



National Audit Office

REPORT BY THE  
COMPTROLLER AND  
AUDITOR GENERAL

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Ministry of Defence

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# Equipment Plan 2012 to 2022

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# Summary

## Scope of our report

**1** The Ministry of Defence's (the Department's) ten-year Equipment Plan sets out its forecast expenditure plans to deliver and support the equipment the Armed Forces require to meet the objectives set out in the *National Security Strategy* over the ten years from 1 April 2012 to 31 March 2022. The Plan covers a budget of £159 billion. The Department has committed to publishing a Statement to Parliament each year on the cost and affordability of the Equipment Plan. The first Statement was published in January 2013. At the Department's invitation, we have reviewed the assumptions which the Department has used to compile the Equipment Plan. We performed our work to assist Parliament in evaluating the confidence it can take from the *Statement of affordability of the Equipment Plan* ([www.gov.uk/government/publications/the-defence-equipment-plan-2012](http://www.gov.uk/government/publications/the-defence-equipment-plan-2012)) as presented by the Department. Full details of the audit procedures we have undertaken are given in Appendix One.

**2** Since the beginning of 2011 the Department has substantially revised the way it compiles and manages the Equipment Plan, and is now approaching the task on a more prudent basis. It has taken difficult decisions to address what was estimated to be a £74 billion gap between the Department's forecast funding and cost of the defence programme as a whole and to try to bring the Equipment Plan itself into balance. These include cutting unaffordable expenditure and revising the way it compiles and manages the Equipment Plan to include greater contingency and provide greater protection to a core of prioritised projects, which will allow it to better manage cost variability.

**3** The Equipment Plan is based on forecasts of costs and funding, representing the position at the end of the Department's year-long planning process known as Planning Round 12. The plan will inevitably change over time as economic and operational priorities evolve and as short-term affordability or urgent requirements cause the Department to flex its plans. For this reason, this report does not, and future reports will not, offer a definitive view on the affordability of the Equipment Plan. Rather, we have constructed an affordability assessment model that breaks the Department's assertions down into assumptions covering costs and funding against which we can test the realism of its approach. Of necessity some time must elapse before performance against these matrices can be properly assessed. To increase confidence in the realism of its assumptions and the consistency with which its forecasts are calculated, the Department will need to demonstrate their reasonableness over a period of years. The Department does not yet have in place all of the necessary measures to do this. We have set out in more detail the type of measures we would expect to see in Appendix Two.

4 This is the first year we have undertaken this engagement and we were aware from the beginning of issues, detailed in the findings of this report, which would limit the confidence that could be taken from the Department's Statement. In future years, as the Department's approach to producing the Equipment Plan matures, we intend to extend the scope of our work to cover progressively more elements of and assumptions included within the Equipment Plan. Notably, in agreement with the Department, this year we have not performed any review of the Equipment Support costs, which make up just over half the Equipment Plan cost by value: £86 billion (54 per cent) of the total ten-year cost. This is because in preparing the Equipment Plan 2012 to 2022 the Department focused on increasing the robustness of its procurement costings, and has yet to apply the same level of challenge and review to the support costs element, although it plans to do so for the Equipment Plan 2013.

## Conclusion

5 The Department has taken significant positive steps designed to deal with the accumulated affordability gap and lay the foundations for stability going forward. The crucial test will be whether the Department is able to deliver the Equipment Plan within planned expenditure limits, supported by the existence of a substantial contingency provision, over the next few years. If such a track record is established, which can only happen over time, the Department will be able to demonstrate it has really turned a corner.