



10 DOWNING STREET  
LONDON SW1A 2AA

THE PRIME MINISTER

17 March 2010

Dear Sir John

Further to my evidence to your Inquiry on 5 March I want to provide you with further detail about defence spending.

I made clear in my evidence that spending for the operation on Iraq was additional to the Defence budget and came direct from the Treasury with the Ministry of Defence receiving some £8 billion.

In addition I made clear that the Defence budget was over 10% higher in real terms than in 1997; and that the Spending Review settlements agreed between the Ministry of Defence and the Treasury during the period of the Iraq conflict gave annual average real terms rises for Spending Reviews 2002, 2004 and 2007. This gave a rising profile of spending, in real terms, on top of which the Ministry of Defence received additional funding to meet the costs of operations in Iraq.

The following table sets out the annual average real terms rises as planned firstly at the time of each Spending Review, secondly as planned now on a consistent series and finally as actual spending including operations.

Annual average real terms growth in Ministry of Defence spending

|                                   | SR2000 | SR2002 | SR2004 | SR2007<br>(1) |
|-----------------------------------|--------|--------|--------|---------------|
| Planned budget at spending review | 0.3%   | 1.2%   | 1.4%   | 1.5%          |
| Planned budget now (2)            | 0.9%   | 1.9%   | 1.0%   | 2.0%          |
| Outturn including operations      | 4.7%   | 1.7%   | 1.7%   | 6.1%          |

1. For SR2007 the Spending Review has yet to be completed so the outturn including operations figure refers to 2008-09 spending
2. 'Planned budget now' equals the near cash departmental budget, to allow comparison over time on a consistent series, and converted to real terms using the current GDP deflator series rather than those in use at the time budgets were set.

I would draw to the Inquiry's attention that, year on year budgets and their final outturn can vary for a range of reasons including fluctuations in the cost of operations, underspending by the department against its budget allocation, in-year additions over and above budgets and – for real terms rises - changes in the value of the GDP deflator as projected at the time and subsequent outturn.

At Prime Minister's Questions today I set this out by saying:

"Defence spending rose from £21 billion to this year around £40 billion, from 1997 to this day. It rose every year in cash terms. For a number of operational and other reasons, the real terms rise in the Defence budget is 12% over the last 13 years. Because of our expenditure in Afghanistan and our expenditure in Iraq, £17 billion more has been spent than the Defence budget, but due to operational fluctuations and the way the money is spent, expenditure in defence has risen in cash terms every year, but I do accept that in one or two years, that defence expenditure did not rise in real terms."

The attached table sets out the run of defence figures in detail from 1980. The first columns set out planned Ministry of Defence spending (on a consistent series) before spending on operations. The second set of columns set out outturn Ministry of Defence spending including operational spending (on UK Defence Statistics series of expenditure outturn).

In considering these figures it may be helpful to take the following into account that:

- the Ministry of Defence underspent its planned Budget in 2004-05 and again in 2006-07;
- spending on operations fluctuates – for example spending for Iraq fell by some £400 million in 2004-05 as troops were drawn down after the initial invasion; and

- the GDP deflators now used to calculate the real terms value of nominal cash rises are now higher in some years – including 2002-03 and 2007-08 - meaning in some cases planned real terms increases based on deflators at the time can now appear as a small real terms reduction.

I also made clear that every additional urgent operational requirement requested by the Ministry of Defence for Iraq, as for Afghanistan, was met by the Treasury.

Yours sincerely

*Andy B...*

Sir John Chilcot GCB

## DEFENCE SPENDING TABLE

| Year    | MOD Core Budget – Near Cash |                                 | ACTUAL<br>(MOD Defence expenditure including net additional cost of Operations) |                                 |                   |
|---------|-----------------------------|---------------------------------|---|---------------------------------|-------------------|
|         | Near cash budget (£bn)      | Real terms 2008/09 prices (£bn) | Cash outturn + ops (£bn) from DASA  | Real terms 2008/09 prices (£bn) | Real terms change |
| 1980-81 | 10.7                        | 31.94                           | 11.182  | 33.37                           |                   |
| 1981-82 | 12.1                        | 32.95                           | 12.607  | 34.33                           | 2.86              |
| 1982-83 | 14                          | 35.64                           | 14.411  | 36.69                           | 6.88              |
| 1983-84 | 16                          | 38.93                           | 15.486  | 37.68                           | 2.69              |
| 1984-85 | 17                          | 39.26                           | 17.123  | 39.54                           | 4.96              |
| 1985-86 | 18.1                        | 39.57                           | 17.943  | 39.23                           | -0.79             |
| 1986-87 | 18.5                        | 39.19                           | 18.162  | 38.47                           | -1.93             |
| 1987-88 | 18.8                        | 37.67                           | 18.856  | 37.78                           | -1.80             |
| 1988-89 | 19.2                        | 36.02                           | 19.072  | 35.78                           | -5.28             |
| 1989-90 | 20.1                        | 35.21                           | 20.755  | 36.35                           | 1.59              |
| 1990-91 | 21.2                        | 34.42                           | 22.298  | 36.20                           | -0.41             |
| 1991-92 | 22.8                        | 34.95                           | 24.562  | 37.65                           | 3.99              |
| 1992-93 | 24.2                        | 35.98                           | 23.762  | 35.33                           | -6.15             |
| 1993-94 | 23.5                        | 34.01                           | 23.424  | 33.90                           | -4.05             |
| 1994-95 | 23.5                        | 33.49                           | 22.519  | 32.09                           | -5.34             |
| 1995-96 | 21.7                        | 30.06                           | 21.517  | 29.81                           | -7.12             |
| 1996-97 | 21.4                        | 28.58                           | 22.041  | 29.44                           | -1.25             |
| 1997-98 | 21.8                        | 28.37                           | 20.945  | 27.26                           | -7.39             |
| 1998-99 | 22.24                       | 28.35                           | 22.482  | 28.66                           | 5.12              |
| 1999-00 | 22.3                        | 27.87                           | 22.572  | 28.21                           | -1.54             |
| 2000-01 | 22.98                       | 28.35                           | 23.552  | 29.06                           | 2.99              |
| 2001-02 | 23.57                       | 28.44                           | 24.874  | 30.02                           | 3.31              |
| 2002-03 | 24.2                        | 28.29                           | 26.991  | 31.56                           | 5.12              |
| 2003-04 | 25.58                       | 29.08                           | 29.338  | 33.36                           | 5.72              |
| 2004-05 | 26.48                       | 29.29                           | 29.524  | 32.66                           | -2.09             |
| 2005-06 | 27.6                        | 29.97                           | 30.603  | 33.24                           | 1.76              |
| 2006-07 | 28.66                       | 30.23                           | 31.454  | 33.18                           | -0.17             |
| 2007-08 | 29.969                      | 30.15                           | 33.486  | 34.33                           | 3.47              |
| 2008-09 | 30.76                       | 30.76                           | 36.431  | 36.43                           | 6.12              |
| 2009-10 | 31.92                       | 31.3                            |   |                                 |                   |
| 2010-11 | 33.33                       | 31.96                           |   |                                 |                   |

2009/10 Defence spending including operations is estimated to be £39.87 billion (£39.08 billion in 2008/09 prices) on a resource budgeting basis now used for publicly expenditure. This estimate is based on the defence budget of £35.365 billion and the estimated net additional cost of operations £4.5Bn, the final defence spending figure for 2009/10 will only be available after the NAO's audit and will be published in the Ministry of Defence's Annual Report and Accounts.

Note: DASA = Defence Analytical Services and Advice