National Audit Office

Report
by the Comptroller
and Auditor General

Ministry of Defence

The Equipment Plan 2019 to 2029

HC 111 SESSION 2019-20 27 FEBRUARY 2020

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Ministry of Defence

The Equipment Plan 2019 to 2029

Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

20 February 2020

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This study assessed the financial assumptions underlying the Ministry of Defence's (the Department's) 10-year Equipment Plan (the Plan) to buy and support the equipment that the Armed Forces require to meet their objectives as set out in the Strategic Defence and Security Review 2015.

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Contents

Key facts 4

Summary 5

Part One
Assessing the affordability of the Equipment Plan 2019–2029 12

Part Two
Producing the Equipment Plan 27

Part Three
Addressing the affordability challenge 32

Appendix One
Our audit approach 40

Appendix Two
Our evidence base 43

Appendix Three
Progress against the Committee of Public Accounts' recommendations on the Equipment Plan 2018–2028 45

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Key facts

The Ministry of Defence's (the Department's) equipment procurement and support budget is large but does not cover its forecast costs over 2019–2029

The Department's estimates of the funding shortfall over 2019–2029

£180.7bn	£2.9bn	£13.0bn
the Department's equipment and support budget over 2019–2029	the Department's central estimate of the most likely funding shortfall, based on forecast costs of £183.6 billion over the 10 years	the Department's upper estimate of the funding shortfall should risks it has identified materialise

The Department has been over-optimistic when making two significant adjustments to the Equipment Plan's forecast costs

£7.8 billion additional costs removed from the 2019–2029 Plan as a result of the Department's more optimistic judgements on its ability to deliver the equipment programme and make savings

The affordability pressure occurs in the next five years

	2019-20 to 2023-24	2024-25 to 2028-29
Affordability	£6.0 billion **shortfall**	£3.1 billion **surplus**
Contingency in the Equipment Plan budget	£1.5 billion	£3.3 billion

This year, the Department reduced the Equipment Plan budget to reflect wider funding pressures

£7.7 billion shortfall in the overall defence budget between 2020-21 and 2024-25. The Department is restricting spending on the Equipment Plan to offset this funding shortfall

£4.8 billion Equipment Plan contingency over the next 10 years, down from £5.1 billion last year

£0 department-wide contingency to offset any cost increases across the defence budget over the next 10 years, down from £4.3 billion last year

Summary

1 Each year, the Ministry of Defence (the Department) publishes its Equipment Plan report (the Plan), setting out its spending plans for the next 10 years. It assesses whether its equipment and support programmes are affordable and sets out its expected expenditure on projects to equip the Armed Forces. The Plan summarises the Department's investment programme over a 10-year period because of the long-term nature of large, complex defence projects. It includes equipment already in use, such as the Hercules aircraft, and in development, such as the Type 26 global combat ship.

2 The latest Plan covers the period from 2019 to 2029. During this time the Department has allocated a budget of £181 billion to equipment and support projects, 42% of its entire budget. It needs to manage this expenditure effectively to ensure the Armed Forces can secure and maintain the equipment they need to meet their military objectives. The Department protects some of this budget to ensure it is spent on equipment, but financial pressures across its wider defence budget can reduce the money available for equipment and support projects.

3 The Department introduced the Equipment Plan in 2012 after a period of weak financial management, which led to a significant gap between funding and forecast costs across the defence programme. As a result, a cycle of over-committed plans, short-term spending cuts and re-profiling of expenditure resulted in poor value for money and reduced funding for front-line military activities. In 2012, the Secretary of State for Defence invited the Comptroller and Auditor General to examine the robustness of the Plan's underlying assumptions. We have since produced a commentary annually when the Department publishes the Plan. The purpose of our report is to assist Parliament in evaluating the Department's assessment of affordability and its response to the financial challenges it faces.

4 We have reported for the past two years that the Equipment Plan is unaffordable, with the largest funding shortfalls in the early years of the Plans.[1] We concluded that the Department needed to make decisions to develop an affordable long-term Plan, as its focus on short-term financial management was risking longer-term value for money.

1 Comptroller and Auditor General, *The Equipment Plan 2017 to 2027*, Session 2017–2019, HC 717, National Audit Office, January 2018. Comptroller and Auditor General, *The Equipment Plan 2018 to 2028*, Session 2017–2019, HC 1621, National Audit Office, November 2018.

5 This report sets out our examination of the Department's approach to assessing the affordability of its Equipment Plan 2019–2029, including our review of the assumptions on which its assessment is based. We completed this review in November 2019. This year, we give greater attention to examining the Department's approach to managing the continued funding shortfalls, and the consequences of its approach. In doing so, we draw on the wider lessons from our assessments of government's financial planning.[2] This report examines:

- the affordability of the Equipment Plan 2019 to 2029 (Part One);
- the Department's approach to producing the Plan (Part Two); and
- the adequacy and consequences of the Department's response to the affordability gap (Part Three).

6 We do not consider the value for money of the specific projects mentioned in this report. Nor do we comment on the specific prioritisation or operational judgements that the Department needs to make to develop an Equipment Plan that is affordable and meets future defence needs. This report focuses on the scale of affordability challenge that the Department faces, and its response. We are carrying out separate work on the Department's approach to introducing military capabilities.

Key findings

The affordability of the Equipment Plan

7 The Equipment Plan remains unaffordable, with the Department estimating that costs will be £2.9 billion higher than its budget between 2019 and 2029. Its central estimate was that equipment and support costs of £183.6 billion will exceed the budget of £180.7 billion. Although this is less than the £7.0 billion that it reported last year, the apparent reduction is based on the Department's revised approach to assessing the affordability of the Plan rather than the result of actions to address the 10-year funding shortfall. The Department's intention is to provide a more realistic assessment of the funding shortfall, but the changes mean that this year's assessment is not directly comparable to the 2018–2028 Plan. The Department made some substantial management adjustments, such as reducing forecast costs by £5.3 billion more than in 2018 to reflect its revised judgements that some projects will proceed more slowly than previously expected. It also reduced the Plan's budget by £7.7 billion to reflect wider departmental funding pressures, meaning that its assessment of the Plan's affordability is presented on a different basis to last year (paragraphs 1.32 to 1.34).

2 Comptroller and Auditor General, *Improving government's planning and spending framework*, Session 2017–2019, HC 1679, National Audit Office, November 2018.

8 **The Department's central estimate of the funding shortfall of £2.9 billion is still likely to be understated.** It has assessed the shortfall could be larger, estimating that it could be as high as £13.0 billion if all risks materialise, which is equivalent to 7% of the budget over this period. The Department's Head Office is working with the Top Level Budgets (TLBs) to introduce a more consistent, evidence-based analysis of adjustments to cost forecasts.[3] However, we found that the TLBs are still using inconsistent approaches to making adjustments to cost estimates. We also consider that aspects of the Department's affordability assessment continue to be over-optimistic. In particular:

- it reduced forecast costs by £11.9 billion to reflect revised judgements that it will not deliver its equipment projects as quickly as originally intended or that the risk of cost increases had been over-estimated. However, it has removed these costs from the Plan in their entirety, rather than re-profiling them over a 10-year period. This means that costs in the later years of the Plan are likely to be understated; and
- it reduced forecast costs by £4.7 billion to include potential efficiency savings, but it is less confident of delivering these initiatives. These potential savings are more than double the amount included in last year's cost forecast.

In addition, the 2019–2029 Plan does not reflect all additional costs of developing new military capabilities, which will be based on future decisions about what capabilities are needed. For example, the Department has yet to decide its requirements on the number of F-35 aircraft it needs. It has not, therefore, made provision in the Plan to meet all of the commitments in the 2015 Strategic Defence and Security Review or develop new capabilities to respond to the changing demands of warfare (paragraphs 1.17, 1.18, 1.22, 1.23, 1.28, 1.32, 1.34 and 2.3).

9 **The Department continues to face significant funding shortfalls over the next five years and is locked into a cycle of responding to short-term financial pressures.** It has continued to focus on managing in-year cost pressures to live within its annual budget. This focus, together with additional funding of £1.6 billion over 2018-19 and 2019-20 to help offset the financial pressures, has meant that the Department was able to establish an affordable in-year funding position for equipment and support projects in 2019-20. However, it continues to face the same 10-year profile of funding shortfalls as in previous years, with a shortfall of £6.0 billion in the first five years of the Plan. Continuing to rely on short-term funding decisions means the Department – and the defence industry – do not have a firm basis for future planning, as the Plan was originally designed to encourage (paragraphs 1.3, 1.32, 1.35 and 3.6).

3 The Head Office oversees the production of the Equipment Plan. The TLBs responsible for managing projects in the Equipment Plan are Navy Command, Army Command, Air Command, Joint Forces Command (now known as Strategic Command), the Defence Nuclear Organisation and Strategic Programmes.

10 **The Department now has less flexibility to respond to short-term financial pressures.** In assessing the funding shortfalls, the Department has assumed that it will achieve efficiency savings of £818 million in 2019-20 and 2020-21, on top of the savings already removed from project costs. It has limited time to design measures to achieve all of these planned savings. At the same time, the Department faces significant pressures in other areas of its budget, most notably its estate, which creates further pressure on its equipment and support budget. Other cost pressures are also likely to emerge. For example, the Department needs to save £460 million between 2019-20 and 2022-23 to fund the Armed Forces pay award announced in July 2019. It also needs to manage the impact of adverse foreign exchange rate movements since the start of the financial year which, at October 2019, had added £1.5 billion to the costs shown in the Plan. It has reduced the amount of contingency ring-fenced for the Equipment Plan by £0.3 billion over the next four years and now has no wider departmental contingency to provide flexibility to address emerging cost pressures (paragraphs 1.10, 1.21, 1.29, 3.14 and 3.15).

11 **The Department is improving its approach to compiling the Plan but has not yet established a consistent approach across the TLBs.** Its Head Office has encouraged TLBs to adopt a more consistent and analytical approach to estimating cost forecasts. It has also addressed the causes of errors that led to the republication of its 2018 report, introducing new data checks. However, Head Office had to make substantive adjustments at the year-end to address inconsistencies in the data provided by TLBs. It undertook more comprehensive quality assurance work to produce the 2019 report but has not yet developed a full understanding of the controls in the end-to-end process for producing the Plan. Its longer-term aim is to improve its financial capabilities, including the accuracy of cost forecasting, but it has not yet recruited enough people with the necessary financial skills (paragraphs 2.2 to 2.11).

The Department's approach to managing the funding shortfalls

12 **The Department has again delayed the difficult decisions to make the Equipment Plan affordable and determine its priorities on future military capabilities.** The Department still does not have an affordable long-term investment programme 28 months after it began reviewing what capabilities were needed and affordable. There have been two missed opportunities to make decisions on an affordable programme. In December 2018, as part of the 'Modernising Defence Programme', the Department introduced changes to modernise the way it operates but did not make any programme-related decisions to make the Plan affordable. In the September 2019 Spending Round, HM Treasury provided additional funding only up to 2020-21 to offset short-term financial pressures. This meant that the Department was unable to address the long-term affordability gap and will have to continue to manage the financial pressures until the next spending review on defence and security. It has now carried out a detailed analysis of investment options on which it can make better informed decisions on the capabilities that should be stopped, deferred or de-scoped to establish an affordable long-term programme to develop future military capabilities (paragraphs 3.2 to 3.6).

13 **The Department's continued short-term focus of living within annual budgets is leading to reduced capabilities and higher overall costs.** We saw increasing evidence of the cumulative impacts of the Department's continued focus on managing in-year costs, with the TLBs making prioritised investment decisions on their programmes to respond to affordability pressures. As a result, existing capabilities will be lost when current funding allocations end, such as the medical facilities provided by the ship *RFA Argus*, or will be reduced, such as the number of Sentry aircraft. The TLBs also had to reduce expenditure on support, such as limiting maintenance activity to legislative minimums. Decisions to defer project expenditure are also leading to poor value for money. For example, the Department now expects the costs of delaying Protector to increase from £160 million to £187 million, with a further £50 million cost of retaining existing, less capable equipment until Protector enters service. As a result, the Department is facing the growing risk that affordability pressures are leaving them with equipment that is in managed decline (paragraphs 3.16 to 3.21).

14 **The Department increased the financial pressure by establishing a transformation fund to develop new capabilities.** In November 2018, the then Secretary of State for Defence decided to spend £500 million over three years on new 'innovative capability enhancements', in addition to existing commitments in the Equipment Plan. The Department funded this by reducing TLB budgets over the next three years, including a reduction of £160 million in 2019-20, which created an additional cost pressure after the TLBs had submitted their annual spending plans. The Secretary of State selected 18 projects, including some capabilities not previously identified as high priorities. The Department will need to provide additional funding to develop useable capabilities from these projects, although it does not yet know the scale of the additional investment required. The Department's most senior board raised questions about TLBs' ability to spend money on these projects at short notice and noted that the impact on existing spending plans was not understood (paragraphs 3.10 to 3.12).

15 **The Department is managing the financial pressures by establishing tighter control of in-year expenditure and future commitments.** Head Office agreed spending profiles with TLBs and allocated their indicative 2019-20 Equipment Plan budgets three months earlier than the previous year, allowing them more time for planning. However, in 2019-20, Head Office approved TLB spending plans which were £269 million higher than budgets (0.7% of the departmental budget) and is monitoring expenditure throughout the year to reduce this variance. This means TLBs may again have to reduce expenditure at short notice, increasing the risk that they will defer projects without fully understanding the cost or operational implications. The Department has also introduced new controls to prevent TLBs from committing to new expenditure in future years but, in doing so, has restricted their ability to enter into multi-year contracts (paragraphs 3.8 to 3.9).

Conclusion

16 For the third successive year, the Equipment Plan remains unaffordable. The Department's central estimate of equipment procurement and support costs is lower than last year, but this reflects a restatement of the affordability gap rather than actions to address the funding shortfalls. The Department has still not taken the necessary decisions to establish an affordable long-term investment programme to develop future military capabilities. It has responded to immediate funding pressures by strengthening its management of annual budgets and establishing controls on future expenditure on equipment and support projects. It is also seeking to develop a more realistic assessment of affordability but has not yet addressed inconsistencies in the cost forecasts which support it.

17 However, the Department has become locked into a cycle of managing its annual budgets to address urgent affordability pressures at the expense of longer-term strategic planning, and is introducing new commitments without fully understanding the impact on the affordability of the Plan. It is not, therefore, using the Equipment Plan as a long-term financial management tool, as it was originally designed to be. The Department's continued short-term decision-making is now leading to higher costs and reduced capabilities. There is evidence that these problems are growing and increasingly affecting the Armed Forces' ability to maintain and enhance their capabilities. As a result, there are increasing risks to value for money from the Department's management of the Equipment Plan.

Recommendations

18 The Department has made some improvements to its approach to producing the Equipment Plan but there continue to be inconsistencies between TLBs. The consequences of successive years of focusing on short-term financial management are also having a greater impact on the TLBs' ability to develop the military capabilities they need. The following recommendations are intended to help the Department produce a more realistic assessment of the affordability challenge, which it can use to make informed decisions on current and future priorities.

Improvements to assessing and presenting the affordability assessment in the 2020-2030 Plan

a **The Department should improve consistency of judgements by embedding a common methodology for adjustments to the budget and cost forecasts.** The methodology should be capable of being tailored to individual TLBs but be based on consistent principles and an analytical, evidence-based approach.

b **Head Office should undertake further analysis of the main adjustments to establish how to improve their reliability;** for example, the risk of double-counting or the relationship between different adjustments.

c **The Department should provide a fuller reconciliation of the affordability assessment in its report to compare against the previous year.** This would enable readers to understand the basis of the current assessment and main movements.

Improvements to the process for producing next year's Plan

d **Head Office should strengthen the process for producing the Plan,** given the amount of data needed to compile the Plan, the number of people involved across the TLBs and the need for manual input. It should establish a new financial control framework which clearly sets out the risks, controls and responsibilities.

e **The Department should now focus on filling the gaps in key financial positions across TLBs.** Improving financial capabilities across the Department is fundamental to achieving the required improvements to processes and methodology for producing the Plan.

Addressing the consequences of funding shortfalls in the next strategic review

f **The Department should draw on its detailed assessment of options for Spending Round 2019 to maintain a prioritised cross-Department view on future military capabilities.** It should estimate potential development costs of new projects to better inform decisions to delay, defer or de-scope existing projects. It should also ensure TLBs carry out holistic assessments of their priorities for equipment, infrastructure and other areas of spending. It then needs to use the Equipment Plan as it was originally intended – to manage its investment programme over a 10-year period.

Part One

Assessing the affordability of the Equipment Plan 2019–2029

1.1 The Ministry of Defence (the Department) needs to make a realistic assessment of the affordability of its Equipment Plan (the Plan) in order to manage the development of future military capabilities. This part sets out our examination of the Department's approach to assessing its equipment and support budget and forecast costs.

The rationale for the Equipment Plan

1.2 Since 2012, the Department has published an annual statement on its Equipment Plan. The Plan sets out its planned spending over the next 10 years to deliver and support the equipment needed by the Armed Forces, although many projects will be delivered over a longer period. It includes equipment already in use, such as the Hercules aircraft, and equipment that has not yet entered service, such as the Type 26 global combat ship.

1.3 The Department introduced an annual statement following a period of weak financial management, which led to a significant gap between funding and forecast costs across the defence programme. This led to a cycle of overcommitted plans, short-term cuts and re-profiling of expenditure, which resulted in poor value for money and reduced funding for front-line military activities. The Plan provides a 10-year statement to demonstrate to Parliament that the Department can make effective financial decisions and provides the basis of its long-term investment plans. It also gives the defence industry more information on which to plan for the future.

1.4 In 2012, the Secretary of State for Defence invited the Comptroller and Auditor General to examine the robustness of the underlying assumptions in the Plan. We have since provided a commentary when the Department publishes the Plan. Our aim is to assist Parliament in evaluating the Department's assessment of affordability and its response to the financial challenges it faces.

1.5 The Department sets the Equipment Plan's budget as part of its defence-wide annual budgeting exercise. Its Head Office oversees this process, while responsibility for managing projects is delegated to the Front Line Commands (Navy, Army, Air and Joint Forces), the Defence Nuclear Organisation (DNO) and the Strategic Programmes Directorate. These are known as Top Level Budgets (TLBs). They are responsible for delivering their agreed defence outcomes within delegated budgets. The delivery organisations, such as Defence Equipment and Support (DE&S) and the Submarine Delivery Agency, manage and deliver equipment and support projects on behalf of the TLBs. They have the expertise to manage relationships with industry and provide commercial advice to the TLBs.

The Equipment Plan budget

1.6 The Plan covers large and complex procurement projects including nuclear-deterrent submarines (Dreadnought-class), global combat ships, new armoured vehicles (Ajax) and F-35 aircraft. It also includes a budget to support new and in-service equipment, such as maintaining Typhoon aircraft, and introducing modern information and communications technology.

1.7 The Department's Head Office and TLBs negotiate the Plan's budget based on the estimated 10-year cost of procuring and supporting the equipment it needs to fulfil its Strategic Defence and Security Review (SDSR) 2015 commitments. The different elements of the Plan add up to £188.4 billion and include:

- procurement (£85.6 billion);
- support (£97.2 billion); and
- centrally held funding to cover costs not budgeted for by TLBs, including provisions for fuel and foreign exchange cost increases up to April 2019 (£0.7 billion), funding for new projects (£0.1 billion), and a contingency (£4.8 billion) to manage risks.

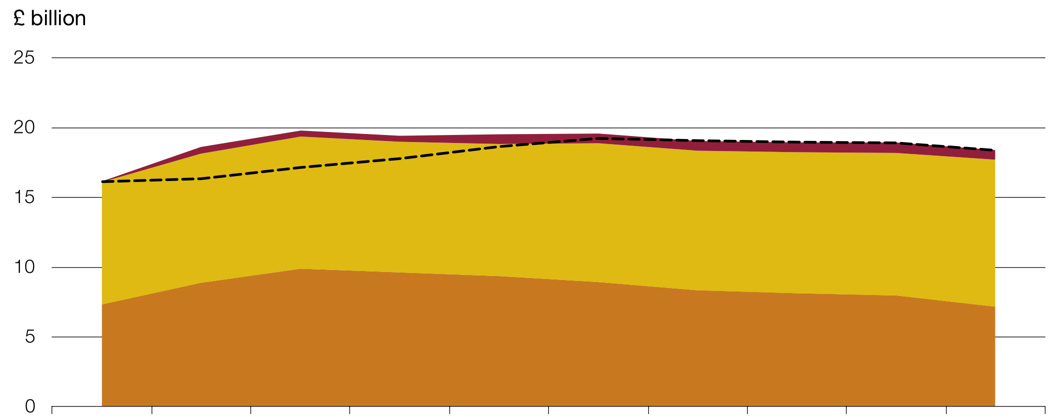
1.8 However, due to pressures within the wider defence budget, the Department reduced the Equipment Plan budget by £7.7 billion (**Figure 1** overleaf). In doing so, it has restricted future expenditure on equipment and support projects in order to retain flexibility to manage cost pressures across the wider budget, should this be necessary. It did not instruct the TLBs to cancel or defer projects since it intended this to be a temporary restriction. It hoped that additional funding or underspends elsewhere in the defence budget would mean that it would not need to reduce spending on the Plan. The Department therefore set a budget of £180.7 billion for the period 2019–2029, which is £5.7 billion (3%) lower than its budget for the period 2018–2028.

1.9 The Department has agreed its budget with HM Treasury for 2019-20 and 2020-21, although the 2019–2029 Plan does not include the additional funding agreed in September 2019. The budget shown in the Department's Equipment Plan report for years after 2019-20 represents the funding which the Department had assumed would be available.

Figure 1

Breakdown of the Ministry of Defence's Equipment Plan budget 2019–2029

The Ministry of Defence (the Department) has budgeted £180.7 billion for equipment and support projects between 2019 and 2029



	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	**Total**
Other Equipment Plan[1]	0.0	0.5	0.4	0.4	0.7	0.7	0.7	0.7	0.7	0.7	**5.6**
Equipment Support Plan	8.8	9.2	9.4	9.4	9.5	10.0	10.0	10.1	10.3	10.5	**97.2**
Equipment Procurement Plan	7.3	8.9	9.9	9.6	9.4	8.9	8.4	8.1	8.0	7.2	**85.6**
Total planned spending	**16.2**	**18.6**	**19.8**	**19.4**	**19.5**	**19.6**	**19.1**	**19.0**	**18.9**	**18.4**	**188.4**
-- Equipment Plan budget[2]	16.2	16.4	17.2	17.8	18.7	19.2	19.1	19.0	18.9	18.4	**180.7**

Notes

1 Other Equipment Plan spending includes £4.8 billion contingency and £0.7 billion to ensure the Plan reflects the most likely foreign exchange costs as at April 2019.

2 The budget is less than the sum of the components because the Department placed an additional restriction on the Top Level Budgets' ability to make spending commitments. This allows the Department to reduce Equipment Plan spending by up to £7.7 billion if needed, so it can make sure that total defence spending does not exceed the Department's forecast budget. The forecast budget is based on the Department's long-term planning assumption of 0.5% growth in real terms for years after 2019-20.

3 Figures may not sum due to rounding.

Source: National Audit Office analysis of Ministry of Defence data

1.10 The Department has reduced the level of contingency to cover unplanned cost increases on equipment and support projects. In 2018, it included £5.1 billion of contingency within the Plan. The Department was also able to draw, as needed, on its department-wide £4.3 billion contingency and a further £1.1 billion set aside for nuclear projects. In 2019, the Department reduced the contingency ring-fenced for the Equipment Plan to £4.8 billion over the period of the Plan, with no contingency available in 2019-20. The £300 million reduction in this contingency all falls in the first four years of the Plan. The £1.1 billion contingency for nuclear projects has also been used to reduce DNO's budget shortfall and the Department has removed the department-wide contingency altogether.

1.11 The annual Equipment Plan budgets (after reductions to reflect the unaffordability of the overall defence budget) are between 4% and 12% lower over the next five years, compared with last year's Plan (**Figure 2** overleaf). The Department also reduced the annual budgets in the last two years of the Plan. Before 2016, the Department included 'headroom' in the later years of the Plan. The purpose of this was to allow it to fund 'additional programmes that are a high priority ... when they are required'. The absence of headroom in the 2019–2029 Plan means that it now reflects the forecast cost of projects that the Department has already begun to develop, rather than the amount it expects to spend on procuring and supporting equipment.

Estimating costs

1.12 The delivery organisations and TLBs build the cost forecasts in the Plan by assessing the likely costs of individual projects. In doing so, they make allowances to reflect the risk of future cost increases. For most projects, they forecast costs at the 50th percentile – which means the project is as likely to cost more than the estimate as it is to cost less. The Department uses a more prudent allowance to cost some nuclear projects to reflect evidence that the costs of complex projects are more likely to be higher than the central estimate.[4] The Department reflects the potential impact of these risks by including a provision within project cost forecasts. In total, it included £13.4 billion in its forecasts to reflect the risk of cost increases over 2019–2029.

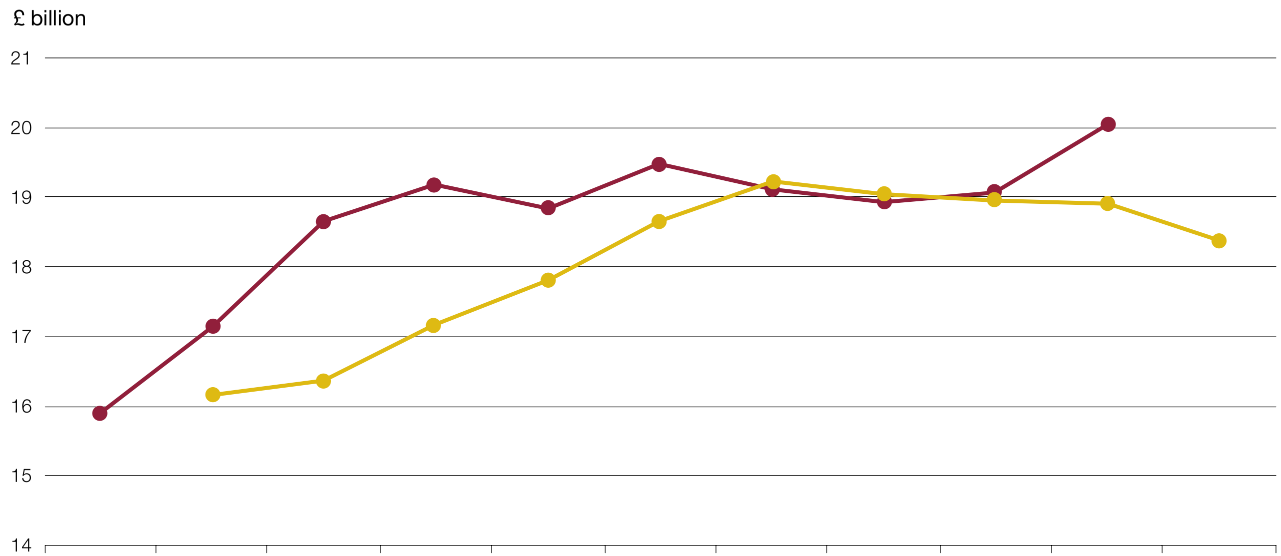
1.13 When forecasting costs, TLBs also estimate the impact of additional risks that they judge are, on balance, less likely to occur. For 2019–2029, they estimated that the value of these risks was up to £18.3 billion – which would mean a 10% increase in the Plan's costs if they were to all materialise. The Department does not adjust its cost forecasts to reflect these risks. In response to a recommendation that we made in 2017, the Department is reviewing approaches to estimating financial risks. Its initial work found inconsistent approaches across TLBs and delivery organisations. It plans to carry out a comprehensive review.

4 Some nuclear projects are costed at the 70th percentile.

Figure 2

Comparison of the Ministry of Defence's Equipment Plan annual budgets: 2019–2029 against 2018–2028

Annual budgets in the 2019–2029 Plan are lower than in the previous year's Plan in the first five years, and then again in later years



	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	Total
Equipment Plan 2018–2028	15.9	17.2	18.7	19.2	18.8	19.5	19.1	18.9	19.1	20.1		**186.4**
Equipment Plan 2019–2029		16.2	16.4	17.2	17.8	18.7	19.2	19.1	19.0	18.9	18.4	**180.7**

Source: National Audit Office analysis of Ministry of Defence data

1.14 The Department asked its Cost Assurance and Analysis Service (CAAS) to review a sample of its projects and give an independent view of the 'realistic outturn' it can expect.[5] CAAS concluded that these projects are likely to cost £3.4 billion more than forecast by the delivery teams, which is about the same level of potential understatement as in last year's Plan. This assessment took into account CAAS's view that some projects will achieve less than planned over the next 10 years, and costs will slip into later years as a result. In most years, the Department's Equipment Plan contingency (£4.8 billion over 10 years) would be sufficient to offset these increases, should they occur. However, the Department has no contingency provision in 2019-20, when CAAS estimates that the projects are likely to cost £356 million more than forecast by the project teams.

1.15 The cost forecasts in the Plan can be particularly affected by increases on a small number of large projects. We have previously highlighted that the Defence Nuclear Organisation's (DNO) projects pose greater risks due to their size and complexity. The Department's largest single project is to replace the nuclear-deterrent submarines with the new Dreadnought-class. In 2019, CAAS concluded that this project is likely to cost £708 million (5%) more over 2019–2029 than the project team's current estimate. CAAS also expects that Astute-class submarines will cost £189 million more than the estimate included in the Plan. HM Treasury holds a £10 billion contingency fund, which is set aside for the Dreadnought submarines. HM Treasury provided £600 million of this funding for use in 2018-19 to allow DNO to remain on schedule in delivering the programme. The Department also expects to draw down from the contingency fund again in 2019-20 and 2020-21.

Completeness of the Plan

1.16 Last year, the Department assured us that it had included all major equipment and support costs in the 2018 Plan, meeting its SDSR 2015 commitments. It has not removed any major projects from the 2019 Plan and all are funded in the first year. The TLBs also provided assurance to Head Office that the Plan contains all relevant projects.

5 CAAS determines which projects it should review. In 2019 it reviewed projects accounting for 57% of equipment and support costs as estimated by delivery organisations.

1.17 In response to the changing demands of warfare, the Department is investing in the development of new capabilities. It is making small-scale investments to take projects to concept phase and sought additional investment for transformation and high-priority projects, such as a replacement for the Harpoon anti-ship missile, in the 2019 Spending Round. These projects are not yet fully funded, and the Plan does not include the costs of developing them further. The Department expects that some projects will go forward but, if additional funding is not secured, the capabilities will be lost and it will see little benefit from its investment. The Department's Investment Approvals Committee also declined to approve a forecast cost increase of £397 million for one major project (over the nine years to 2027-28), as Joint Forces Command had requested. Joint Forces Command reduced the costs presented in the Equipment Plan accordingly. In October 2019, the Department reported that the programme is 'on track to deliver the expected outcomes and benefits within its approved budget'.[6]

1.18 In addition, the Department's policy decisions on future capabilities will affect the affordability of the Plan. For example, in the 2015 SDSR it announced its intention to buy 138 F-35 aircraft, but the 2019–2029 Plan only includes the forecast cost of the first 48, which are currently being built. It expects to make decisions on the number of F-35 jets it needs when *HMS Queen Elizabeth* starts operational deployments in 2021. The Department will make these decisions as part of its Combat Air Acquisition Programme. It will also need to make decisions about how it will operate the Carrier Strike Group to make best use of its capabilities. To do this, the Department will have to develop its understanding of support costs as *HMS Queen Elizabeth* completes sea trials in 2020. The Department's approach to assessing the Plan's affordability means costs in later years can be expected to rise once it determines future military capabilities, and considers its longer-term priorities in the next spending review on defence and security.

Reflecting uncertainties in cost forecasts

1.19 Forecasting costs for complex long-term projects is challenging, with many uncertainties. The Department must develop requirements as projects progress and negotiate these with suppliers. It therefore makes assumptions about delivery risks and uncertain events, which it reflects in cost forecasts. It also applies adjustments for 'realism', because it anticipates that some projects will progress more slowly than originally planned and reduces cost forecasts to include planned efficiency savings. We reviewed the Department's approach to making these adjustments.

6 Joint Crypt Key Programme – MOD Accounting Officer Assessment, 15 October 2019, available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/840777/20191015_-_Meg_Hillier_JCKP_AOA.pdf

Adjustments for foreign exchange uncertainty

1.20 The Department expects to buy $31.1 billion and €7.4 billion over the period 2019–2029 to meet Equipment Plan costs denominated in these currencies (16% of forecast costs). It increased its cost forecast by £895 million to reflect the most likely future exchange rates as at the reporting date (April 2019). This adjustment does not protect the Department from subsequent exchange rate movements, although it reduced its exposure by purchasing in advance part of the currency it requires over the first three years of the Plan.[7] This means that exchange rate movements have more limited impact in its first year.

1.21 The Department recognises that movements in exchange rates will affect the Plan's affordability and modelled the impact of a 10% variation in the value of the pound. While the Department has increased the range of its modelling, larger exchange rate movements have occurred in the past. Since April 2019, exchange rates have deteriorated significantly. In October 2019, market forecasts anticipated that the average future dollar exchange rate will be 8% lower than that expected in April 2019. On this basis, foreign currencies would cost the Department £1.5 billion more over 10 years than it assumed in its central affordability analysis (£716 million of this pressure falls in the three years from 2020-21 to 2022-23).

Adjustments for delivery 'realism'

1.22 The TLBs and delivery organisations have reduced cost forecasts to reflect their estimates of the likely slippage of projects in their portfolios. They base these judgements about the level of over-optimism on their past performance of delivering projects and assessments of the constraints on their suppliers' capacity. The Department's Head Office also told us that part of this reduction was because its analysis of spending trends indicated that project teams would not need to use all the money set aside to manage risks. It could not, though, quantify how much of the 'realism' reduction was because of likely slippage and how much because project costs were over-estimated since it has not tracked how previous realism judgements materialised. It is also unclear why TLBs would believe that project costs are overstated when CAAS concluded that these costs are likely to be understated (paragraph 1.14).

1.23 The Department reduced the forecast costs in the Plan by £11.9 billion over 2019–2029 to reflect adjustments for 'realism'. This was made up of:

- £4.9 billion to reflect the delivery organisations' assessment of likely slippage; and
- an additional £7.0 billion to reflect further judgements made by TLBs. The Department is aware that there is more uncertainty around this judgement.

7 The Department's policy is to start each financial year having forward-purchased 80% of the dollars and euros it needs for that year, 50% of the next year's needs and 20% of the third year's needs.

1.24 The Department's assessment of the adjustments needed for delivery realism increased from £6.7 billion in the 2018 Plan to £11.9 billion this year, equivalent to 6% of the Plan's total forecast costs. In making the realism adjustments, the Department did not change the profile of spending but removed these costs from the Plan altogether. This is only appropriate if deferring costs into later years would result in the planned delivery of projects in those years also being undeliverable or if project cost estimates were overstated. In our view, the adjustment in later years is too high because the TLBs' ability to spend money will be less constrained towards the end of the Plan, as planned expenditure starts to fall (Figure 2). We also found that the TLBs differed in the level of sophistication of their realism analysis. Head Office and the TLBs could not provide us with assurance that there had been no double-counting between the adjustments made by delivery organisations and those by the TLBs, and between realism and the future delivery of efficiency savings.

1.25 In July 2019, Head Office undertook a detailed analysis of TLB expenditure to reassess the likelihood of delivery, which it believes supports the amount of realism deducted over the four years between 2019-20 and 2022-23. Head Office's analysis is not included in the 2019–2029 Plan but reflects its focus on improving the accuracy of cost forecasting and its intention to adopt a more consistent, evidence-based approach across the TLBs in future years.

Reflecting future efficiency savings

1.26 The Department defines efficiencies as cost reductions which are not associated with a reduction in outputs or capabilities. It is required to identify £34.7 billion worth of efficiencies over the 10 years to 2028-29 across its total defence spending. Its budgets were reduced accordingly, meaning that the Department will need to make other cost reductions if it cannot achieve these efficiencies. Of this target, it expects the TLBs and delivery organisations to find £12.6 billion of efficiency savings against Equipment Plan costs.[8] This combines targets set by HM Treasury as part of the 2015 Spending Review and earlier targets. We have previously identified that there is "a risk that departments and HM Treasury are complicit in agreeing over-optimistic delivery or spending reduction plans".[9]

1.27 Delivery organisations reduce project cost estimates when they are confident that the project will deliver an efficiency saving. The Department has reduced forecast costs in the Plan by £7.5 billion to reflect these savings (**Figure 3**). The delivery organisations also monitor other potential efficiencies, but do not deduct these from project cost estimates as they are less confident of achieving them. In 2018, the Department's affordability analysis assumed that the delivery organisations would deliver £2.2 billion of these potential efficiencies. The Committee of Public Accounts criticised this assumption and recommended that "in compiling its Equipment Plan 2019 position, the Department should ensure that it only includes efficiencies that it can realistically expect to deliver". The government accepted this recommendation.

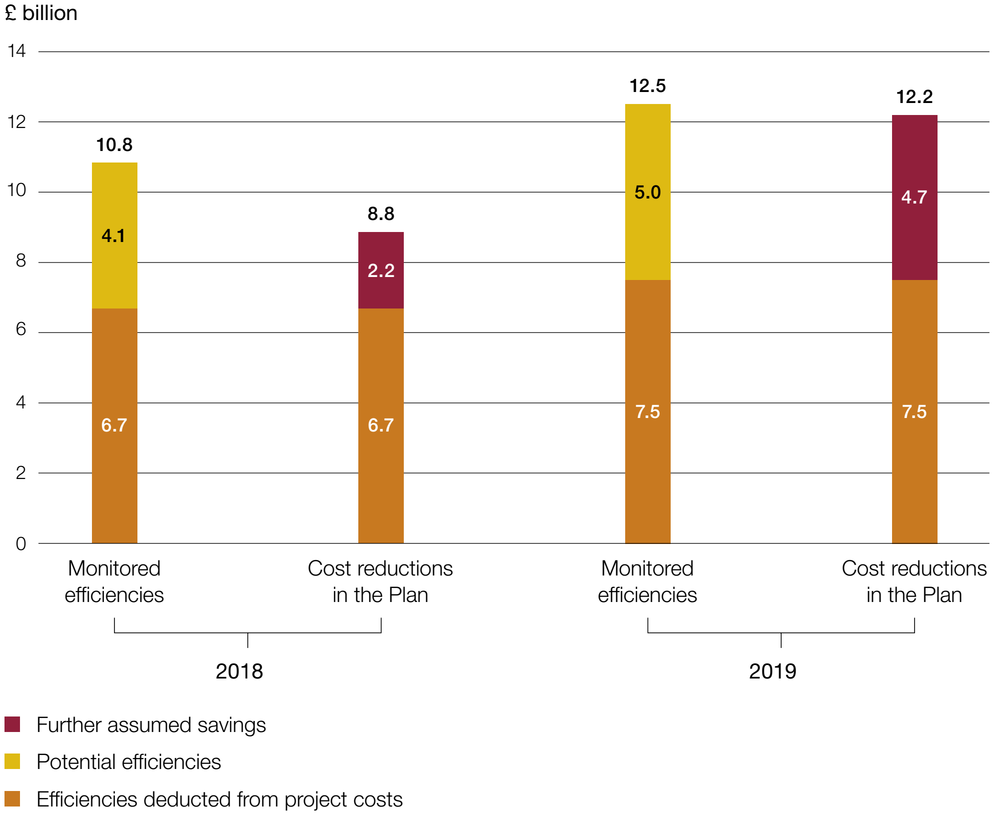
8 The Department also reports progress in delivering Complex Weapons Pipeline efficiencies. It assesses these efficiency targets against a counterfactual scenario, rather than against Equipment Plan costs.

9 Comptroller and Auditor General, *Improving government's planning and spending framework*, Session 2017–2019, HC 1679, National Audit Office, November 2018.

Figure 3

Breakdown of efficiencies included in the 2019–2029 Equipment Plan (the Plan) compared with 2018–2028

The Ministry of Defence's assessment of affordability for 2019–2029 includes more optimistic assumptions about the savings it will achieve



Notes

1 Monitored efficiencies are opportunities to reduce spending which the delivery organisations are tracking. The delivery organisations have a higher level of confidence that the efficiencies deducted from project costs will be achieved than they have about potential efficiencies. The further assumed savings which the Department has deducted from the 2019–2029 Plan are equivalent to a greater proportion of the potential efficiencies than was the case in the 2018–2028 Plan.

2 Figures may not sum due to rounding.

Source: National Audit Office analysis of Ministry of Defence data

1.28 Despite this, the Department's affordability analysis is less realistic in this respect than it was last year. The Department has assumed that it will achieve £4.7 billion of efficiencies in addition to the more mature efficiencies already deducted from project cost estimates (£7.5 billion). Some TLBs continue to assume that they will deliver some, but not all, of the potential efficiencies. Other TLBs have gone much further and assumed that they will deliver their entire efficiency target. The Department's affordability assessment is also based on the assumption that Air Command and Joint Forces Command will find efficiencies equivalent to all known potential efficiencies, and then find a further £1.3 billion of efficiencies.[10] Neither these TLBs nor Head Office could provide sufficient evidence to justify this confidence in their ability to reduce costs. Despite recognising that the TLBs had used different assumptions to estimate the efficiencies that they could deliver, Head Office did not establish a consistent approach when assessing the affordability of the Plan.

1.29 Failure to deliver efficiencies in line with the assumed profile would make the Equipment Plan less affordable. Of the £4.7 billion efficiencies that the Department is less confident of achieving, £300 million must be achieved in 2019-20 and £518 million in 2020-21. This is more than the potential efficiencies it has identified in both of these years, although delivery organisations can also identify efficiencies in-year. In the 2018–2028 Plan, the Department's affordability analysis only assumed delivery of £83 million and £103 million of potential efficiencies in the first and second years of the Plan respectively.

1.30 We concluded last year that we could not give assurance about efficiencies in the 2018 Plan as the Department could not provide sufficient evidence to support its assessments of likely savings. This year, we reviewed a sample of DE&S efficiency initiatives to assess the robustness of supporting evidence. We found:

- a number of efficiencies which had been removed from project costs were not supported by sufficient evidence to give reasonable confidence that the cost reduction is sustainable; and
- three of the 13 efficiencies we tested were only signed off by senior officials after we selected them for review. DE&S's internal guidance for managing efficiencies was not followed in these cases. It told us, however, that it is satisfied there would have been sufficient scrutiny of these efficiencies at its high-level governance meetings. The packs prepared to support these meetings contain the amounts to be deducted from project costs for these efficiencies, although they do not include explanations of the efficiency or supporting evidence.

1.31 As a result of our review, the amount of potential efficiencies the Department has assumed will be delivered and inconsistencies between the TLBs, we are again unable to give assurance over the efficiency figures included in the Plan. The Department intends to introduce a new approach to tracking efficiencies, which it expects will increase the consistency of TLB reporting and allow better central visibility of the maturity of efficiencies. We expect to see the impact of its transformation work in next year's Plan.

10 Joint Forces Command is now known as Strategic Command.

The Department's assessment of affordability in the period 2019–2029

1.32 After making adjustments, the Department estimates that the cost of equipment and support projects will be £183.6 billion in the period from 2019 to 2029. This means the Plan remains unaffordable. The Department's central estimate shows a £2.9 billion difference between the forecast costs of £183.6 billion and its budget of £180.7 billion. However, the Department has established a balanced funding position in the first year of the Plan, 2019-20.

1.33 The Department's estimate of the funding shortfall over 2019–2029 is less than the estimate of £7.0 billion for the 2018–2028 Plan. It estimates that both its costs and budget over the 10 years will now be lower, although forecast costs have fallen by more than the budget. The main reasons for revised estimates are:

- the Department's estimate of forecast costs has fallen from £193.3 billion in the 2018–2028 Plan to £183.6 billion in the 2019–2029 Plan. This is largely the result of the more optimistic judgements about the appropriate level of delivery realism and likely efficiency savings (**Figure 4** overleaf). These two judgements reduce costs by an additional £7.8 billion compared with the 2018–2028 Plan; and
- the Department has reduced the 2019–2029 Equipment Plan budget by £7.7 billion to reflect the unaffordability of the overall defence budget and to retain some flexibility on future funding decisions (paragraph 1.8). It had not included an equivalent adjustment in the 2018–2028 Plan.

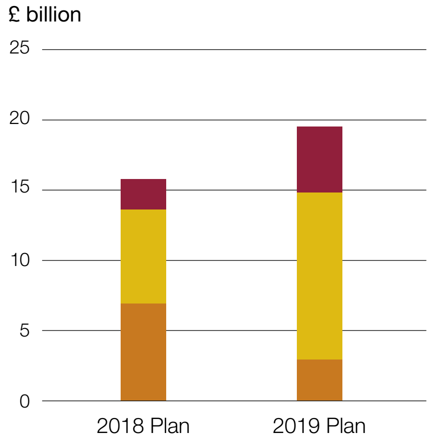
1.34 The Department recognises that its cost forecasts are subject to a range of factors and has presented its affordability assessment as a range. It calculated a worst-case scenario – if all identified risks materialise – of the affordability gap widening to £13.0 billion, and a best-case scenario of a £1.2 billion surplus (**Figure 5** on page 25). If the worst-case scenario materialises, forecast costs over 2019-2029 would increase by 5%, which would mean that the funding shortfall would be equivalent to 7% of the budget. Although its analysis covers the most likely reasons for changes, our assessment of the Department's approach to some of its key assumptions means that these costs could potentially increase by more.

1.35 The gap between budget and forecast costs is much greater at the start of the Plan's 10-year period. The shortfall in the first five years of the Plan was £6 billion (**Figure 6** on page 26). This pattern follows the same pattern as we have reported in previous years and reflects the Department's continued approach of managing the affordability challenge by deferring planned project expenditure into following years to live within its in-year budget allocation.

Figure 4

Funding shortfalls and significant judgements in the Ministry of Defence's 2018 and 2019 Equipment Plans

The reduction in the funding shortfall since 2018 is driven by greater optimism by the Top Level Budgets when making two significant management judgements about future cost reductions



	2018 Plan	2019 Plan	Change since 2018 Plan
Efficiencies deducted from costs without a clear plan to deliver them	2.2	4.7	2.5
Cost reductions from realism about delivery	6.7	11.9	5.3
Remaining funding shortfall	7.0	2.9	(4.0)

Notes

1 Delivery realism reduces forecasts of spending to reflect the likelihood that some projects will not proceed as quickly as planned.

2 The two significant management judgements are about realism and efficiencies, which between them reduce cost forecasts in the 2019–2029 Plan by £7.8 billion more than was the case in the 2018–2028 Plan.

3 Figures may not sum due to rounding.

Source: National Audit Office analysis of Ministry of Defence data

Figure 5

National Audit Office (NAO) assessment of forecast cost risks to the Ministry of Defence's Equipment Plan 2019–2029

The Ministry of Defence's (the Department's) assessment of factors that could impact cost forecasts remains too optimistic

Risk	Range of the Department's scenarios		Description	NAO commentary
	Worst case (£bn)	Best case (£bn)		
Cost understatement on individual projects	3.4	–	Difference between the Cost Assurance and Analysis Service (CAAS) estimate of realistic outturn of projects and the costs included in the Equipment Plan.[1] In 2019, CAAS reviewed projects covering 57% of the Plan.	We discuss CAAS's work in paragraph 1.14. There is also a risk that some projects that CAAS did not review will have understated costs. CAAS also calculate a worse-case scenario – based on the projects they reviewed – in which total costs are £13.6 billion higher than project team estimates.
Cost change due to foreign currency exchange rate movements	2.6	(2.1)	Calculates the impact of a 10% increase and decrease in foreign exchange rates (a broader range than the 5% modelled in the 2018 Plan).[2]	Dollar exchange rates have deteriorated by 8%, compared with the rates used to calculate Plan costs (paragraph 1.21).
Uncertainty around estimated realism	1.8	(1.8)	Calculates the sensitivity of affordability to a 25% increase and decrease in the Top Level Budgets' estimates of realism on delivery of their portfolios.	We discuss realism in paragraphs 1.22 to 1.25. In the 'best case' scenario, the Equipment Plan will be more affordable, but less equipment will have been delivered.
Uncertainty around the feasible level of efficiency delivery	2.4	(0.3)	The Department's worst-case scenario is that the efficiencies deducted from project costs will be achieved, but only half of other reductions will be. The best-case scenario is that all monitored efficiencies are delivered.	We discuss efficiencies in paragraphs 1.26 to 1.31. The Department's central assessment is more optimistic than last year, and limited evidence is available to support this judgement.
Total impact of risks on the forecast cost 2019–2029	**10.1**	**(4.2)**		
Affordability gap after impact of risks	**13.0**	**(1.2)**		

Notes

1 CAAS independently assesses equipment and support project costs on behalf of the Department.

2 The potential change in cost due to foreign exchange movements takes account of the hedging arrangements the Department has in place, which reduce the impact of movements in the first three years of the Plan.

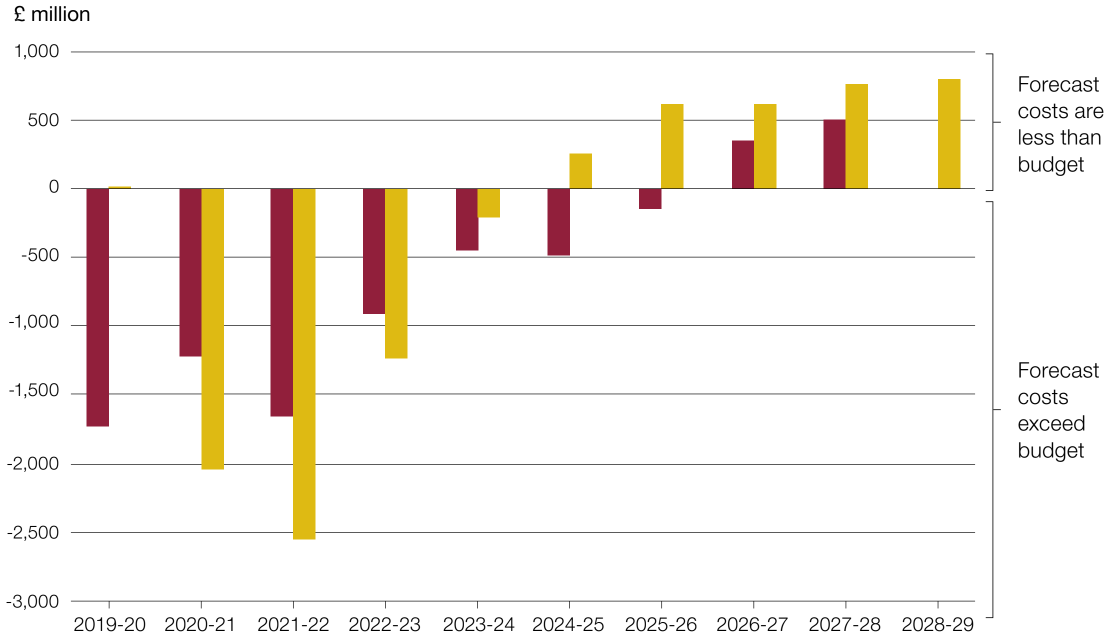
3 Figures may not sum due to rounding.

Source: National Audit Office analysis of Ministry of Defence data

Figure 6

The profile of the Ministry of Defence's annual funding shortfalls on the 2019–2029 Equipment Plan, compared with 2018–2028

The Ministry of Defence forecasts that costs will exceed annual budgets in years two to five of the Equipment Plan



	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Equipment Plan 2018–2028	-1,727	-1,214	-1,651	-901	-445	-482	-141	357	496	–
Equipment Plan 2019–2029	11	-2,044	-2,547	-1,225	-204	260	620	620	768	794

Source: National Audit Office analysis of Ministry of Defence data

Part Two

Producing the Equipment Plan

2.1 This part sets out our review of the Ministry of Defence's (the Department's) approach to producing this year's Equipment Plan (the Plan).

How the Plan is produced

2.2 Responsibilities for producing the Equipment Plan are spread across the Department (**Figure 7** overleaf). The Top Level Budgets (TLBs) and delivery organisations produce the forecast costs that feed into the Plan, compiling around 1,600 cost lines. They set equipment and support requirements for individual projects and manage these to deliver the defence outputs agreed with Head Office.

2.3 The Department's Head Office is seeking to introduce a more evidence-based approach to making cost forecasts and more consistency in the assumptions used by TLBs to make adjustments to the cost forecasts. In May 2019, it issued revised guidance to standardise the TLBs' reporting and requested more detailed management information data to support their judgements. It also created a stakeholder group to promote understanding of the process for compiling the Plan and develop a more consistent, coordinated approach. Head Office also held regular discussions with the TLBs throughout the year to offer informal advice.

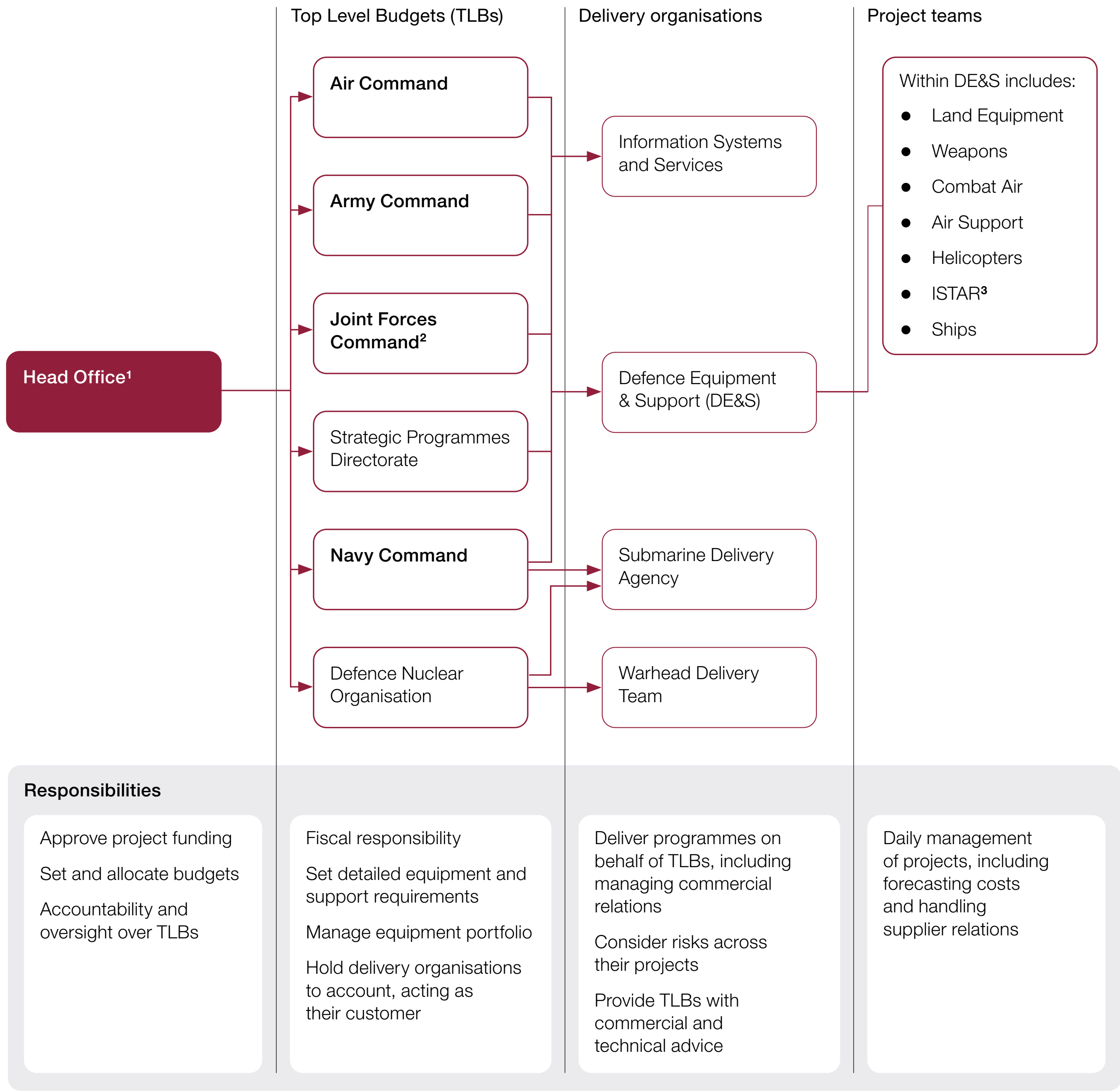
2.4 Head Office uses the information provided by the TLBs and delivery organisations to establish the aggregate departmental position on forecast equipment and support costs. TLBs are responsible for generating accurate data and explaining the assumptions on which they base their forecasts. However, for the 2019 Equipment Plan, Head Office encountered significant problems in reconciling TLB data to produce a consistent cross-department position. In particular, the information provided by the TLBs included:

- inconsistent treatment and categorisation of the costs allocated to the Plan – which required the TLBs to rebalance cost forecasts between the Equipment Plan and their other plans – and mistakes in making these adjustments; and
- inconsistent approaches to estimating efficiency savings and the likelihood of achieving them.

Figure 7

Responsibilities for preparing the Ministry of Defence's Equipment Plan

The Ministry of Defence has delegated Equipment Plan roles and responsibilities



Notes

1 Head Office is the Ministry of Defence's central financial and resource function that oversees the TLBs.

2 Joint Forces Command is now known as Strategic Command.

3 ISTAR is Intelligence, Surveillance, Target Acquisition and Reconnaissance, which links battlefield functions to develop a combined force.

4 Entities in bold text are Front Line Commands.

Source: National Audit Office

2.5 As a result, Head Office requested additional information to understand the TLBs' data and the basis of their assumptions. This showed that the TLBs had adopted different bases for estimating costs, particularly in relation to efficiencies and estimates of realism. Consequently, Head Office had to extend its timetable for producing its report by eight weeks to undertake additional work and complete its quality assurance checks. During this period, the team responsible also faced the additional pressure of preparing for the 2019 Spending Round. We have previously reported that tight Spending Review timetables place heavy demands on spending teams.[11]

2.6 To produce the Plan, the Department's Head Office has to rely on the data provided by TLBs. This involves manual data input and is based on management assumptions on project risks and delivery, and savings. At present, Head Office liaises with the TLBs to understand their approaches, performs checks when it aggregates the cost forecasts and adjustments and, ultimately, asks the TLBs to provide assurance on the accuracy of data provided. Given this approach, we reviewed the Department's approach to quality assurance and its understanding of the controls for verifying its analysis. We found that Head Office has established a quality assurance process which includes detailed checks of the budget and foreign exchange data but relies on the TLBs to assure project costs and efficiencies. It also performs checks on the published financial summary. It has developed an overview of the end-to-end view of the process for producing the Plan. However, this did not assess the risks or adequacy of controls and did not clarify responsibilities for performing checks across the TLBs.

Responding to errors in the 2018–2028 Plan

2.7 In November 2018, following a media enquiry, the Department identified errors in its 2018–2028 Equipment Plan. The initial enquiry related to the Poseidon (P-8A) programme. The Department identified that it had omitted a cost variation in the project cost table and previous year's Equipment Plan. On undertaking further checks, it identified transposition errors in several graphs. None of these errors affected the statement of affordability. The Department made corrections to the cost tables (for both years) and twice republished the 2018–2028 report. The Permanent Secretary also wrote to the Committee of Public Accounts and Defence Select Committee to explain the cause of the errors and its response.

11 Comptroller and Auditor General, *Spending Review 2015*, Session 2016-17, HC 571, National Audit Office, July 2016.

2.8 The Department conducted an investigation into its data reporting processes to establish why controls and oversight had failed. It concluded that the Poseidon error was an isolated incident which resulted from a project team misinterpreting the guidance. It implemented actions to prevent such errors reoccurring, including reissuing guidance to project teams, clarifying responsibilities and introducing monthly data reconciliations between its management information reports. Head Office also strengthened the quality assurance of its published report by validating the supporting analysis. In addition, the Department's Cost Assurance and Analysis Service (CAAS) was mandated to undertake further checks of the consistency of cost figures in the 2019–2029 Plan.

Improving financial skills

2.9 The Department's longer-term ambition is to strengthen its financial capabilities. In July 2018, it launched a five-year financial skills strategy, in line with the cross-government functional leadership agenda. In the first year of implementing the strategy, the Department has designed a new finance operating model and introduced new financial management information.

2.10 The Department is now seeking to improve the capabilities of its finance function by increasing the number of people with professional qualifications from 41% to 60%. As at August 2019, the proportion of qualified finance staff remained at 41%. The Department is running new recruitment campaigns but continues to find it difficult to recruit people with the financial skills it needs. In September 2019, 27 of the 57 new finance functional leadership posts remained vacant. This included 15 of the 16 change manager roles, which are crucial to implementing the new finance operating model and embedding new working practices. The Department spent less than 20% of its finance functional leadership budget in 2018-19 and is forecasting an underspend of 37% in 2019-20.

2.11 In January 2019, the Committee of Public Accounts concluded that the Department lacked the capability to accurately cost programmes in the Equipment Plan. As part of its new strategy, the Department is seeking to strengthen its approach in areas crucial to the preparation of the Plan, such as forecasting costs and managing financial risk. The Department told us that it expects to see improvements in cost forecasting from 2020-21. However, while the Department has started the workstream to improve forecast accuracy, it now expects this to take longer to complete than originally planned.

Presentation of the Plan

2.12 The Department's aim is to communicate more clearly the contribution of the Plan to delivering defence outputs and provide a more transparent assessment of affordability and financial risks. Its 2019–2029 report presents much of the information included in the 2018–2028 report, including an explanation of the underlying assumptions, affordability risks and an indication of the impact on cost forecasts. The Department sets out its approach to assessing the affordability gap between 2019 and 2029, making a number of comparisons with the position in its previous report. It has also provided more detail on its progress in delivering individual projects.

Part Three

Addressing the affordability challenge

3.1 This Part sets out our review of the Ministry of Defence's (the Department's) response to the continuing affordability challenge and the consequences of its approach.

Making strategic decisions on future military capabilities

3.2 The Strategic Defence and Security Review (SDSR) 2015 outlined the government's defence strategy up to 2025, identifying the threats to national security and the capabilities needed to respond. It set out plans for investment in defence equipment and support, adding £12 billion of commitments to develop new equipment. In July 2017, the government reviewed the defence capabilities needed to respond to evolving threats.[12] In our reports on the 2017–2027 and 2018–2028 Equipment Plan (the Plan) we concluded that the Department needed to make decisions to produce an affordable 10-year Plan and provide clarity on its priorities for investment in equipment and support projects. The Committee of Public Accounts has also recommended that the Department produce an affordable Plan as soon as possible.[13]

3.3 In January 2018, the Department announced the Modernising Defence Programme. It aimed to consider how to "deliver better military capability and value for money in a sustainable and affordable way". The Department expected this to address the affordability challenge and meet the Secretary of State for Defence's ambition for a strategically affordable Equipment Plan by the end of 2018. As part of this work, it used multi-criteria decision analysis to help it prioritise potential new capability enhancements.[14] In December 2018, the Department published its review, which focused primarily on modernising how it operates. The publication did not make reference to any programme-related decisions to make the Plan affordable.

12 The National Security and Capability Review was launched in July 2017.
13 Committee of Public Accounts, *Defence Equipment Plan 2018–28*, Seventy-Seventh Report of Session 2017–2019, HC 1519, February 2019.
14 Multi-criteria decision analysis is an approach to looking at complex problems with the goal of providing an overall ordering of options from the most preferred to least preferred as an aid to decision making.

3.4 In November 2018, the Department told the Committee of Public Accounts that it expected to make decisions affecting the affordability of the Plan as part of Spending Review 2019. Its aim was to have an affordable Plan by 2020. The Department prepared for the spending review by assessing priorities for future military capabilities. It conducted an extensive exercise to assess options, again using multi-criteria decision analysis to compare investment in military capabilities against the need to implement its modernisation programme. This analysis built on the analysis carried out in 2018 but was more comprehensive as it sought to assess the relative value of spending on new and existing capabilities. As a result, the Department now has, for the first time, a prioritised list of funding options that will inform future strategic investment and disinvestment decisions. In September 2019, HM Treasury only decided to provide additional funding up to 2020-21.

3.5 This means the Department still does not have an affordable 10-year investment programme some 28 months after it began reviewing the capabilities it needs. The Department will continue to face uncertainties until the next SDSR. This is the next point at which it will be able to make strategic decisions to develop an affordable programme, equipping it to meet the changing demands of modern warfare. The next spending review on defence and security will also provide an opportunity to review its priorities as a Department and allocate resources between the Top Level Budgets (TLBs). Before this point, the TLBs will have to continue to make decisions to ensure they live within their annual budgets, which could include stopping, deferring or de-scoping projects.

3.6 HM Treasury provided the Department with additional funding to offset its financial pressures and to help it fund existing projects and invest in new capabilities:

- In March 2018, it allowed the Department to draw down £600 million from the contingency that was ring-fenced for its Dreadnought programme in 2018-19.
- In November 2018, the Department received an extra £800 million for 2019-20. HM Treasury also allowed the Department to use up to £200 million of projected Dreadnought underspending – to bring forward spending from 2019-20 to 2018-19.
- In September 2019, the Department received additional funding of £1.5 billion across 2019-20 and 2020-21. This included £1 billion of new funding in 2020-21 for existing and new capabilities plus £200 million to support the nuclear deterrent. It was also allowed to bring forward £300 million of expenditure planned for 2020-21 into 2019-20.[15]

The additional funding helped the Department to reduce in-year pressures on the defence budget. However, it has not addressed the funding shortfalls in coming years or over the 10 years of the Equipment Plan.

15 HM Treasury also provided £700 million to fund the increasing cost of pensions. This did not increase the funding available to the Ministry of Defence.

Managing expenditure

Setting and monitoring TLB expenditure

3.7 The Department sets annual budgets for the TLBs based on the Equipment Plan, infrastructure plan and wider TLB plans, which includes the workforce budget. Each year, the TLBs submit their spending plans for the next 10 years, alongside their assessment of capability risks. Head Office assesses the deliverability of the plans and adjusts the TLBs' budgets to achieve a balanced position across its defence commitments and deliver its strategic objectives. Its long-term planning assumption is that defence spending will grow by 0.5% each year, in real terms.

3.8 Head Office planned to reduce the budgets proposed by TLBs for 2019-20 by £908 million, which it believed was "challenging but realistic". It set budgets which are – in aggregate – £269 million (0.7%) more than its overall annual defence budget. Head Office has agreed spending profiles with the TLBs and is confident that it can manage this financial pressure in-year to remain within its budgetary limit. It is seeking to improve the accuracy of cost forecasting and is monitoring TLBs' expenditure more closely to ensure their outturns are in line with their annual plans. Head Office also provided the TLBs with their indicative budgets three months earlier than last year, allowing them more time to plan for the forthcoming financial year. There remains a risk, though, that the TLBs will again have to make project expenditure decisions at short notice to live within their annual budgets.

3.9 Head Office has established new financial controls to restrict the TLBs' ability to contractually commit to spending in later years of the Equipment Plan. This gives the Department the flexibility to reduce Equipment Plan spending to ensure it stays within its overall budget. However, the controls also restrict the delivery organisations' ability to enter into multi-year contracts, undermining the value of the Equipment Plan as a long-term plan. The TLBs told us that the controls would start to cause problems if they were still in place at the end of 2019. The Department has not relaxed the controls as the 2019 Spending Round did not address the funding shortfalls after 2020-21.

Additional cost pressures created by new capabilities

3.10 In November 2018, the then Secretary of State for Defence established a Transformation Fund to support “innovative and transformative ideas for improving capability and fighting capacity”. The Department committed to investing £500 million over three years. To fund this initiative, Head Office reduced the four Front Line Commands’ 2019-20 budgets by £160 million (0.6%), on top of the wider departmental cost pressure (paragraph 3.8).[16] Head Office also reduced their budgets in the following two years, in case it did not receive the additional £340 million in the 2019 Spending Review. The Department’s most senior board questioned the speed at which the Fund was established and whether the TLBs could spend the allocated funding in 2019-20. It also noted that the Fund added further pressure to the Equipment Plan’s budget that was already unaffordable.

3.11 The Department launched the Transformation Fund in December 2018 and gave the TLBs one month to prepare bids. In January 2019, a departmental expert panel assessed the bids and advised that 26 of the 49 project ideas were suitable for the Secretary of State’s consideration.[17] When evaluating the bids, the panel also considered what the projects could achieve in the first year. HM Treasury approved funding within the Department’s existing budget and for 2019-20 only. The Secretary of State approved 15 of these project ideas and three others which the panel believed needed further work before they could be considered. The approved projects are expected to cost £405 million over three years. Nine projects received less funding than the Department’s panel recommended. In most cases, the TLBs had not previously identified these projects as investment priorities.

3.12 The Transformation Fund projects will need additional funding if they are to deliver usable capabilities. For example, the Navy received £5 million to develop an outline business case for the Littoral Strike Ship concept but estimates that it will cost about £600 million to introduce these ships into service. These projects will be taken forward in accordance with the Department’s standard processes for designing and developing new capabilities. They are subject to six-monthly reviews and can be stopped if they do not deliver as intended.

16 These are the Royal Navy, Army, Royal Air Force and Joint Forces Command, which is now known as Strategic Command.
17 The panel included the Chief of Defence Staff, the Permanent Secretary, the Director General Finance and the Deputy Chief of the Defence Staff (Financial and Military Capability).

3.13 The Transformation Fund bidding process was distinct from the routine processes that Head Office and the TLBs follow to assess the capabilities they need to respond to the changing demands of modern warfare. In both 2017-18 and 2018-19, affordability concerns meant that Head Office only permitted the TLBs to start work on a small number of projects, which it agreed were the most critical. For some of these projects, only initial costs were included in the Plan, and further funding is needed to deliver the capability. In some cases, such as the Navy's potential purchase of surface-to-surface missiles, the project is sufficiently advanced to provide an initial cost estimate. However, in other areas, such as the Army's plans to develop its cyber capability or the Royal Air Force's proposal to develop a new satellite capability, the proposals are not yet fully funded or rely on future decisions about the necessary level of capability.

Wider financial pressures

3.14 Financial pressure in other parts of the defence budget affects the amount of funding available for equipment and support projects. For example, we have previously highlighted an £8.5 billion shortfall in the Department's planned spending on its estate over the next 30 years.[18] This means that the TLBs cannot find savings elsewhere to fund equipment projects. The TLBs consider funding priorities across their whole budget and may reduce investment in equipment to invest elsewhere, as illustrated by Air Command's decision to reduce its equipment expenditure to increase investment in its estate, which it assessed as being in poor condition. The size of the Equipment Plan budget also limits the TLBs' flexibility in other areas – the Department plans to spend 42% of its overall budget on equipment procurement and support between 2019-20 and 2028-29.

3.15 The TLBs are becoming increasingly vulnerable to new unexpected cost pressures, particularly as the Department has reduced the contingency that it holds (paragraph 1.10). In recent years, the TLBs have taken on delegated responsibility for managing the estate and, more recently, for budgets such as fuel and consumables. They are now seeking to better understand likely costs over the next 10 years. Policy announcements also create cost pressures. For example, in July 2019 the Department announced a 2.9% pay increase for the Armed Forces. It had to fund this increase from its existing budget allocation and has assessed how to find offsetting savings of £460 million between 2019-20 and 2022-23.

18 Comptroller and Auditor General, *Delivering the defence estate*, Session 2016-17, HC 782, National Audit Office, November 2016.

The consequences of the Department's approach

3.16 The Equipment Plan has now been unaffordable for three years in a row and the financial challenges facing the TLBs are increasing. They have focused on reducing in-year costs by deferring project expenditure into later years and stopping lower priority work. The TLBs have now taken the easier options to reduce spending and the cumulative impacts of short-term financial management are becoming clearer.

3.17 In the absence of strategic, long-term investment decisions on the capabilities that the Armed Forces will need in the future (paragraph 3.5), the TLBs have had to respond to the cumulative short-term financial pressures by making funding decisions on their equipment and support projects. In making these decisions to manage affordability pressures, TLBs are aware of the implications for future capabilities. They have highlighted to Head Office that continuing to make in-year savings measures to live within their annual budgets is increasingly affecting their ability to maintain existing military capabilities, or develop new ones. The consequences include:

- the loss of capabilities, as funding is not included in later years of the Plan;
- a lack of funding to maintain or enhance existing capabilities; and
- reduced spending on support activities – such as replacing a programme of equipment updates with lower levels of maintenance. For example, the Navy de-scoped some maintenance activity to the statutory minimum, rather than the optimum for through-life sustainability. The Royal Air Force believes that inadequate spending on maintaining its surveillance aircraft has limited their availability for operations.

3.18 There are now many examples showing the consequences of the prioritisation decisions that TLBs have had to make to live within their budgets. For example, the Royal Air Force brought forward the date when its E-3 Sentry aircraft will go out of service to December 2022, which is nine months before the replacement aircraft are expected to enter service. It will also reduce the size of the Sentry fleet from six to three aircraft, with effect from January 2020. Air Command's forecast spending also assumes it will reduce costs by £1.9 billion. It has not yet determined how it will do this but accepts that the decisions will have capability consequences. This reduction in its costs is separate from the cost reductions it believes it can deliver as efficiencies (paragraph 1.28). The Army has prioritised investments including a more comprehensive enhancement of its Challenger 2 tanks and has cancelled various anti-armour projects and reduced the number of tanks it will upgrade as a result.

3.19 The Plan's funding profile also means that capabilities which are currently in service will be lost during 2019–2029. For example, the ship *RFA Argus* provides medical and helicopter training facilities but is due to go out of service in 2024. The Navy is also due to lose its mine-hunting capability in the early 2030s. Although the Navy believed that this capability needed to be addressed in the 2019–2029 Plan, it does not include funding to extend or replace this equipment. The Transformation Fund did, however, make up to £31 million available to explore a potential new way of delivering this capability.

3.20 The TLBs highlight that the cumulative effect of in-year saving decisions is leading to the degradation of equipment serviceability and availability. As a result, they have equipment that is in managed decline. There are also examples in which the TLBs have reduced training so that they can maintain operational outputs or have experienced delays in introducing new training equipment.

3.21 Some decisions to defer project expenditure are also reducing value for money. We previously reported that the affordability-driven decision to delay the introduction of remotely piloted aircraft (Protector) increased costs by £160 million. The Department now expects the delay will increase costs by £187 million, plus a further £50 million for the cost of retaining existing, less capable equipment until Protector enters service. Delaying decisions on whether to extend funding can mean the Department is in a weaker negotiating position as it has less time to negotiate contracts with suppliers.

3.22 Budget pressure is also affecting the Department's approach to contract management. Defence Equipment and Support (DE&S) agreed to pay a contractor an additional one-off sum of $8.2 million to delay submitting invoices so that the expenditure would occur in later years, after it had re-profiled the delivery of planes due to affordability pressures in 2017-18 and 2018-19. HM Treasury guidance in Managing Public Money requires that payment terms provide good value.[19] After we asked about the payment, DE&S applied for, and received, retrospective approval from HM Treasury to enter into the deferred payment arrangement. HM Treasury highlighted the importance of achieving value for money on contracts and the need for the Department to consult with them to ensure required approvals are in place.

19 HM Treasury, *Managing Public Money*, September 2019. Annex 4.8.9 provides further guidance and states that "deferred payments are generally not good practice" and normally result in poor value for money.

3.23 Our reports have also highlighted consequences of the affordability pressures. For example, our investigation found that the Department had deferred dismantling submarines on affordability grounds and had not yet disposed of any of the 20 submarines it has decommissioned since 1980.[20] The Department's affordability decisions also had broader impacts:

- Defueling: The Department has not defueled a nuclear submarine since 2004 and now stores nine fuelled submarines. In 2016, it delayed infrastructure upgrades to defer £19 million of spending. This contributed to the Department being unable to complete the facilities needed to start defueling as planned. It is currently negotiating with Babcock to complete the work and the Department expects to pay more than initially forecast for the facilities.
- Dismantling: In 2016-17, the Department delayed submarine dismantling to stay within its available budget. This decision deferred £10 million of expected spending to 2020-21. As a result, the Department has contracted for dismantling boat by boat and stage by stage.

20 Comptroller and Auditor General, *Investigation into submarine defueling and dismantling*, HC 2102, National Audit Office, April 2019.

Appendix One

Our audit approach

1 This study assessed the financial assumptions underlying the Ministry of Defence's (the Department's) 10-year Equipment Plan (the Plan) to buy and support the equipment that the Armed Forces require to meet their objectives as set out in the Strategic Defence and Security Review 2015. We examined the robustness of the assumptions underpinning the Plan and commented on the:

- realism of forecast costs included in the Plan, and the underlying assumptions on which it is based;
- budget-setting process; and
- whether the Plan presents a transparent view of forecast expenditure on equipment and support.

2 Our work tested the assertions underlying the Department's assessment of the Plan's costs and budget. In particular, we considered how the Department adjusted project cost figures – for example, the savings it expects to achieve through efficiencies – to assess affordability. To enable us to conclude on the Department's assessment of the Plan's affordability, we also considered how it had reflected risks in the costs and whether these adjustments were based on evidence-based assumptions.

3 To make judgements on the forecast costs in the 2019–2029 Plan, we also placed assurance on the work of the Department's Cost Assurance and Analysis Service (CAAS), which independently assesses a sample of equipment and support project costs. We reviewed the CAAS function against a framework based on that used to assess the work of internal audit, which we consider analogous. We assessed its processes to address threats to its independence, the adequacy of resources and extent of its work and reporting arrangements. We concluded that we can place reliance on its work.

4 In assessing the Department's transparency in its Equipment Plan, we compared its report against its initial ambitions and expected standards. We reviewed the Department's processes and assumptions for producing the Equipment Plan figures but did not extend this over qualitative statements made by the Department in its report. Neither do we assess the value for money of projects mentioned in the report.

5 This year, we assessed the Department's approach to producing the Plan and managing the ongoing affordability gap. We reviewed Head Office's established arrangements for producing the Plan; coordinated responses from the Top Level Budgets (TLBs); and responded to the errors found in the 2018 report. We also assessed how budgets are set and managed to live within annual budgetary limits. Finally, we collected evidence on the impacts of the affordability gap on the TLBs' ability to develop the capabilities they need in the future.

We summarise our audit approach in **Figure 8** overleaf. We describe our evidence base in Appendix Two.

Figure 8
Our audit approach

The objective of government

To buy and support the equipment that the Armed Forces require to meet their objectives as set out in the National Security Strategy and Strategic Defence and Security Review 2015, and the Ministry of Defence's (the Department's) priorities as set out in the Modernising Defence Programme 2018.

How this will be achieved

The Department's plans for equipment procurement and support over the next 10 years form the Equipment Plan. In 2012, the Department committed to publishing a statement to Parliament on the cost of the Plan. The Plan should include the equipment projects that enable the Armed Forces to meet their objectives, and the forecast costs of these projects should be realistic and affordable within the defence budget.

Our study

This study reviewed the robustness of assumptions underpinning the Department's Equipment Plan to assist Parliament in evaluating the affordability of the Plan, and comments on how effectively the Department has used the Plan as a tool for strategic financial management.

Our evaluative criteria

Costs included in the Plan are realistic, complete and accurate.

The Department's assumptions about funding available for equipment procurement and support over the next 10 years are realistic.

The Department has made reasonable judgements in preparing its assessment of affordability.

The Department's budgeting process facilitates effective strategic management of equipment procurement and support.

Our evidence

(see Appendix Two for details)

We reviewed the Department's Equipment Plan, including the Department's presentation of the overall affordability of the Plan and risks to this.

We assessed the budgeting process, interviewed staff from the Department's Head Office and from the Top Level Budgets, and reviewed associated documents.

We evaluated forecast cost information and adjustments, focusing particularly on material judgments and on costs which changed significantly from the previous year.

We tested a sample of Defence Equipment and Support (DE&S) efficiencies against DE&S's process for recognising efficiencies.

We estimated the impact foreign exchange rate changes since April 2019 have had on the affordability of the Plan.

We drew on our past work on financial management and accountability to inform our views on how the Department is managing the affordability of the Plan, and to evaluate the Department's Finance Functional Leadership plans.

Our conclusions

For the third successive year, the Equipment Plan remains unaffordable. The Department's central estimate of equipment and support costs is lower than last year, but this reflects a restatement of the affordability gap rather than actions to address the funding shortfalls. The Department has still not taken the necessary decisions to establish an affordable long-term investment programme to develop future military capabilities. It has responded to immediate funding pressures by strengthening its management of annual budgets and establishing controls on future expenditure on equipment and support projects. It is also seeking to develop a more realistic assessment of affordability but has not yet addressed inconsistencies in the cost forecasts which support it.

However, the Department has become locked into a cycle of managing its annual budgets to address urgent affordability pressures at the expense of longer-term strategic planning, and is introducing new commitments without fully understanding the impact on the affordability of the Plan. It is not, therefore, using the Equipment Plan as a long-term financial management tool, as it was originally designed to be. The Department's continued short-term decision-making is now leading to higher costs and reduced capabilities. There is evidence that these problems are growing and increasingly affecting the Armed Forces' ability to maintain and enhance their capabilities. As a result, there are increasing risks to value for money from the Department's management of the Equipment Plan.

Appendix Two

Our evidence base

1 We reached our conclusions based on analysis conducted between April and November 2019. Appendix One sets out our audit approach.

2 We drew on findings from our previous reports, particularly on the Equipment Plan (the Plan), to set our findings in context. We did not undertake a detailed review of how the Ministry of Defence (the Department) manages the overall defence budget. More specifically, in considering the funding available for the Plan we:

- interviewed departmental staff about the budget-setting process to understand changes to the process and timetable from previous years. We reviewed the guidance and documentation to support key decisions and interviewed staff at the six Top Level Budgets (TLBs) with Equipment Plan spending to gather views on the budgeting process; and
- reviewed in detail the budgeting information and figures, including the contingency, to see how this reconciled to the previous year. We also reviewed significant changes in light of our broader knowledge and discussions with the TLBs. We reviewed the Plan's budget within the context of the wider defence budget.

3 In examining whether forecast costs within the Plan are realistic we:

- reviewed the detailed forecast cost data that feeds into the Equipment Plan. Cost data comprises around 1,600 lines. We performed checks on the information received, including checking for completeness based on our audit knowledge and reviewing non-project lines for reasonableness. We sought to understand the Department's adjustments and significant movements by gathering additional information from the TLBs;
- gathered explanations for significant movements in forecast costs from both the TLBs and delivery organisations. Our revised approach to gaining assurance over cost figures was based on our discussions with the TLBs and the work of the Department's independent Cost Assurance and Analysis Service (CAAS);
- reviewed the assumptions made in relation to foreign exchange rates to estimate forecast costs in the Plan, including the implications of movements since April 2019;

- interviewed staff at Defence Equipment and Support (DE&S) to understand the process for identifying and managing efficiencies. To gain assurance about the robustness of efficiencies in the 2019–2029 Plan, we analysed a sample of realised and potential efficiencies in more detail. This involved assessing the veracity and completeness of supporting evidence. We then reviewed departmental information to estimate the totality of efficiencies factored into the Plan; and
- CAAS provided us with its view of the accuracy of cost estimates, at project level, based on its own cost estimates of a sample of projects. In 2019, it reviewed projects representing 60% of the value of the Equipment Procurement Plan and 54% of the Equipment Support Plan. CAAS determines which projects it should review following consultations with stakeholders, focusing on projects it considers to be high risk or high value.

4 In assessing the transparency of the Equipment Plan's financial summary we:

- reviewed the Department's published Equipment Plan statement for consistency with the information we collected as part of our audit. We did not, however, seek to audit all disclosures within the Department's statement;
- gathered evidence on the process for collating data for the Project Performance Summary Table part of the Equipment Plan statement and reviewed a sample of records provided by DE&S and of CAAS validation checks; and
- tested what we found against criteria outlined in our assessment of the Equipment Plan 2012–2022, which drew from international assurance standards covering the examination of prospective financial information, and what we have previously outlined as reasonable.

Appendix Three

Progress against the Committee of Public Accounts' recommendations on the Equipment Plan 2018–2028

Figure 9

Assessment of the Ministry of Defence's (the Department's) response to the Committee of Public Accounts' recommendations[1]

Committee of Public Accounts recommendation	National Audit Office assessment of progress	
As soon as possible, government must produce an affordable Equipment Plan by: • Providing clarity on its priorities and the subsequent decisions made to stop, delay, and scale back areas of the defence programme to make the Equipment Plan affordable.	Limited	The Department is yet to make strategic decisions to stop, delay or scale back its equipment programme, balancing affordability and ambition. It has, however, carried out a thorough prioritisation exercise in preparation for Spending Round 2019 – which it can use to inform future prioritisation decisions.
• Clarifying what it considers to be a prudent level of over-programming across the 10 years and why.	Limited	The Department revised its approach to assessing realism. However, it has not assessed whether reductions after 2023-24 are appropriate nor explained its assessment in its Equipment Plan report.
The Department should report back to us by July 2019 on how it has engaged with industry, and whether the Department and industry are signed up to a coherent plan to maintain the UK-based capability to develop and deliver the equipment required in the future.	Good	In April 2019, the Department launched a new industrial strategy setting out how government and industry can work together in the defence sector. It has also reorganised the Defence Suppliers Forum and established Strategic Partnering Managers for nine suppliers.
The Department should report back on how it is working with industry to purchase off-the-shelf equipment rather than pursue unnecessarily complex kit, to maximise value and drive the transformation agenda.	Some	The Department wrote to the Committee in July 2019. It outlined a transformation programme with three core themes: building a more capable Head Office; driving pace and agility into the way it acquires equipment; and ensuring it has the right people and information in place.
By July 2019, and each year after, the Department should provide the Committee with a progress report on the development of financial skills and performance against the metrics that the Department will be using to measure success.	Some	The Department wrote to the Committee in August 2019. It set targets to assess its progress in improving forecasting accuracy and financial skills over the next five years. This includes increasing the proportion of staff with a professional finance qualification from 41% to 60%.
In compiling its Equipment Plan 2019 position, the Department must ensure that it only includes efficiencies that it can realistically expect to deliver.	None	The Department deducted £4.7 billion of potential efficiencies it expects to occur, more than twice as much as the £2.2 billion deducted in last year's Equipment Plan.
The Department's future Equipment Plans should include more information on the cost, maturity and risks of the largest projects (including the F-35 and Type 31e frigate), as well as being more transparent about its costing approach.	Limited	This year, the Department included more commentary on its largest projects in the Plan. However, there is limited information about where it considers there are particular areas of risk, or of how mature the projects are.

Figure 9 *continued*

Assessment of the Ministry of Defence's (the Department's) response to the Committee of Public Accounts' recommendations[1]

Committee of Public Accounts recommendation	National Audit Office assessment of progress	
The Department should use the Spending Review 2019 as an opportunity to explore longer-term budgeting arrangements in certain areas such as nuclear programmes and shipbuilding maintenance and improvements planning.	Not applicable	HM Treasury elected to carry out a more limited Spending Round in 2019. It did not give the Department a multi-year settlement.
The Department should report back to the Committee on how the extra funding settlement for nuclear and anti-submarine warfare in October 2018 was allocated and spent.	Some	The Department wrote to the Committee in July 2019 to explain how it had allocated additional funding. Since the 2019-20 financial year has not ended, it has not reported on how it was spent.
We expect the Department to report to the Committee on substantial progress within 12 months.	None	The Department has not made programme-related spending decisions. Its report does not explain how it has improved its management of the Equipment Plan, and we found that it had to make substantial year-end adjustments to produce aggregated cost forecasts.

Notes

1 HC Committee of Public Accounts, *Defence Equipment Plan 2018–2028*, Seventy-Seventh Report of Session 2017–2019, HC 1519, February 2019.

2 The assessment reflects our view of the Department's progress in implementing our recommendations, with: 'Limited' reflecting where little progress has been made; 'Some' where progress has been made, but improvements are still needed; and 'Good' where the recommendation has been implemented.

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