The UK government will be able to keep to its commitment to spend 2% of national income on defence through to 2020 as a result of both an annual real term increase of 0.5% a year, and significant changes in the UK's calculation of its defence budget for NATO reporting purposes, according to a new RUSI Briefing Paper.

Entitled 'Osborne's Summer Surprise for Defence: Guaranteed Real-Terms SpendingÂ Increases', and authored by RUSI'sÂ Research Director, Professor Malcolm Chalmers, the paper examines the defenceÂ spending announcements made recently in the Budget.

In his Summer Budget on 8 July, Chancellor George Osborne announced that defenceÂ would receive annual real-terms increases in its budget of 0.5 per cent a year, toÂ around £38.9 billion by 2020/21. For the first time since 2010, the MOD has become aÂ 'protected' department, with its budget fixed in advance of the Spending Review. AsÂ a result, this year's SDSR should be able to avoid the severe capability reductionsÂ that were the main feature of the last Review in 2010.

Accounting Rules

The 0.5% commitment allowed the Summer Budget to commit the Government to 'meet theÂ properly measured NATO pledge to spend 2% of national income on defence every yearÂ of this decade'. However, the RUSI Briefing Paper states that 'his achievement was only made possible ... by a number of significant changes in the UK's calculation ofÂ its defence budget for NATO reporting purposes.'

'On the basis of the rules previously used for its NATO returns, the UK would haveÂ been on course to spend £36,820 million on defence in 2015: equivalent to 1.97 perÂ cent of GDP. In the return actually made to NATO, by contrast, the UK is projectedÂ to spend £39,019 million, equivalent to 2.08 per cent of GDP. In total, therefore,Â the UK has added around £2.2 billion to its NATO count.'

This has been achieved by adding several new items to the UK's NATO return: warÂ pensions (some £820 million); contributions to UN peacekeeping (some £400 million);Â pensions for

retired civilian personnel (perhaps around £200 million); part of theÂ MoD's income (in total, about £1.4 billion).

The paper suggests that maintaining the 2 per cent commitment through to 2020 'isÂ likely to require yet further adjustments in the UK's counting methodology'. ByÂ indicating that 'the contribution made by the secret intelligence agencies' will beÂ included in the future NATO count, the Budget statement has already pointed to howÂ much of this gap could be closed. Total annual agency spending should be at leastÂ £2,200 million, sufficient to close the gap up to 2018/19. The further allocation ofÂ up to £1.5 billion to a new 'Joint Security Fund' could be enough to close the gapÂ through to the end of the Parliament.

NATO Credibility

Professor Chalmers warns of 'a risk that the UK's readiness to alter its countingÂ rules - adding potentially around 14 per cent, or £5.7 billion, to the total amountÂ eligible for counting as defence spending by the end of this Parliament - couldÂ undermine the credibility of NATO's 2 per cent spending target.'

Yet, he goes on to argue, the change is just as likely to strengthen theÂ credibility of the 2 per cent target. 'For the UK's ability to meet this target overÂ the coming five years reflects the fact that the government is now prepared toÂ commit to a period of steady real-terms growth in its core defence budget. If, evenÂ after such an effort, the Alliance's leading European military spender had ended upÂ being pilloried for having fallen just below the 2 per cent target, it would havedealt a serious blow to the credibility of Alliance burden-sharing commitments as a whole, with negative consequences for transatlantic relations.'

Delivering on Defence

While other departments continue to make their case to the Treasury, the SpendingÂ Review is now, for practical purposes, largely over for the Ministry of Defence.Â Professor Chalmers states 'Now that the MoD budget has been protected, there isÂ likely to be sustained political pressure for it to deliver. The MoD will need toÂ drive further efficiencies in its programmes, and ensure that defence capabilitiesÂ remain relevant to the new and unexpected security challenges emerge over the nextÂ five years. Compared with the gloomy predictions of cuts

which were prevalent onlyÂ four months ago, however, this is a good set of problems to have.'

'Over the next three months, the MoD's contribution to the Strategic Defence andÂ Security Review (SDSR) will therefore be able to focus on how to spend aÂ predetermined budget in the most effective manner possible. The service chiefs canÂ now contribute to this process with some confidence that any savings that can bemade in future programmes will be available to be reinvested elsewhere.'

Download report Â 'Osborne's Summer Surprise for Defence: Guaranteed Real-Terms Spending Increases' , a RUSI briefing paper published by the Royal United Services Institute as part of its SDSR 2015: Hard Choices Ahead series atÂ https://www.rusi.org/defencespendingjuly2015 Â