



National Audit Office

Report

by the Comptroller
and Auditor General

Ministry of Defence

Equipment Plan 2013 to 2023

Summary

Scope of our report

1 The Ministry of Defence (the Department) has published its second annual Statement for the period 1 April 2013 to 31 March 2023¹ on the affordability of its plans to deliver and support the equipment that the Armed Forces require to meet the objectives set out in the National Security Strategy.² The Equipment Plan consists of both procurement and support costs and is prepared on a rolling ten-year basis. For 2013 to 2023 it covers a budget of £164 billion, made up of:

- an equipment procurement budget of £63 billion;
- an equipment support budget of £87 billion;
- a contingency provision of £4.7 billion (a central reserve to deal with risks that occur); and
- an unallocated budget of £8.4 billion (budget that the Department has not yet committed to specific programmes within the Equipment Plan).

2 In January 2013 we published our first review of the assumptions that underpin the Equipment Plan for the period 2012 to 2022.³ This report reviews the assumptions used by the Department to compile the plan for 2013 to 2023 to help Parliament evaluate how confident it can be in the statement. This year we have covered 16 of the largest procurement programmes in the Equipment Plan, eight more than last time. Full details of our audit procedures are set out in Appendix One. In addition, this year we have reviewed the Department's progress in addressing the key risks to the affordability of the Equipment Plan as set out in our previous report (Appendix Two).

3 We intended to also examine the Department's assumptions underpinning the Equipment Support Plan, which makes up just over half of the Equipment Plan budget by value (£87 billion), but while the Department has work under way to provide independent views on its Equipment Support costs, this work has not matured sufficiently to be included in this review. As a result, the Department was not able to provide us with sufficient evidence to support the accuracy of these costs. The Department has committed to providing us with this information in time for the *Equipment Plan 2014 to 2024* engagement.

¹ Available at: www.gov.uk/government/organisations/ministry-of-defence

² HM Government, *A Strong Britain in an Age of Uncertainty: The National Security Strategy*, Cm 7953, October 2010.

³ Comptroller and Auditor General, *Ministry of Defence: Equipment Plan 2012 to 2022*, Session 2012-13, HC 886, National Audit Office, January 2013.

Findings

- 4 Our review of the Equipment Plan 2013 to 2023 found the following:
- The fundamental assumptions underlying the affordability of the Equipment Plan have not changed (paragraph 7).
 - The forecast costs of the projects in our sample have remained stable (paragraph 19). This contrasts with historical cost increases we have reported through successive Major Projects Reports.
 - The estimated amount by which the Equipment Plan is potentially understated has decreased from £12.5 billion to £4.4 billion. This is partly a reflection of the smaller number of projects covered by the Core Equipment Plan compared to the previous Equipment Plan, but also because the Department's level of confidence in the costings has increased (paragraphs 23 to 25).
 - Good practice in costing techniques is inconsistent across project teams, and the Department might not be incorporating risk and uncertainty in its project costs adequately (paragraph 30). The contingency provision of £4.7 billion provides the Department with some protection (paragraph 37). However, if the contingency is inadequate and it becomes necessary for the Department to use the unallocated budget to deliver the core programme, there could be an impact on the Department's ability to deliver the full military equipment that it believes it needs (paragraph 54).⁴
 - The equipment support costs, which make up over half of the Equipment Plan, are not subject to the same level of detailed analysis as the procurement costs. While the support costs are scrutinised by the Department for investment decision purposes, and during the internal quarterly review process, the Department has not yet completed an assurance review of the support costs as it has with the procurement costs. Until it fully understands these costs and the risks associated with them the confidence it can express in the overall plan is limited (paragraphs 35 and 36).
 - The Department underspent against the forecast cost of the Equipment Plan by £1.2 billion in 2012-13 but does not yet fully understand the reasons for this or the potential impact this may have on implementing the Equipment Plan on time and within budget (paragraph 26). The Department told us that it had undertaken analysis of the in-year movement in project costs which showed they can be caused by a wide variety of factors both within and across projects. The Department says that it is this that has made it difficult for it to come to a clear view on the implications for project costs in future years and it needs to do further work to understand this issue.

⁴ Military capability is the enduring ability to achieve a desired operational outcome or effect. Capability is made up of force elements (ships, aircraft, army formations, other military units) combined into packages and tailored for particular operations or missions.

Conclusion

5 The Department's work to address the affordability gap and lay the foundations for future stability, on which we reported last year, appears to have had a positive effect on the Department's ability to maintain an affordable Equipment Plan. However, it is early days and it will take several years before we can judge whether this progress can be sustained. There remain risks to affordability, most significantly around the half of the budget relating to the equipment support costs which the Department has not yet subjected to the same level of detailed scrutiny and assurance as the procurement costs. The Department also does not understand the implications of its £1.2 billion gross underspend on the Equipment Plan in 2012-13 and whether this is a cost that will occur later in the programme. We remain concerned that the Department's treatment of risk and uncertainty needs to be improved before we can have confidence that the contingency provision is sufficient.