Whitehall Report 3-21

The Spending Review and the UK's Strategic Priorities

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RUSI
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Key Points

IN CONTRAST TO previous national security reviews, the 2021 Integrated Review (IR), published in March, was not accompanied by a multi-year spending review. The publication of the Spending Review in November 2021 (SR21) filled this gap.

Total defence spending, in real terms, is set to increase by an average annual rate of 1.5% over the five years between 2019/20 and 2024/25. This is similar to the 1.1% average growth rate in real spending between 2015/16 and 2019/20. On current GDP projections, this should keep the UK comfortably above NATO's 2% target up to 2025 and beyond (it was 2.29% in 2021).

This growth compares favourably with the sharp reductions in spending which the Ministry of Defence (MoD) endured during the five years after the 2010 Strategic Defence and Security Review (SDSR). But it is lower than any other major department, with the exception of the Foreign, Commonwealth and Development Office (FCDO).

The FCDO fared much worse, with an average annual real-terms cut in its budget of 5.0%. SR21 has extended the reduction in the official development assistance budget from 0.7% of gross national income in 2020 to 0.5% in 2021, announced in the 2020 Spending Review, for at least another two years.

This Whitehall Report seeks to explain the reduced priority being given to defence and international spending, and what it tells us about the strategy underlying the government's Integrated Review.

One of the central arguments of the IR was that UK foreign policy had become too disconnected from domestic interests. The dividing line between 'domestic' and 'foreign' policy had become an obstacle to clear strategic thinking. The UK's international credibility depended on its economic success, as well as its political and social cohesion, even more than before.

The strategic shift that both the IR and SR21 represent is not a return to the Thatcherism of the 1980s, or a UK version of Trumpian tax-cutting populism. Rather, the government now seems set on a path towards a bigger, more activist, and more prosperity-focused state.

Both the MoD and the FCDO are being asked to focus more of their resources on supporting the UK economy. 'Levelling up' is now a core mission for both departments.

The commitment to preserving the 'rules-based international system', a central part of the 2010 and 2015 SDSRs, has almost disappeared. The relative importance given to static rules-based multilateralism has also declined, especially – but not only – in Europe. The grand project to make Russia and China 'more like us', which formed a key part of foreign policy in the decades after 1990, has largely been discarded.

The Spending Review and the UK's Strategic Priorities

STRATEGY IS, MOST of all, about priorities. In order to reveal the underlying strategic priorities of the government, it is important to look at where the money is being spent, and where it is not.

In contrast to previous national security reviews in 2010 and 2015, the 2021 Integrated Review (IR), published in March, was not accompanied by a multi-year spending review. The publication of the Spending Review in November 2021 (SR21) filled this gap. The government made clear decisions on departmental budgets for the next three years, along with increases in taxation to fund them.

In the November 2020 Spending Review, the Ministry of Defence (MoD) was given special treatment. In contrast to other departments, the Treasury agreed to give defence a guaranteed four-year settlement. The total amount of that settlement – some £24 billion over four years, compared with freezing the budget at the 2020/21 level in cash terms – was beyond the expectations of most leaders in the MoD.[1] It largely closed the gap in the capital budget which had bedevilled budget planning for most of the period since the 2015 Strategic Defence and Security Review (SDSR). The MoD's long efforts to convince the Treasury and Number 10 of the depth of its problems had paid off, albeit with a parallel promise to make real-terms cuts to MoD running costs.

There were modest adjustments to the MoD's budget in SR21 to take account of higher-than-expected levels of economy-wide (rather than defence-specific) inflation, as well as the impact of the new Health and Social Care Levy. Altogether, the MoD has been given an additional £2.3 billion for its running cost budget. Some £200 million of capital spending has been moved from 2023/24 to 2024/25.[2]

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1. Author interviews with senior MoD officials.
2. This is based on a comparison of the 2020 Spending Review (SR20) and 2021 Spending Review (SR21) settlements. The running costs (RDEL) allocations for 2022/23, 2023/24 and 2024/25 have increased from £31.6 billion, £31.4 billion and £31.6 billion (in SR20) to £32.4 billion, £32.2 billion and £32.4 billion in SR21. The capital (CDEL) budgets for 2023/24 and 2024/25 have changed from £16.0 billion and £16.0 billion (in SR20) to £15.8 billion and £16.2 billion in SR21. HM Government, *Spending Review 2020*, CP 330 (London: The Stationery Office, 2020), p. 67; HM Government, *Autumn Budget and Spending Review 2021: A Stronger Economy for the British People*, HC 822 (London: The Stationery Office, 2021), p. 182.

The combined result of all these changes is that total defence spending, in real terms, is set to increase by an average annual rate of 1.5% over the five years between 2019/20 and 2024/25.[3]

This is similar to the 1.1% average growth rate in real spending between 2015/16 and 2019/20.[4] On current GDP projections, this should keep the UK comfortably above NATO's 2% target up to 2025 and beyond (it was 2.29% in 2021).[5]

This period of growth compares favourably with the sharp reductions in spending which the MoD endured during the five years after the 2010 SDSR. But it is less impressive compared with the significant increases in the budgets of most other departments in SR21 (see Table 1). On this metric, defence places near the bottom of the Whitehall league table of spending growth rates: the planned average rate of growth in defence spending over the five years from 2019/20 is lower than any other major department, with the single exception of the FCDO.[6]

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3. HM Government, *Autumn Budget and Spending Review 2021*, p. 182. The figures used for this calculation in the Spending Review are not entirely comparable for two reasons. Baseline 2019/20 spending includes some £500 million in spending on operations, not included in the 2024/25 budget, and excludes some £600 million transferred (net) from the Ministry of Defence (MoD) to other government departments at the start of the financial year (mainly to the Security and Intelligence Agencies). The 2024/25 budget is stated before such transfers are made. The net effect of these two adjustments combined is negligible, and therefore the SR21 figures can be used without revision.
4. Malcolm Chalmers, 'The End of Defence Austerity? The 2019 Spending Round and the UK Defence Budget', *RUSI Commentary*, 27 September 2019.
5. NATO, 'Defence Expenditure of NATO Countries (2014-2021)', Press Release (2021) 094, 11 June 2021.
6. The comparison could have been made using the three-year SR21 period, from 2021/22 to 2024/25. On this basis, the treatment of the Foreign, Commonwealth and Development Office (FCDO) appears more generous (an annual average real-terms increase of some 4.4%) and the MoD's allocation less so (an average real-terms decline of some 0.4% per annum). For the purposes of examining the full impact of Integrated Review (IR) decisions on spending allocations, however, it is more appropriate to include the results of the SR20, which anticipated the budgetary implications of the IR for both the official development assistance (ODA) budget (the cut from 0.7% to 0.5% of gross national income (GNI)) and for the MoD (the addition of significant extra resources).

Table 1: Average Annual Real-Terms Growth in Total Departmental Spending for Major Departments, 2019/20 to 2024/25

Department	Annual Percentage Growth
Business, Energy and Industrial Strategy	9.9%
Local Government	8.4%
Environment, Food and Rural Affairs	8.1%
Transport	5.5%
Levelling Up, Housing and Communities	4.7%
Justice	4.1%
Single Intelligence Account	4.0%
Home Office	3.6%
Health and Social Care	3.5%
Digital, Culture, Media and Sport	2.9%
Education	2.4%
Defence	1.5%
FCDO	-5.0%
Total	3.8%

Source: HM Government, Autumn Budget and Spending Review 2021: A Stronger Economy for the British People*, HC 822 (London: The Stationery Office, 2021), p. 182.*

The FCDO fared much worse, with an average annual real-terms cut in its budget of 5.0%. The Spending Review has extended the reduction in the official development assistance (ODI) budget (most of which is spent through the FCDO) from 0.7% of gross national income (GNI) in 2020 to 0.5% in 2021, at least until 2023/24. The Treasury stated that it is planning to return ODA spend to 0.7% in 2024/25 if it is on course to balance its budget for day-to-day spending and debt is falling as a proportion of national income.[7] However, the chances of this happening appear slim at present, and the commitment seems to have been made primarily to meet the requirements of the 2015 International Development (Official Development Assistance Target) Act.[8]

Because of the merger between the Foreign and Commonwealth Office and the Department for International Development, it is now harder to separate out cost trends for diplomacy from those for FCDO development spending.[9] But the FCDO will be expected to make further cuts in its core UK-based workforce as part of its post-merger efficiency drive.

7. HM Government, *Autumn Budget and Spending Review 2021*, p. 7.
8. HM Government, 'Official Development Assistance', Policy Paper, 23 November 2015.
9. Malcolm Chalmers, 'Farewell Foreign and Commonwealth Office, Welcome Foreign, Commonwealth and Development Office', *RUSI Commentary*, 16 June 2020.

This relatively low priority for defence, development and diplomacy – the three Ds of foreign policy – is all the more dramatic because, during the same period, the government has also made significant savings in the fourth element of past foreign policy budgets – the UK's net financial contribution to the EU, which amounted to some 0.3% of its GNI until recently.[10]

While much of the UK's gross EU contribution was offset by EU spending within the UK, its net contribution was used to finance net transfers to the EU's poorer member states, mainly in Eastern Europe. This income transfer from the UK to its eastern allies has now gone, and has not been replaced with significant bilateral transfers. Taken together with the cut in ODA, total UK financial transfers to poorer countries have thus fallen by some 50% – from 1% to 0.5% of GNI – over the past two years.

> **"The government has also made significant savings in the fourth element of past foreign policy budgets – the UK's net financial contribution to the EU, which amounted to some 0.3% of its GNI until recently**

So, what explains the reduced priority being given to defence and international spending, and what does it say about the strategy underlying the government's approach in the IR?

The Domestic Tilt and the Integrated Review

National security strategy should not be viewed as separate from wider national strategy. As the IR explains, the objectives of the latter include both 'security' (narrowly defined) and 'prosperity', as well as other national interests (in the case of the IR, there is also a commitment to protecting the British people's 'sovereignty').[11] The implementation of strategy then consists of combining a range of policy instruments, both domestic and international, in support of these multiple objectives.

Although past strategic security reviews have discussed the importance of prosperity to national security, the 2021 IR went further by reflecting this throughout its analysis and prescriptions. In doing so, it began to set out an approach to economic policy, and its role in informing foreign policy, that was quite different from those of either the Coalition and Conservative governments led by David Cameron and Theresa May after 2010, or the Labour governments led by Tony Blair and Gordon Brown between 1997 and 2010. As the IR made clear: 'Our departure from

10. Zsolt Darvas, 'A New Look at Net Balances in the European Union's Next Multiannual Budget', Bruegel Working Paper No. 10, 12 December 2019, p. 12.
11. HM Government, *Global Britain in a Competitive Age: The Integrated Review of Security, Defence, Development and Foreign Policy*, CP 403 (London: The Stationery Office, 2021), p. 13.

the European Union (EU) provides a unique opportunity to reconsider many aspects of our domestic and foreign policy'.[12]

The Spending Review provided further evidence of how this is being done. Far from being a harbinger of a move towards a low-tax, free-market approach for economic policy, both reviews signalled a marked shift in the opposite direction. Under Boris Johnson's leadership, the UK is now more economically interventionist, and with higher levels of both spending and taxation, than under any government since the 1970s.[13] In contrast to the 2010–15 Coalition government, which ensured that the bulk of post-crisis adjustment was met through spending cuts (including in defence), SR21 has approved across-the-board spending increases that are more similar to the first decade of Labour rule after 1997, and have been similarly financed by increased levels of taxation. The total tax burden – as a percentage of GDP – is set to be higher than at any time since the early 1950s.[14] If interest rates were to rise significantly in coming years, further tax rises will likely be needed to pay for the spending commitments that have already been made.

One of the central arguments of the IR was that UK foreign policy had become too disconnected from domestic interests, and had not changed rapidly enough in response to the changing nature of the geopolitical challenges which the country faced. Through this new lens, the IR's authors believed that the dividing line between 'domestic policy' and 'foreign policy' had become an obstacle to clear strategic thinking across this divide. The experience of the coronavirus pandemic showed that even health – traditionally seen as a mainly domestic issue – could be highly geopolitical in nature. The government perceived that its ability to counter threats to the integrity of the Union had become fundamental to national security. Concern was growing over the threat posed to national security by the transfer of intellectual property to China, and with it an increased appetite for a more interventionist approach to the ownership of key technologies.

> **"The UK is now more economically interventionist, and with higher levels of both spending and taxation, than under any government since the 1970s**

Most of all, a central tenet of the IR was that the UK's international credibility depended on its economic success, as well as its political and social cohesion. This strategic approach has been reinforced by the new domestic political coalition that was assembled around the 2016 EU referendum, and which then carried Johnson to a landslide electoral victory in December 2019. It combines both older voters with a strong stake in high health and social care spending

12. *Ibid*., p. 11.
13. Institute for Fiscal Studies, 'Autumn Budget and Spending Review 2021: IFS Analysis', 28 October 2021, <https://ifs.org.uk/budget-2021>, accessed 8 December 2021.
14. Office for Budget Responsibility, *Economic and Fiscal Outlook: October 2021*, CP 545 (London: The Stationery Office, 2021), p. 8.

and so-called 'Red Wall' voters in northern towns, who are particularly dependent on public services and supportive of 'levelling up' economic opportunity across the UK. It is very different from the coalition that brought David Cameron successive election victories in 2010 and 2015. Indeed, in some respects, it is more similar to an older Labour coalition, albeit one with a more nationalist and anti-liberal tinge. Even if Johnson is defeated in the next election (due by late 2024), this approach – as set out in both the IR and the SR21 – seems set to define some of the key elements of a new centre ground in national politics.

The results of the SR21 have led to several demanding, and simultaneous, pressures on the public purse. First, and most costly, is the inexorable rise in spending on health, social care and state pensions, driven most of all by an ageing population. Second, the government's 'levelling up' commitment meant that it had to respond to pent-up demands to reverse cuts in public services as a result of previous rounds of austerity, notably in police, schools, justice and local government.

> **"One of the central arguments of the IR was that UK foreign policy had become too disconnected from domestic interests**

Third, the government has had to respond to the new disruptive pressures likely to be caused by Brexit, as the economy approaches the full implementation of the exit deal. The Office for Budget Responsibility's estimate of a long-term reduction in productivity as a result of some 4% is more contestable than some think.[15] It is hard, in particular, for macro-economic models of trade intensity to assess the long-term benefits that might be derived from import substitution and greater regulatory freedoms. However, even if such offsetting benefits can be substantial, they can only be achieved if the pace of economic disruption accelerates, and investment (both private and public) is increased to pay for this.

Fourth, the next decade is likely to require sharp increases in capital spending to pay for the UK's Net Zero commitments. Many of these investments should, over time, pay for themselves through savings in running costs. But the accelerated replacement of capital stock that will be required will still place extra demands on the budgets of households, the private sector and, not least, the government.

Given these four pressures, leaving the pledge to raise investments in science and research largely intact is a striking reflection of the government's commitment its IR promise. SR21 has confirmed that public investment in R&D will rise by 25% in real terms over the period considered by the review, the largest ever in a Spending Review.[16] A large, complementary effort will be

15. *Ibid*., p. 58. For a sceptical commentary on this estimate, see Julian Jessop, 'There is Still Very Little Hard Evidence That Brexit will Shrink the Economy', *The Telegraph*, 21 November 2021.
16. HM Government, *Autumn Budget and Spending Review 2021*, p. 53.

needed from the private sector, not least because of the need to rise to the dual challenges posed by Brexit and the green transition.

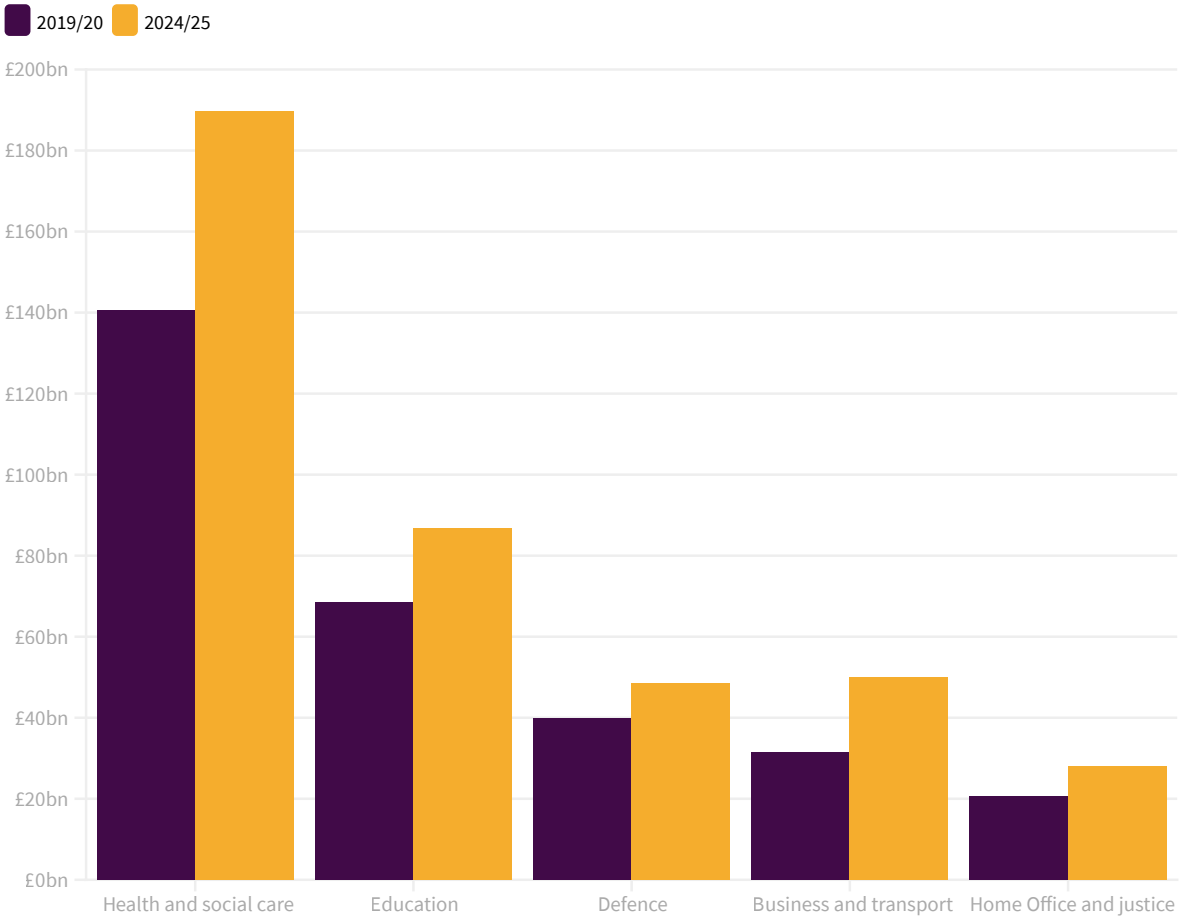
The Security and Intelligence Agencies (GCHQ, MI5 and MI6) also did well in SR21, with a 20% real-terms increase in spending over the five-year period. This increased spending included more investment in the Indo-Pacific region, as well as in supporting economic security (for example, against the growing threat of ransomware).[17]

Some critics argue that the government has not gone far enough in these commitments, and more will need to be done if the UK is to break out of its low-growth, low-wage trap.[18] In the immediate aftermath of SR21, there was already growing pressure to do more to fund social care (which received only limited resources in the review), to tackle the NHS's post-pandemic backlog of work, and to reinstate the cuts to rail infrastructure spending in northern England. Further spending pressures are certain to emerge over the next year and are likely to intensify as the next general election approaches.

Even so, it would be wrong to deny the significance of the strategic shift that both the IR and the SR21 already represent. This is not the return to the Thatcherism of the 1980s which some predicted (and feared) would be the result of Brexit. Nor is it a UK version of Trumpian tax-cutting populism. Rather, taken together, these two documents set a clear path towards a bigger, more activist, and more prosperity-focused state.

17. *Ibid.,* pp. 128–29.
18. Martin Wolf, 'The Chancellor Has No Plan for Faster, Greener, Economic Growth', *Financial Times*, 31 October 2021.

Figure 1: Government Spending Plans in Cash Terms, 2019/20 and 2024/25



Source: HM Government, Autumn Budget and Spending Review 2021.

So Where Does This Leave Global Britain?

The central defining vision of the IR – repeated in SR21 – is that the UK is 'a problem-solving and burden-sharing nation, firmly committed to an open and resilient international order, and fit for a more competitive world'.[19] The commitment to preserving the 'rules-based international system', which was such a central part of the 2010 and 2015 SDSRs, has almost disappeared. The relative importance given to static rules-based multilateralism has declined, especially – but not only – in Europe. The grand project to make Russia and China 'more like us', which formed such an important part of foreign policy in the decades after 1990, has largely been discarded as a driver of policy. The emphasis has instead shifted to a more competitive and national-interest-focused approach, in which the UK works flexibly with a range of partners in support of those interests which are held in common.

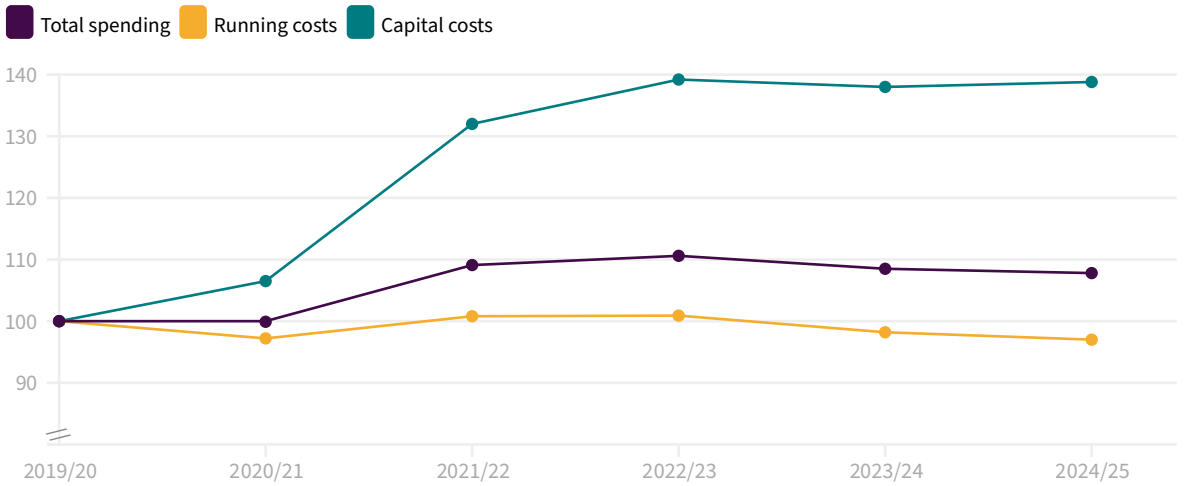
19. HM Government, *Autumn Budget and Spending Review 2021*, p. 79.

Although the IR makes clear that the UK faces a world that is more competitive than in 2010 or 2015, it also argues that military competition is only one facet of inter-state competition; economic and technological factors are more important to the country's long-term resilience and competitive edge. This analysis is a consequence not only of the rise of China and other competitors, but of growing concern over poor domestic economic performance, especially in relation to low productivity growth and high levels of regional inequality. Accordingly, as well as being less well-resourced than most domestic departments, both the MoD and the FCDO are being asked to focus more of their limited resources on supporting the UK economy, especially outside London and the South East, than previously. 'Levelling up' is now a core mission for both departments.

Defence and Prosperity

Plans for total defence spending in the SR21 have remained broadly in line with the trend established since 2016, with growth amounting to around 1.5% per annum in real terms. Within this total envelope of growing spending, however, the IR has involved a radical shift in where the MoD's budget is spent. Over the five years to 2024/25, planned MoD capital spending will rise by some 40% while day-to-day costs (RDEL) are due to fall by around 3% (both in real terms).[20] (See Figure 1). Beyond 2024/25, the assumption is that capital spending will continue to grow more rapidly than day-to-day spending.

Figure 2: UK Defence Spending, 2019/20–2024/25, at 2020/21 Prices



Source: HM Government, Spending Review 2020*, CP 330 (London: The Stationery Office, 2020); HM Government,* Autumn Budget and Spending Review 2021: A Stronger Economy for the British People*, HC 822 (London: The Stationery Office, 2021).*

20. *Ibid*.

> **"The equipment budget will be balanced for the first time for many years**

This shift reflects both the enhanced importance of long-term capability development and the increased importance that the government now gives to prosperity as a defence objective. It also reflects MoD analysis that suggests that increased investment, including in a rationalised estate, will release savings in both military and civilian running costs, including in personnel numbers.[21]

The first post-IR Defence Equipment Plan, due to be published in early 2022, is expected to show that the equipment budget will be balanced for the first time for many years.[22] It is not before time. Without a large and immediate injection of money into the budget for new equipment, the degree of overcommitment in the long-term Equipment Plan would have led to significant risks to major programmes, including substantial delays and cancellations. Not only would this have endangered key elements of the armed forces' plans for modernisation – it would have had far-reaching consequences for the defence industry, including job losses in regions (such as North West England and Scotland) that figure strongly in the government's 'levelling up' agenda. It would have called into question the government's commitment to support the UK military aerospace industry, one of the relatively small number of manufacturing sectors in which the UK remains internationally competitive. It might also have undermined the prospects for the shipbuilding industry, as well as calling into question the programme schedule for a new generation of nuclear warhead.

The government's increased focus on the importance of advanced technology as a factor in international relations – both as a locus for competition and a mechanism for partnership-building – further strengthens the rationale for defence investment. It is consistent with the government's Indo-Pacific tilt, which is focused, above all, on a blend of deepening trade and investment ties with measures to strengthen the capacity of regional partners to stand up to China's hegemonic ambitions.

The ability of the defence industry to support the Indo-Pacific tilt was seen recently in the announcement of the AUKUS deal, which brought the UK, US and Australia together in a joint effort to cooperate on leading defence and security technologies, including a fleet of new nuclear-powered submarines for Australia. The UK is also exploring a range of new options for defence industrial cooperation with Japan, India and ASEAN states, each of which could potentially bring both economic and security benefits with them. All these engagements complement UK efforts to build broader economic ties with the region, for example through its application to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, whose members include Japan, Australia, Vietnam, Malaysia and Singapore.

21. Author interview with senior MoD official, November 2021.
22. Author interviews with senior MoD officials, November 2021.

In order to afford a 40% increase in defence capital spending, the MoD will need to make some difficult decisions on running costs. Capital investments will need to deliver planned efficiencies, not least in relation to the defence estate. Further cuts in personnel numbers, both service and civilian, are likely to be needed, over and above those already announced for the British Army. Required headcount savings could increase if the armed forces are rewarded above-inflation pay rises.

The UK should derive some solace from the fact that some of its most serious competitors are facing similar long-term pressures. The UK is not unique in its challenging demography, with most other European countries (including Russia) experiencing stagnation, and often decline, in their working-age populations. China faces similar problems on a larger scale, with the demands of a rapidly ageing population coinciding with a marked slowdown of its growth rate and deepening ecological crisis. It is likely to become more difficult, as a result, for China to maintain recent growth rates in military spending. Some analysts now argue that the US and its allies may soon be faced by the dilemmas posed by China as a weakening power rather than a strong one.[23] Whether or not this happens, in the intensifying competition which seems set to characterise much of international relations for some time to come, those states which are best able to join up their economic and security policies are likely to have a significant advantage.

The FCDO and the ODA Spending Boomerang

The possibility that the chancellor's debt targets might be met, and the ODA budget then receiving a £5-billion boost in its 2024/25 budget, has cast some uncertainty over long-term FCDO planning. The Treasury included such an increase in its SR21 projections. If it were to take place, however, it would mean that almost half of the total increase in departmental cash spending in 2024/25 would go to the FCDO, more than any other department (including the NHS).

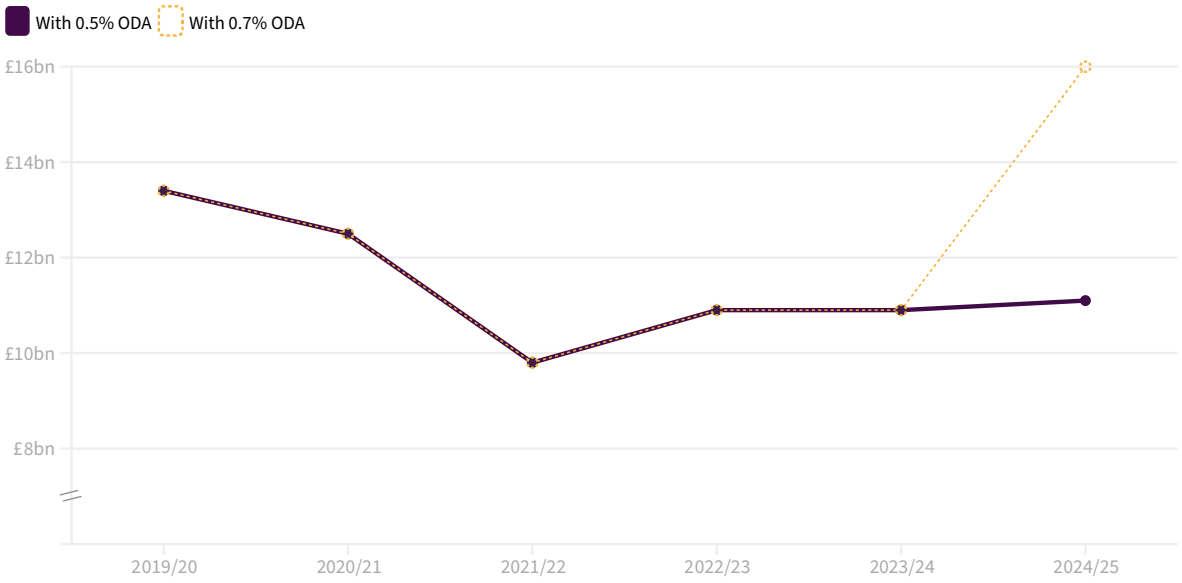
> **"The projected increase could be vital if the UK is to meet its commitment to double its contribution to international climate finance and spend some £11.6 billion over the five years to 2025/26**

A discussion has already begun about how to use these additional resources, if they were to become available.[24] One way in which such a large increase could be used cost-effectively would be to sharply increase contributions to international organisations, such as the UN and World Bank, that are geared up to deliver major programmes. Yet, such a shift would be hard to reconcile with the government's desire to focus more on using ODA to support UK national economic and geopolitical interests. With COP26 implementation high on the government's

23. Michael Beckley and Hal Brands, 'The End of China's Rise', *Foreign Affairs*, 1 October 2021.
24. Author discussions with senior government officials, November 2021.

agenda, the projected increase could be vital if the UK is to meet its commitment to double its contribution to international climate finance and spend some £11.6 billion over the five years to 2025/26.[25] Given the uncertainty over whether the fiscal tests will be met, however, this would risk making the delivery of a key funding commitment – on which the government has staked much of its credibility as COP26 chair – unduly dependent on a calculation of wider affordability.

Figure 3: Foreign, Commonwealth and Development Office Spending in Real Terms – With and Without Restoration of 0.7% Commitment in 2024/25



Source: HM Government, Autumn Budget and Spending Review 2021, *p. 182.*

Setting this unlikely scenario to one side, the FCDO will face difficult dilemmas on its budgetary priorities. A new International Development Strategy is due to be published in early 2022, which should provide more clues on the extent to which new Foreign Secretary Liz Truss has succeeded in shifting the balance of ODA investment further towards supporting national economic interests. Meanwhile, SR21 and other statements suggest that higher priority is likely to be given to infrastructure financing overseas, as well as climate security, biodiversity and humanitarian assistance. Programmes focused on poverty reduction, and, in particular, bilateral programmes in Africa and other poor regions, seem likely to be given a lower priority.

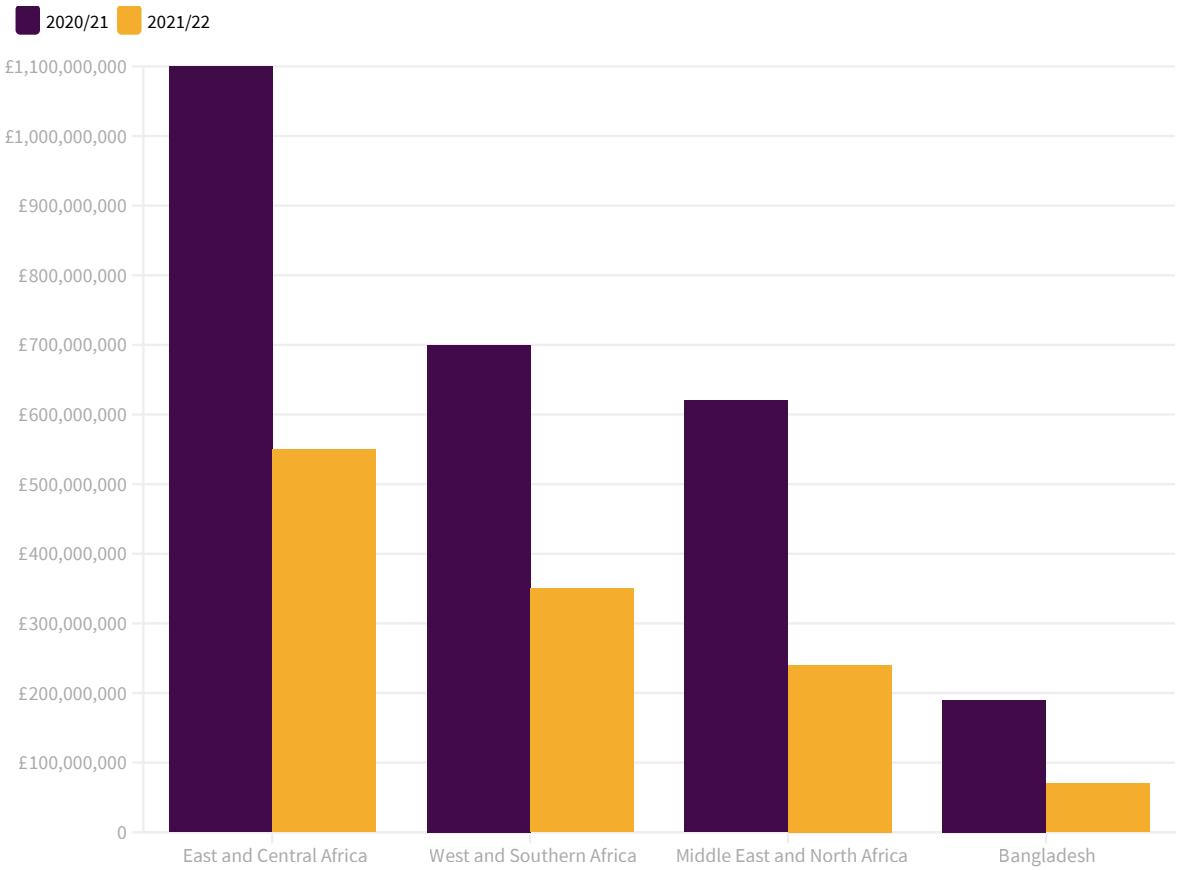
This resource shift is particularly clear when examining recent figures detailing how the steep reduction in the FCDO ODA budget this year is being distributed across regions and themes.[26]

25. UN Climate Change Conference (COP26), 'Finance', <https://ukcop26.org/cop26-goals/finance/#:~:text=The%20UK%20is%20doubling%20our%20International%20Climate%20Finance,lead%20and%20increase%20their%20commitment%20through%20to%202025>, accessed 22 November 2021.
26. FCDO, *Annual Report and Accounts 2020–2021*, HC 660 (London: The Stationery Office, 2021).

Areas in which programme ODA spending is being cut more sharply than the budget as a whole include East and Central Africa (from £1.1 billion in 2020/21 to £550 million in 2021/22), West and Southern Africa (from £700 million to £350 million), the Middle East and North Africa (from £620 million to £240 million), and Bangladesh (from £190 million to £70 million). Spending on Education, Gender and Equality has been cut from £310 million to £125 million (see Figure 4). In contrast to these areas where cuts were especially harsh, aid spending levels in Southeast Asia, the Caribbean, Europe and the Overseas Territories have all been relatively protected.

In addition to its increased focus on supporting exports and inward investment, the FCDO is looking at how to leverage its £11-billion annual budget to support the government's 'levelling up' and prosperity agendas – yet one more indication of the centrality of domestic economic drivers even in the most internationalist of all government departments.

Figure 4: Foreign, Commonwealth and Development Office Official Development Assistance, by Region, in 2020/21 and 2021/22, in Cash Terms



Source: Foreign, Commonwealth and Development Office, *Annual Report and Accounts 2020–2021* (London: The Stationery Office, 2021).

Conclusions

The overall budgetary path, and associated strategy, for the UK's two biggest foreign policy departments (the MoD and FCDO) was set a year ago. But this year's Spending Review allows them to be seen within the broader framework of wider national strategic priorities. Whether the government has made the right choices will continue to be debated. The planned rates of spending growth – either for defence or for the main domestic departments – are unlikely to be sustainable after 2024/25 without more rapid rates of productivity growth than have been experienced for the past 14 years or significant further increases in taxation. For now, however, the direction has been set.

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