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# UK defence expenditure



## SummarySummary

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## Summary

In 2020/21, defence spending amounted to £42.4 billion in cash terms. This represents a nominal increase of £2.5 billion on the previous year, and a real terms increase of £1.7 billion.

The Prime Minister [announced](#) on the 19 November 2020 that the defence budget would increase by £16.5 billion over four years above the Conservative manifesto commitment to increase spending in this area by 0.5% above inflation.

As a result, the annual defence budget will be £6.2 billion higher in cash terms in 2024/25 compared to 2020/21. However, the real value of this spending increase is smaller, particularly in the current context of rising inflation. When adjusted for inflation, defence spending over this period is expected to increase by £1.5 billion.

Most of this additional funding has been allocated to capital budgets, whereas the Ministry of Defence's day-to-day budget is actually set to decline in real terms over this period.

Expenditure by the Department currently represents around 2% of GDP. Historically, this figure has decreased from around 7% in the 1950s.

As a member of NATO, the UK is [committed to spending 2% of GDP on defence](#) each year. It was one of just 8 of NATO member countries to have met this target in 2021.

A total of £0.5bn was spent on military operations in 2020/21. Over the past 15 years or so, operations in Afghanistan accounted for most expenditure in this area.

## 1

## Current defence expenditure

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

In 2020/21, defence spending amounted to £42.4 billion in cash terms. This was a nominal increase of £2.5 billion on the previous year, and a real terms increase of £1.7 billion when adjusted for inflation (in 2021/22 prices).

Departmental budgets up until 2024/25 were set at [Autumn Budget 2021](#).

Current defence expenditure				
Reported outturn and planned TDEL				
	Amount (£bn)		Real terms change on previous year	
	Cash	2021/22 prices <sup>a</sup>	£bn	%
2015/16	35.1	39.8	-	-
2016/17	35.3	39.1	-0.7	-1.7%
2017/18	36.6	39.9	+0.8	+2.0%
2018/19	38.0	40.7	+0.8	+1.9%
2019/20	39.8	41.7	+1.0	+2.4%
2020/21	42.4	43.3	+1.7	+4.0%
<b>Planned</b>				
2021/22 <sup>b</sup>	46.0	46.0	+2.7	+6.2%
2022/23 <sup>b</sup>	47.9	46.0	+0.0	+0.1%
2023/24 <sup>b</sup>	48.0	45.0	-1.0	-2.1%
2024/25 <sup>b</sup>	48.6	44.8	-0.3	-0.6%
Change 2020/21 - 2024/25:			+1.5	3.4%
Notes:				
a) GDP deflator growth for 2020/21 and 2021/22 has been averaged across the two years to smooth distortions caused by pandemic-related factors. OBR forecasts are used for 2021/22.				
b) Cash value taken from Autumn Budget and Spending Review 2021.				

Sources: MOD, [Defence departmental resources: 2021](#), table 1; HMT, [Autumn Budget and Spending Review 2021](#), table E.2, p182; HMT, [GDP deflator](#), March 2022 (Quarterly National Accounts)

<sup>1</sup> MOD, [Defence departmental resources: 2021](#), 24 February 2022

The Prime Minister [announced](#) on the 19 November 2020 that the defence budget would increase by £16.5 billion over four years above the Conservative manifesto commitment to increase spending in this area by 0.5% above inflation. [Spending Review 2020](#) described the funding settlement as “an increase in defence spending of £24 billion in cash terms over the next four years against the 2020/21 budget”.<sup>2</sup> However, it has been suggested that this representation may be “misleading”.<sup>3</sup>

This figure appears to represent the cumulative increase in planned defence spending – as set out in [Spending Review 2020](#) – over the four-year period (2020/21 to 2024/25). This is opposed to the more conventional method of comparing the increase in the annual budget between the start and end year. While the way the Government chose to present these figures is not factually wrong, this is not how increases or decreases in spending are usually discussed.

Based on current spending plans, the annual defence budget will be £6.2 billion higher in cash terms in 2024/25 (£48.6 billion) compared to 2020/21 (£42.4 billion). However, the real value of this spending increase is smaller, particularly in the current context of rising inflation. When adjusted for inflation, defence spending over this period is expected to increase by £1.5 billion (3.4%).

Most of this additional funding has been allocated to capital budgets (expenditure on the acquisition or maintenance of fixed assets, e.g. equipment or land). Capital DEL is set to increase by £3.0 billion (25.4%) in real terms between 2020/21 and 2024/25.<sup>4</sup>

In comparison, the MOD is the only government department for which its day-to-day spending (resource DEL excluding depreciation) is set to decline in real terms over this period – by £1.4 billion (-4.6%).<sup>5</sup>

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<sup>2</sup> HMT, [Spending Review 2020](#), para 6.36, p68

<sup>3</sup> This was reportedly [flagged as misleading](#) by Ben Zaranko of the IFS at the time, and has more recently been called into question by [Full Fact](#).

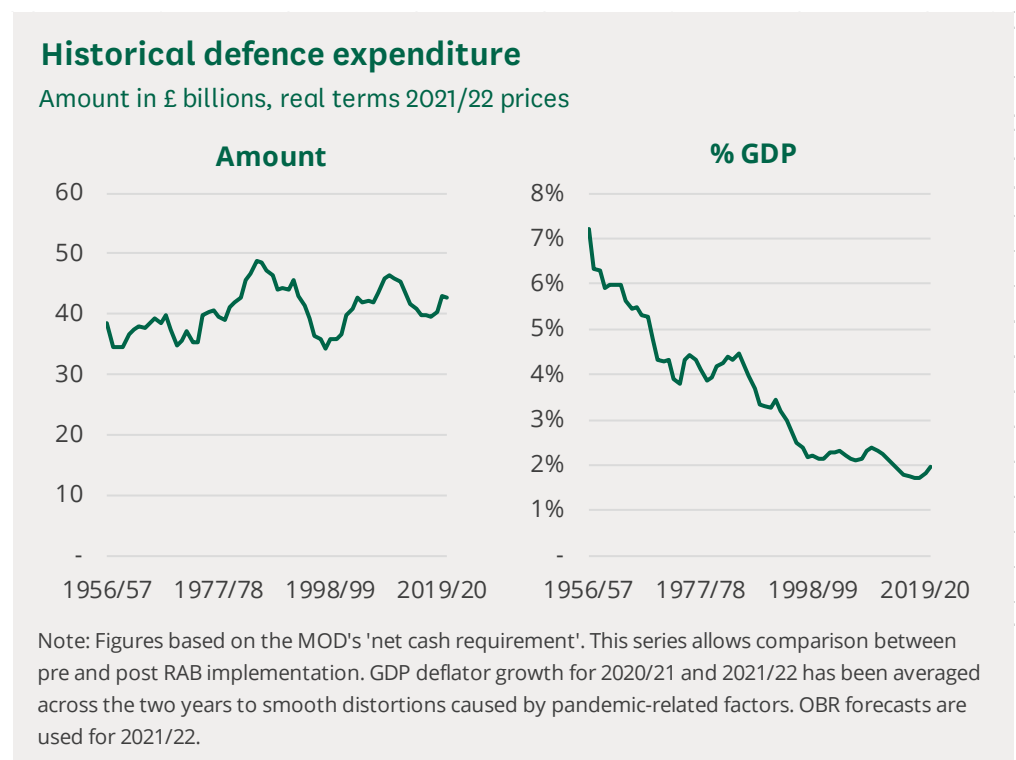
<sup>4</sup> HoC Library calculations using table 1.5 of [Spring Statement and Spending Review 2022](#).

<sup>5</sup> HMT, [Autumn Budget and Spending Review 2021](#), table E.2, p182; HoC Library calculations using table 1.4 of [Spring Statement and Spending Review 2022](#). On 13.04.22 the expected real terms reduction in day-to-day expenditure was amended from £1.7 billion to £1.4 billion to correct an error.

## 2

## Historic defence expenditure

In the early 2000s government accounts changed from cash accounting to resource accounting and budgeting (RAB). These changes disrupted the comparability of historical time series. A 'near cash' (the net cash requirement) figure was produced to continue longer time-series analysis and to enable comparison with the old-style accounting method. The charts below show MOD expenditure since the 1950s. These figures are not comparable with those in the previous table.



Sources: B. R. Mitchell, *British Historical Statistics*, 1988; MOD, *UK Defence Statistics* (various editions); MOD, [Annual Report and Accounts](#) (various editions); HMT, [GDP deflators at market prices, and money GDP](#), March 2022 (Quarterly National Accounts)

MOD expenditure in 1984/85 was £48.9 billion in real terms – the highest level of expenditure in the period shown. Spending levels peaked more recently in 2009/10 at £46.5 billion in real terms (2021/22 prices).

As a percentage of GDP, expenditure by the Department has decreased from around 7% in the 1950s to around 2% today. In 2020/21 defence expenditure as a percentage of GDP, based on this methodology, was 2.0%.

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

### 3

## International comparisons

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

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

These issues mean that international comparisons of defence expenditure should be treated with a substantial amount of caution. Differences of a fraction of a percentage point should not be used as a basis for argument.

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

The following sub-sections discuss NATO defence expenditure targets and present international comparisons of defence expenditure based on the NATO definition for its member countries.

### NATO defence expenditure definition

In its annual [defence expenditure](#) publication, NATO defines defence expenditure as “payments made by a national government specifically to meet the needs of its armed forces, those of Allies or of the Alliance”.<sup>6</sup>

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

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<sup>6</sup> NATO, [Defence Expenditure of NATO Countries \(2014-2021\)](#), 31 March 2022, p.15



- Expenditure on the Armed Forces and “Other Forces” (e.g. national police, border guards, coast guards etc). Expenditure on “Other Forces” should only be included in proportion to the forces that are trained in military tactics, are equipped as a military force, can operate under direct military authority in deployed operations, and can, realistically, be deployed outside national territory in support of a military force.
- Pensions to military and civilian personnel of military departments.
- Peacekeeping, humanitarian operations, and weapon control (e.g. the destruction of weapons, equipment and ammunition, and the costs associated with inspection and control of equipment destruction).
- Research and development (both for successful and unsuccessful equipment).
- Expenditure for the military component of mixed civilian-military activities, but only when this military component can be specifically accounted for or estimated.
- Financial assistance to support the defence of an ally.
- Expenditure towards NATO common infrastructure.<sup>7</sup>

## How the UK defines NATO defence expenditure

In recent years when reporting defence expenditure to NATO the UK has included several items of expenditure which had not been included previously: in 2014/15 there was the addition of war pensions (£820m), contributions to UN Peacekeeping Missions (£400m), pensions for retired civilian MOD personnel (£200m) and a large portion of MOD income (which totalled around £1.4 billion).<sup>8</sup>

NATO accepted that the items conformed with its definition of defence expenditure, though RUSI argued that more information was needed before the legitimacy of the decision could be decided.<sup>9</sup>

In 2016 the Defence Committee of the House of Commons published its inquiry into UK defence expenditure and the Government’s commitment to the meet the NATO 2% target (see below). It found that “the NATO minimum would not have been fulfilled if UK accounting practices had not been modified, albeit in ways permitted by NATO guidelines”.<sup>10</sup> The [full report](#), is available online.

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<sup>7</sup> Ibid.

<sup>8</sup> Malcolm Chalmers, [Osborne’s Summer Surprise for Defence](#), RUSI, 11 August 2015, p5

<sup>9</sup> Ibid.

<sup>10</sup> Defence Committee, [Shifting the goalposts? Defence expenditure and the 2% pledge](#), para 11

## The NATO 2% target

In 2006, NATO allies set a target to spend 2% of GDP on defence. According to the NATO website, as well as continuing to ensure the Alliance's military readiness:

This guideline also serves as an indicator of a country's political will to contribute to NATO's common defence efforts since the defence capacity of each member has an impact on the overall perception of the Alliance's credibility as a politico-military organisation.

[...]

While the 2% of GDP guideline alone is no guarantee that money will be spent in the most effective and efficient way to acquire and deploy modern capabilities, it remains, nonetheless, an important indicator of the political resolve of individual Allies to devote to defence a relatively small but still significant level of resources.<sup>11</sup>

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

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

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

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

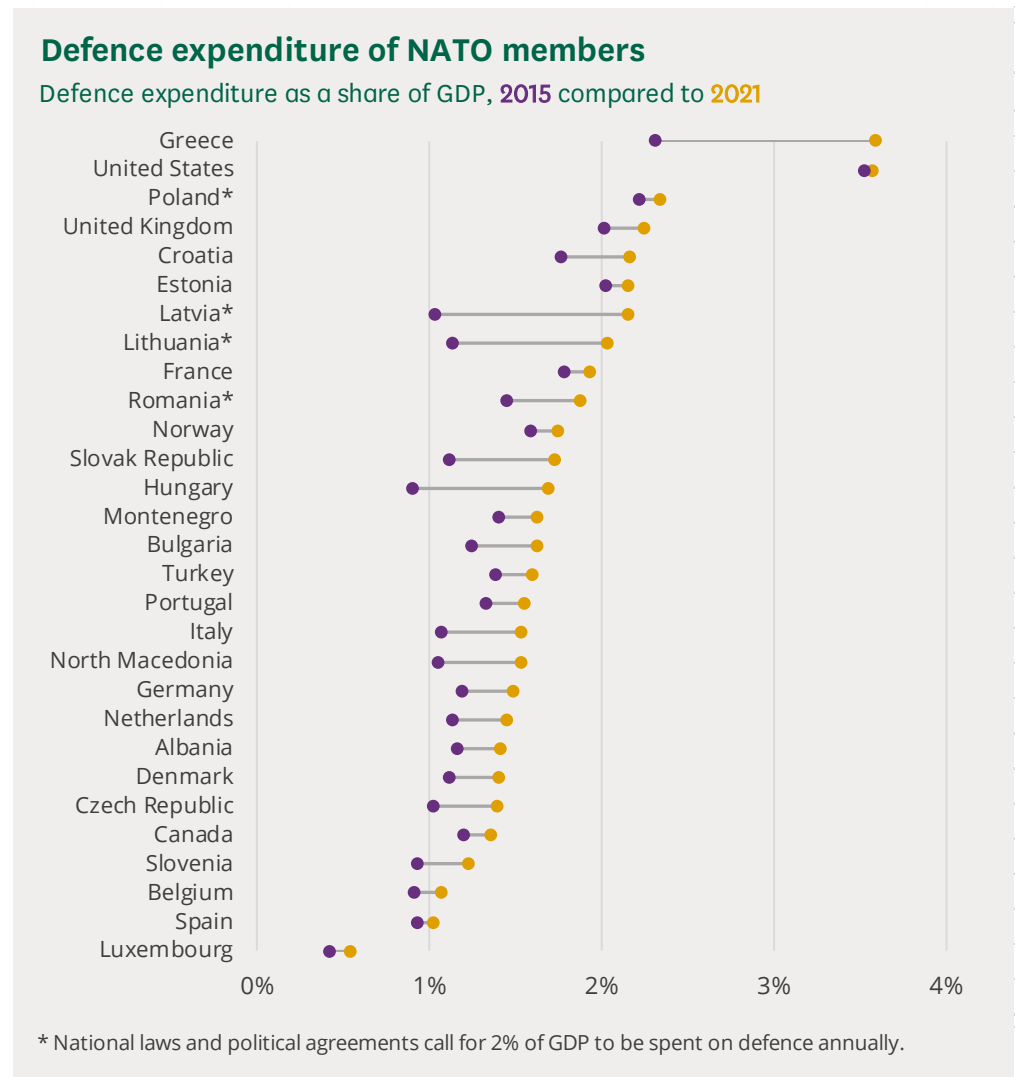
However, the target is both symbolically and politically important. The US has repeatedly called on European allies to contribute more. At the NATO Summit in Wales in September 2014, Allies agreed to reverse the trend of declining defence budgets and aim towards the NATO guideline of spending 2% of GDP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

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<sup>11</sup> NATO, [Funding NATO](#), 1 April 2022

continue to do so”, while those who don’t will halt any decline in defence expenditure and aim to move towards the 2% guidelines within a decade.<sup>12</sup>

At an extraordinary summit in Brussels in March 2022, held following Russia’s invasion of Ukraine, Allies agreed to “accelerate our efforts to fulfil our commitment to the Defence Investment Pledge in its entirety.”<sup>13</sup> The pledge is a [reference to the commitments](#) made in 2014.



Source: NATO, [Defence Expenditures of NATO countries \(2014-2021\)](#), 31 March 2022, table 3

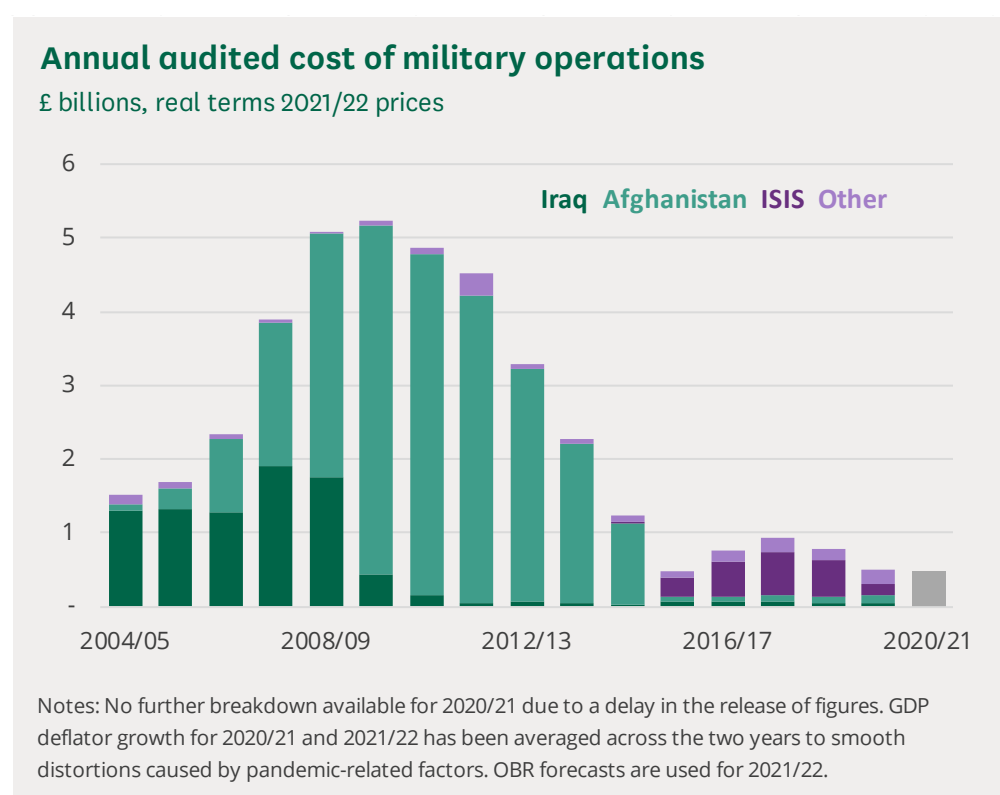
The latest NATO estimates on defence expenditure of member countries indicates that only 8 members met the 2% target in 2021 – up from 5 members in 2015, but 2 fewer than the previous year. Some of the largest increases in defence expenditure as a percentage of GDP compared to 2015 include Greece, Latvia, Lithuania, Hungary, and the Slovak Republic (Slovakia). All states have increased defence expenditure as a share of GDP.

<sup>12</sup> NATO, [Wales Summit Declaration](#), 5 September 2014 (updated 30 August 2018)

<sup>13</sup> NATO, [Statement by NATO Heads of State and Government](#), 24 March 2022

## 4 Military operations

The MOD publishes information on the cost of military operations and interventions undertaken by the UK Armed Forces. The cost of these operations is reported in terms of the net additional cost, i.e. costs over and above those that the Department would have incurred had the operation not been undertaken. For example, expenditure on pay, or savings from cancelled training exercises, are deducted from the total cost of the operation the costs incurred.<sup>14</sup>



Sources: MOD, [Defence departmental resources: 2021](#), table 7; HMT, [GDP deflator](#), March 2022 (Quarterly National Accounts)

Over the last 15 years or so the peak in military operations expenditure was in 2009/10, when around £5 billion (2021/22 prices) was spent. It is clear from the chart that operations in Afghanistan accounted for most of this expenditure.

In 2020/21, total expenditure on military operations was around £0.5 billion. This represents a reduction of around £4.5 billion from the 2009/10 peak.

<sup>14</sup> MOD, [Defence departmental resources: 2021](#), 24 February 2022

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