sir Stephen Hillier KCB CBE DFC RAF**, Deputy Chief of the Defence Staff (Capability), and **Peter Watkins**, Director General for Security Policy

[Q96–119](#)

## Published written evidence

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The following written evidence was received and can be viewed on the [inquiry publications page](#) of the Committee's website.

DET numbers are generated by the evidence processing system and so may not be complete

- 1 Campaign Against Arms Trade ([DET0002](#))
- 2 Campaign for Nuclear Disarmament ([DET0005](#))
- 3 Dr Linda Risso ([DET0001](#))
- 4 King's College London ([DET0009](#))
- 5 Ministry of Defence ([DET0012](#))
- 6 Ministry of Defence ([DET0003](#))
- 7 Ministry of Defence ([DET0011](#))
- 8 Professor Julian Lindley-French ([DET0010](#))
- 9 Professor Keith Hartley ([DET0013](#))
- 10 Royal Aeronautical Society ([DET0007](#))

## List of Reports from the Committee during the current Parliament

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All publications from the Committee are available on the [publications page](#) of the Committee's website.

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

### Session 2015–16

First Report	Flexible response? An SDSR checklist of potential threats and vulnerabilities	HC 493
First Special Report	Ministry of Defence Annual Report and Accounts 2013–14: Government response to the Committee's Eights Report of Session 2014–15	HC 365
Second Special Report	Re-thinking defence to meet new threats: Government response to the Committee's Tenth Report of Session 2014–15	HC 366
Third Special Report	Decision-making in Defence Policy: Government response to the Committee's Eleventh Report of Session 2014–15	HC 367
Fourth Special Report	Flexible Response? An SDSR checklist of potential threats and vulnerabilities: Government Response to the Committee's First Report of Session 2015-16	HC 794