

The Rising Costs of the Iraq War

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Introduction

In the 2003 Budget the government set aside £3 billion to cover “the full costs of the UK’s military obligations” in Iraq¹. In the past four years the amount allocated to this ‘Special Reserve’ has steadily increased, and with an extra £400 million in this year’s Budget the total is now over £7.4 billion. This is in addition to recent increases in general military spending. This briefing investigates the financial costs of the Iraq conflict to the UK taxpayer. It notes a significant opaqueness in the budgeting process as well as the potential for costs to continue to escalate.

The financial costs of a war may not be the first consideration. War brings many costs, foremost in lives lost and damaged. However, the decision to involve the UK in the invasion of Iraq had substantial implications for UK public spending. Money spent on the Iraq war and wider ‘war on terror’ represents significant diversions from other government budgets.

The lack of transparency in the UK finances is in contrast to the US, where all budgetary proposals must be scrutinised by Congress. Comprehensive information about US military spending is available and has contributed to considerable public debate. The sums spent by the US government are many times those of the UK, and there are a number of projects aimed at publicising the scale of US war spending (e.g. <<http://costofwar.com>>).

The Special Reserve

The 2002 Pre-Budget Report set aside £1 billion to enable the armed forces to prepare for the coming invasion of Iraq.² By the time of the Budget in March 2003, UK forces were in Iraq. The Chancellor increased the amount to £3 billion and it became known as ‘the Special Reserve’.³ In the 2003 Pre-Budget Report another £500 million was added for financial year 2003-04 and a further £300 million for 2004-05; bringing the total up to £3.8 billion.⁴ While there was no increase in the 2004 Budget Report, another £520 million for 2004-05 was announced in the Pre-Budget Report of December that year.⁵ The 2005 Budget Report included a further £340 million for 2004-05 and £400 million for 2005-06⁶, whilst the 2005 Pre-Budget Report included another £580 million⁷. The 2006 Budget report allocated £800 million for operations in 2006-07⁸ and this was followed by £600 million in the 2006 Pre-Budget Report. Most recently, the 2007 Budget allocated a further 400million for 2007-08. **Thus, to date, the total amount allocated to the Special Reserve is £7.44 billion.**

**Table 1: A summary of the UK ‘Special Reserve’ spending allocation
(in £ billions)**

	Pre-Budget Report 2002	Budget Report 2003	Pre-Budget Report 2003	Budget Report 2004	Pre-Budget Report 2004	Budget Report 2005	Pre-Budget Report 2005	Budget Report 2006	Pre-Budget Report 2006	Budget Report 2007	Total (£bn)
Increase	+ 1	+ 2	+ 0.5 + 0.3	-	+ 0.52	+ 0.34 + 0.4	+0.58	+0.8	+0.6	+0.4	
Subtotal	1	3	3.8	3.8	4.32	5.06	5.64	6.44	7.04	7.44	7.44

¹ Budget Report 2003: Chapter 6.

² Referred to in Budget Report 2003: Chapter 6, <www.hm-treasury.gov.uk/budget/bud_bud03/budget_report/bud_bud03_repchap6.cfm>

³ Budget Report 2003: Chapter 6.

⁴ Pre-Budget Report 2003: Chapter 6, <www.hm-treasury.gov.uk/media/1F5/2A/pbr03chap6_142.pdf>.

⁵ Pre-Budget Report 2004: Chapter 6, <www.hm-treasury.gov.uk/media/92C/10/pbr04_chap06_256.pdf>.

⁶ Budget Report 2005: Chapter 6, <www.hm-treasury.gov.uk/media/AA7/4D/bud05_chap06_140.pdf>.

⁷ Pre-Budget Report 2005: Chapter 6, <www.hm-treasury.gov.uk/media/FA6/3F/pbr05_chapter6_154.pdf>.

⁸ Budget Report 2006: Chapter 6, <http://www.hm-treasury.gov.uk/media/20F/14/bud06_ch6_135.pdf>

The Special Reserve is not only set aside for costs in Iraq, but also for “the UK’s other international obligations”.⁹ However, nowhere in the public domain has the Treasury published how much of the Special Reserve has been spent, nor how much of it has been spent on Iraq. Table 2, which gives a breakdown of the spending of the Special Reserve, was obtained through a Freedom of Information request solicited by the Iraq Analysis Group.

Table 2: Costs Of Iraq, Afghanistan, And Other International Commitments Funded By The Reserves, 2001/02-2005/06

£ Million						TOTAL
	2001-02	2002-03	2003-04	2004-05	2005-06*	
From Resource Reserves						
IRAQ MoD	-	630	1051	747	785	3213
IRAQ DfID	-	-	120	-		120
IRAQ FCO	-	-	30	6		36
Afghanistan MoD	188	236	36	58	149	667
Global Conflict Prevention Pool Peacekeeping	-	386	296	358	310	1342
TOTAL	188	1252	1533	1169	1244	5378
Running totals	188	1440	2973	4134	5378	
From Capital DEL Reserve (MOD)	33	292	264	167	330	1086
Running totals	33	325	589	756	1086	
Total Provided From Reserves	221	1544	1797	1336	1574	6274

Source: HM Treasury *Figures for 2005-06 allocations are estimates

Of the £6.44bn set aside at various times to the Special reserve by March 2006, at least £6.3bn had been allocated to departments, almost the total amount possible. About £4.4bn of the Reserve had been spent by the Ministry of Defence in Iraq¹⁰ between 2002 and 2006, with at least an additional £156 million allocated to the Foreign and Commonwealth Office and the Department for International Development. Furthermore, the forecasted outturn for the financial year 2005-06 is larger than that of 2004-05, suggesting that costs in Iraq are still far from settling down to something approaching the spending in Afghanistan.

How much is £4.4 billion?

The £4.4 billion allocated to operations in Iraq by March 2006 has been raised through the pre-existing tax structure, borrowing and other government revenue and consequently there exists some trade-off between the additional defence spending and other public spending options. £3.2 billion spent on education, for example, would be sufficient to fund the recruitment and retention of over 10,300 new teachers for ten years. In health, it would allow the building of around 44 new hospitals. The £6.44 billion Special Reserve represents more than the entire annual budget of the Department of International Development and would allow a five-fold increase in bilateral aid to Africa.⁹ According to UNICEF estimates, £5 billion would fund two years of full immunization for every child in the developing world.¹⁰

⁹ Budget Report 2005: Chapter 6

¹⁰ This is based on the assumption that most of the MOD’s expenditures from the capital reserves were spent on Iraq. This is reasonable when the total figures are compared with those given in the MOD Annual Reports and Accounts, <<http://www.mod.uk/publications/performance2003/index.html>>

¹¹ ONS Annual Abstract 2005, Chapter 3: International Development, <www.statistics.gov.uk/downloads/theme_compendia/Aa2005/AnnualAbstract_2005.pdf>.

¹² Immunize Every Child: GAVI Strategy for Sustainable Immunization Services, <www.unicef.org/immunization/immunize_every_child.pdf>.

Rising Defence Spending

UK military spending is increasing across the board, in addition to the Special Reserve. It is likely that some of this increase reflects the costs of the Iraq war and the wider 'war on terror', as discussed below. At the beginning of the war in 2003, the Ministry of Defence's total annual Departmental Expenditure Limit was £24.196 billion.¹³ However, the 2004 Spending Review instigated an annual increase of over £5 billion, to £29.969 billion by 2007-2008.¹⁴ This represents a nominal increase of over 23%, and does not include the Special Reserve, nor other money specifically set aside for Afghanistan. The UK spends similar sums on its military as it does on education and skills.¹⁵

Lack of Transparency

There is a marked lack of clarity about which costs the Special Reserve is intended to cover. Funds from the Special Reserve are 'drawn down' by the Ministry of Defence as and when they are required, by arrangement with the Treasury. With no standard reporting procedure in place, it is extremely difficult to trace where sums are going. While the Special Reserve has been fairly well publicised, information such as how much of the Reserve is being spent in Iraq, as opposed to the wider 'war on terror' has not been put into the public domain. It should not be the case that this information has to be discovered through Freedom of Information requests.

The Special Reserve comes on top of the regular defence budget, which has also increased, as discussed above. Money drawn down from the Special Reserve does not cover costs such as wages or salaries.¹⁶ Moreover, the Ministry of Defence itself notes that "it is likely that repair and refurbishment costs will need to be incurred in the future in order to bring the equipment back into full operational use",¹⁷ suggesting there will either need to be further allocations to the Special Reserve, or that this is likely to come out of defence spending at the expense of other projects. The House of Commons Defence Select Committee points out that in the latest Estimates Memorandum the MoD has not included "an estimate for indirect resource costs (stock write-off, provisions, depreciation, cost of capital charges etc)... Nor has the MoD included... the taxfree bonus to personnel on designated operational deployments" and thus concludes that "It seems likely, therefore, that the actual additional costs of operations in Iraq and Afghanistan in 2006-07 will exceed the amounts requested in the Winter Supplementary Estimate"¹⁸. Meanwhile, in an article on Private Finance Initiatives, the Economist argues that "the pressure of fighting two wars on a peacetime budget seems to be driving the government to enter into hasty deals, the true costs of which will become apparent only in years to come"¹⁹. Given this consistent under-reporting, it should therefore be made clear how much of the MOD's standard budget is likely to be spent on Iraq, both now and in the future.

The general lack of transparency was also highlighted in the Defence Committee's report. It complained that whilst "military operations are by their nature unpredictable", nevertheless "the MoD will undoubtedly have made internal planning assumptions about the costs of the operations in Iraq and Afghanistan and we believe these should be shared with Parliament". Only after asking for further information it received the information in Table 3, a breakdown of the Resource DEL, and a breakdown of the Capital DEL estimate. Overall, the report concluded that the MoD should do more to make public the cost of Iraq, and not just negotiate its needs with the treasury.

¹³ Figure quoted in terms of Near-Cash Spending. 2002 Spending Review: Chapter 12, <www.hm-treasury.gov.uk/Spending_Review/spend_sr02/report/spend_sr02_repchap12.cfm>.

¹⁴ Figure quoted in terms of Near-Cash Spending. 2004 Spending Review: Chapter 13, <www.hm-treasury.gov.uk/media/749/F2/sr2004_ch13.pdf>.

¹⁵ 2004 Spending Review: Chapter 1, <www.hm-treasury.gov.uk/media/53F/FE/sr2004_ch1.pdf>.

¹⁶ MoD Consolidated Department Resource Accounts 2004-05.

¹⁷ MoD Consolidated Department Resource Accounts 2004-05.

¹⁸ Defence Select Committee, Third Report: Cost of Operations in Iraq and Afghanistan <<http://www.publications.parliament.uk/pa/cm200607/cmselect/cmdfence/129/129.pdf>>

¹⁹ 'Under PFIre' The Economist, 11th Jan 2007 <http://www.economist.com/world/britain/displaystory.cfm?story_id=E1_RVNSQGJ>

Table 3: Breakdown of Iraq Costs for 2004/05, 2005/06 and 2006/07

Cost Type	Iraq Outturn 2004-05 £ m	Iraq Outturn 2005-06 £ m	Iraq Forecast 2006-07 £ m — as at Winter Supplementary Estimate	Iraq Forecast 2006-07 £ m — now	Increase / decrease since Winter Supplementary Estimate
Resource – Direct					
Military Personnel	116	80	55	111*	+ 56
Civilian Personnel	14	14	22	15	- 7
Stock / other consumption	156	219	191	212	+ 21
Infrastructure costs	88	82	106	89	- 17
Equipment support costs	198	220	189	214	+ 25
Other costs and services	110	111	112	139	+27
Net income foregone	2	10	5	5	-
Total Direct Resource	684	736	680	785	+ 105
Indirect Resource	63	62	-	22	+ 22
Total Resource	747	798	680	807	+ 127
Capital					
Capital Additions	163	160	180	195	+ 15
Total Capital	163	160	180	195	+ 15
Grand Total	910	958	860	1,002	+ 142

Source: Ministry of Defence¹³

* includes £28 million cost of operational bonus

Source: House of Commons Defence Committee Tenth Report of 2006-2007
<http://www.publications.parliament.uk/pa/cm200607/cmselect/cmdfence/379/379.pdf>

Conclusion

It is clear that the total cost of operations in Iraq is quickly exceeding previous estimates, and is now well over the £3 billion originally set aside by the Chancellor to fund the conflict. Rough estimates suggest that as much as an extra £1 billion will be required for each further year UK forces remain in Iraq.²⁰ Furthermore, costs are increasing each year, despite falling troop levels, with no explanation given by the MOD²¹. Perhaps as important as the rising costs themselves is the lack of transparency about where the money is going, and how much more will be needed in the future. The Iraq Analysis Group calls on the future government to clarify the costs of war in terms of size and expenditure type, and how they are being met. In the meantime, we will update this briefing as further information becomes available.

This briefing for the Iraq Analysis Group was prepared by Jim Cust, Alison Klevnäs and Liam Wren-Lewis. The Iraq Analysis Group was set up in 2004 by former members of the Campaign Against Sanctions on Iraq. Based in the UK, it is an independent, volunteer-run organisation. For more information please contact info@iraqanalysis.org or see www.iraqanalysis.org.

²⁰ Defence Select Committee, Sixth Report of 2004-2005: Chapter 4, Challenges in Southern Iraq, <www.publications.parliament.uk/pa/cm200405/cmselect/cmdfence/65/6507.htm#a18>.

²¹ House of Commons Defence Select Committee Tenth Report of 2006-2007: Cost of military operations: Spring Supplementary Estimates <<http://www.publications.parliament.uk/pa/cm200607/cmselect/cmdfence/379/379.pdf>>