

This Government is continuing to deliver a modern and flexible capability able to meet today's challenges, promoting international peace and security and combating international terrorism by:

- raising the defence budget by £3.5 billion between now and 2005-06, providing 1.2 per cent annual average real growth – the largest planned increase in defence spending in twenty years;
- enabling the Ministry of Defence to continue to deliver the 1998 Strategic Defence Review and the Strategic Defence Review New Chapter;
- providing the Armed Forces with new investment in battle-winning technologies, enabling them to stand shoulder-to-shoulder with our allies in the war against international terrorism;
- acting as a force for good at home and continuing to make an effective contribution to global conflict prevention;
- modernising and reforming the way in which the Ministry of Defence organises and manages its support to the front line to enable it to deliver military capability more efficiently and at lower unit cost; and
- re-directing resources for new investment in defence priorities by continuing to dispose of surplus assets in the defence estate through rationalisation and improved asset use.

INVESTING IN DEFENCE FOR THE 21ST CENTURY

Largest increase in defence spending plans for 20 years

12.1 The 2002 Spending Review provides the biggest planned increase in the defence budget for twenty years. This provides an average of 1.2 per cent a year real growth for the Ministry of Defence over the next three years. Defined on an historically comparable near-cash basis, the Ministry of Defence's budget will grow by 1.7 per cent on average a year in real terms. This will enable the Ministry of Defence to continue to deliver the 1998 Strategic Defence Review (SDR) and will provide for substantial new investment in the SDR "New Chapter". This will provide our Armed Forces with the latest technology and network centric capabilities, enabling them to act together with our allies in the war against international terrorism and to achieve greater precision and control of military operations. It will enable our Armed Forces to continue to achieve success in the tasks they undertake now and will enable them to respond to the range of contingencies envisaged in the SDR.

12.2 Challenging PSA targets have been agreed covering the success of military operations (including those providing support to civil communities), and improving the effectiveness of our contributions to conflict prevention. Targets relating to the readiness at which our Armed Forces are able to respond to crises and the delivery of more capable, battle-winning technology, equipment and systems for the future have also been agreed.

Building strong defences for the future

12.3 The 1998 SDR set out a radical modernisation programme of the UK Armed Forces. The objective was to provide more capable, more flexible and better equipped forces to fulfil the Government's commitment to strong defence and to support foreign policy objectives. Despite the demanding commitments which our Armed Forces have fulfilled with distinction in the last few years, the implementation of the SDR is now well advanced and the Government is on track to meet its objectives.

Modernisation and reform of front line forces

12.4 Following the events of 11 September 2001, the Defence Secretary commissioned work on a “New Chapter” to the SDR to ensure that the UK has the right forces and the right capabilities to meet the additional new strategic challenges facing the UK. This work is now complete. While the New Chapter has confirmed that the original conclusions of the SDR, taken together with lessons learnt from our subsequent experiences in Kosovo and Afghanistan, remain valid, the Government has concluded that further, additional, funding is necessary to ensure that our Armed Forces have the equipment and capabilities they need to respond to the challenges of a changing world. The Government has therefore made available over £1 billion of new capital and £0.5 billion of new resources for new network-centric capabilities and other equipment which will enable the conclusions of the SDR New Chapter to be delivered. The Secretary of State for Defence will announce further details shortly.

Modernisation and reform of business processes

12.5 An additional £578 million over three years is also being made available to modernise the Ministry of Defence’s business information systems, especially in the Defence Logistics Organisation, to improve support to the front line. This will enable the Ministry of Defence to operate more effectively and will help it to meet its efficiency targets.

Getting better value for defence spending

12.6 The Ministry of Defence continues to look at ways of making defence spending more cost-effective. Procurement techniques are continuing to be over-hauled and, together, the Defence Procurement Agency and the Defence Logistics Organisation will continue to take forward Smart Acquisition to provide the Armed Forces with the equipment it needs on time, to budget and to meet capability requirements more effectively. The Defence Logistics Organisation faces a huge challenge to modernise its working methods so that capability requirements can be met more effectively and at a significantly lower unit cost. A target has been agreed with the Ministry of Defence to deliver 2½ per cent output efficiencies per annum. This target is underpinned by an output based measurement system that will also provide greater incentives for management improvements. Resources freed up by this will be re-invested in defence.

Table 12.1: Key figures

	£ million			
	2002–03	2003–04	2004–05	2005–06
Ministry of Defence				
Resource Budget	31,376	33,016	33,755	34,690
Capital Budget	5,549	6,009	6,327	6,880
Total Departmental Expenditure Limit¹	29,326	30,921	31,756	32,779
Near-cash spending in MoD DEL ²	24,196	25,579	26,479	27,389

¹ Full resource budgeting basis, net of depreciation.

² Consistent with previous control basis.