

The Government is committed to funding the Armed Forces as they modernise and adapt to meet evolving threats and promote international stability in the changing global security environment. Building on the additional investment provided by the Government since 2000, the 2004 Spending Review:

- provides 1.4 per cent average annual real terms growth in defence expenditure over the three years to 2007-08, which, taken together with the resources allocated in the 2000 and 2002 Spending Reviews, represents seven consecutive years of planned real-terms growth, the longest such period for over twenty years;
- ensures further investment in the modernisation of defence by increasing the size of the Defence Modernisation Fund to £1 billion over the next three years, and widening its scope; and
- enables the Armed Forces to continue to adapt in light of new and emerging security challenges, defend the UK and act as a force for good in the world.

DELIVERING SECURITY IN A CHANGING WORLD

Sustained growth in defence spending

13.1 The UK's Armed Forces are at the forefront of the Government's efforts to deliver security and prosperity, and have consistently risen to the challenges set them, most recently in Iraq and Afghanistan. The capacity to deliver effective military force for peace support and intervention operations, alongside NATO and European allies, is a key component of the Government's security policy.

13.2 The 2004 Spending Review demonstrates the Government's continued commitment to the Armed Forces, and increases planned spending on defence by an average of 1.4 per cent per year in real terms over the three Spending Review years to 2007-08, with total planned defence spending £3.7 billion higher in 2007-08 than in 2004-05. In cash terms, the equivalent increase is £3.5 billion, an average real growth of 1.5 per cent per year. This increase builds on the additional investment in defence provided in the 2000 and 2002 Spending Reviews, and represents seven consecutive years of planned real-terms growth – the longest such period for over twenty years.

13.3 The considerable investment provided since 2000 has allowed the Ministry of Defence to implement the strategy first set out in the 1998 Strategic Defence Review, which emphasised the importance of being able to deliver agile, flexible and deployable fighting forces. The 2002 Spending Review provided the highest sustained growth in defence spending plans for twenty years, enabling the Armed Forces to invest in the latest technology and network-enabled capabilities, while providing additional funds for the modernisation of the information infrastructure and logistics. The 2004 Spending Review provides for further investment to support the implementation of the vision set out in the 2003 Defence White Paper, *Delivering Security in a Changing World*¹, which noted that:

- there is no longer a major conventional threat in Europe, but more frequent crises over a wider geographic area have further increased the need for Armed Forces that are agile, flexible and deployable;

¹ Defence White Paper, 2003: *Delivering Security in a Changing World*.

- the evolving threat posed by international terrorism, failing states and the proliferation of weapons of mass destruction requires an ability to respond both at home and overseas; and
- the opportunities presented through new and emerging concepts and technologies, including Network Enabled Capability and the availability of weapons capable of even greater levels of precision, are significant and growing.

Box 13.1 Key Public Service Agreement (PSA) targets

The aim of the Ministry of Defence is to:

- deliver security for the people of the United Kingdom and the Overseas Territories by defending them, including against terrorism; and to act as a force for good by strengthening international peace and stability.

The Ministry of Defence's Public Service Agreement includes targets to:

- achieve success in military tasks undertaken at home and abroad, including those providing support to civil communities;
- be ready to respond to tasks that might arise, by generating forces necessary to meet the Government's strategic objectives;
- deliver the equipment programme to cost and time;
- strengthen European security through an enlarged and modernised NATO and enhanced European defence capabilities (Joint target with the Foreign and Commonwealth Office); and
- improve the effectiveness of the UK's contribution to conflict prevention and management (Joint target with the Foreign & Commonwealth Office and the Department for International Development).

Military operations **13.4** The longstanding arrangements for central funding of military operations will remain in place. Between 2001-02 and 2004-05, the Government has provided £4.4 billion to meet the costs of the military conflicts in Iraq and Afghanistan and its international obligations.

MODERNISING DEFENCE

Defence Modernisation Fund **13.5** Further modernisation of defence will be supported through the continued provision of a Defence Modernisation Fund, amounting to £1 billion over the three years to 2007-08. The 2002 Spending Review established the Fund to support the modernisation of logistics and defence information infrastructure. The 2004 Spending Review increases both the size of the fund and its scope to include the rationalisation of the defence estate and training infrastructure. In the three years to 2007-08, modernisation will yield efficiencies of over £2.8 billion for re-investment in defence capability and further modernisation, as well as improvements in the operational effectiveness of the Armed Forces.

Box 13.2: Efficiency
Agreed target

The Ministry of Defence will realise total annual efficiency gains of at least £2.8 billion by 2007-08, of which three quarters will be cash-releasing, to be re-invested in defence capability and further modernisation initiatives.

Implementation plan

As part of this efficiency programme, the Ministry of Defence plans, by 2007-08, to:

- reduce the numbers of civilians and military posts in administrative and support roles by over 15,000, and be on course to have relocated 3,900 posts out of London and the South East by 2010;
- generate annual efficiency gains of over £1 billion in logistics and procurement (excluding procurement of military equipment by the Defence Procurement Agency) by modernising business processes;
- generate annual savings of over £300 million in its 'back office', through rationalisation and information-enabled business change;
- make better use of its assets and manpower to meet security threats, for example by harnessing new technology, yielding annual savings of over £1 billion; and
- improve the defence information infrastructure, the defence estate, the management of the fleet of military vehicles and healthcare of service personnel, yielding improvements equivalent to around £330 million annually.

**Improving
defence
acquisition**

13.6 The Ministry of Defence spends around £12 billion per year on the procurement of goods and services, of which around £6 billion is spent by the Defence Procurement Agency on fighting equipment. It is vital that this money is spent efficiently and effectively to ensure that the UK's Armed Forces continue to be among the best trained and equipped in the world. The Ministry of Defence is committed to driving through a wide range of reforms to its procurement processes, including the reinvigoration of 'Smart Acquisition' and the 'Smarter PFI' initiative. These reforms will ensure that the risks associated with major equipment projects are reduced as far as possible before significant financial commitments are made, and that the value for money from defence acquisition is maximised.

Table 13.1: Key figures

	£ million			
	2004-05	2005-06	2006-07	2007-08
Ministry of Defence				
Resource Budget	31,370	32,449 ²	32,698	33,018
Capital Budget	6,327	6,880	6,970	7,600
Total Departmental Expenditure Limit¹	29,710	30,888	32,067	33,447
<i>Cash equivalent</i>	<i>26,479</i>	<i>27,600</i>	<i>28,659</i>	<i>29,969</i>

¹ Full resource budgeting basis, net of depreciation.

² Includes one-off AME to DEL transfer for pensions.

