

Fifty-Second Report of Session 2021-22

Ministry of Defence

Ministry of Defence Equipment Plan 2021–31

Introduction from the Committee

Each year since 2013 the Ministry of Defence (the Department) has published its Equipment Plan (the Plan), setting out its intended investment in equipment for the following 10 years, and assessing whether this investment is affordable given its budget. This year the Department has allocated a budget of £238 billion to its 2021–31 Plan, which represents a 25 per cent (£48 billion) increase on last year's Plan. This follows the Spending Review 2020's announcement that the Department would receive £16.5 billion budget increase over four years to 2024–25 above its standard annual increase.

The Department has decided to disinvest, scale back and defer spending on various equipment types, as well as to invest in a number of new priorities and to address previous funding shortfalls. As a result, it has announced that its 2021–31 Plan marks a step change in future defence capability, and also is affordable for the first time in four years, with headroom of £4.3 billion of budget over cost.

NAO assessments of the Plan over many years have shown that the Department has been over-optimistic in its assumptions and has consistently found it difficult to strike the right balance between increasing equipment capability and living within its means. In reporting on the risks to affordability, the NAO has highlighted how the Department's decisions to cut budgets in the short term have adversely affected equipment capability and value for money.

The Russian invasion of Ukraine is a reminder of the risks and responsibilities of the UK's membership of NATO and puts a sharp focus on both the Plan's ambitions and the extent to which the Department has addressed its previous shortcomings. There is renewed importance that the Department has the right priorities in delivering capability, and that it manages its expenditure effectively to ensure the Armed Forces can secure all the equipment that they need in the quickest possible time.

Based on a report by the National Audit Office, the Committee took evidence on 28 February 2022 from the Ministry of Defence. The Committee published its report on 11 May 2022. This is the government's response to the Committee's report.

Relevant reports

- NAO report: [The Equipment Plan 2021-2031](#) Session 2021-22 (HC 1105)
- PAC report: [Ministry of Defence Equipment Plan 2021-31](#) – Session 2021-22 (HC 1164)
- [Defence Equipment Plan 2021-2031](#) – 21 February 2022

Government response to the Committee

1: PAC conclusion: The invasion of Ukraine highlights rapid technological advances by other potential adversaries beg serious questions about the pace, scope and ambition of the Department's equipment plan.

1: PAC recommendation: The next Equipment Plan should include an additional section explaining the specific changes the Department has made to reflect developments since it last reported (including changes in international relations and emerging technologies).

1.1 The department agrees with the Committee's recommendation.

Target implementation date: Autumn 2022

1.2 The Ministry of Defence (the department) recognises the potential impact the conflict in Ukraine has had for future thinking on equipment spending and procurement and this is being examined. The department remains confident that the [Equipment Plan 2021-2031](#) (EP21) retains relevance despite emerging and unpredicted threats and was produced in line with aims and priorities outlined in the Integrated Review.

1.3 The Equipment Plan has to balance competing priorities, but, it is the department's view that the [EP21](#) successfully addressed and rectified a previous deficit, whilst ensuring increased investment in new capabilities and research or development. The Plan therefore balances short term need and long term aims to ensure it remains resilient to emerging threats.

1.4 Future Equipment Plans will include an additional section explaining changes made and planned to address emerging developments.

2: PAC conclusion: The Department appears complacent about the affordability of its Plan and still does not yet have robust arrangements in place to control the cost of its largest programmes.

2a: PAC recommendation: The Department should write to the Committee within the next three months to detail the current cost of the Dreadnought, Replacement Warhead and FCAS programmes and set out how it intends to control the costs of these programmes in future.

2.1 The government disagrees with the Committee's recommendation.

2.2 The department is committed to transparency, and already publishes information about the cost of the Dreadnought programme in its annual update to Parliament on the UK's future nuclear deterrent, in the Equipment Plan and in Major Projects Portfolio data. Whilst it is too early to provide cost estimates for the Replacement Warhead programme, the department is working with HM Treasury on cost estimates and funding arrangements for the programme. Subject to security considerations, cost information will then be included in these publications.

2.3 The Future Combat Air System Concept and Assessment phase involving government and industry concludes in 2024. It will provide the evidence and a degree of maturity of the programme specification, schedule, and associated costs. The department is also separately engaging with international partners on cost share and industrial benefits, which will also contribute toward the UK's affordability position. Further detail will be shared as appropriate in future Equipment Plans and Major Projects Portfolio data.

2b: PAC recommendation: We recommend that there should be a clearly defined purpose for the Dreadnought contingency and any proposals for a warhead contingency, and that Government should have a robust arrangement in place, including conditions which would have to be met, before HM Treasury would consider providing any additional funds from the contingency. The Department should write to the Committee within the next three months outlining the proposed lines for governance and the timetable in which they will be agreed.

2.4 The government agrees with the Committee's recommendation.

Target implementation date: Spring 2023

2.5 The purpose of the Dreadnought contingency is clearly defined. It was established in recognition of the difficulties in accurately forecasting the costs of such complex programmes. It allows for changes in the spending profile or total funding without resorting to spending cuts in the wider Defence programme, so that the Dreadnought programme, critical to the department's continued national security, can be delivered on schedule.

2.6 The department's access to Dreadnought contingency funding to date has been negotiated with HM Treasury and each request for contingency funding is subject to HM Treasury scrutiny and approval.

2.7 Discussions are already underway between the department and HM Treasury to agree the future governance of the Dreadnought contingency. As the holder of that contingency, HM Treasury will write to the Committee in due course.

2.8 Work is also underway between the department and HM Treasury on funding arrangements for the Replacement Warhead programme. Current assumption is that any contingency that may be agreed for that programme would be separate from the Dreadnought contingency.

3: PAC conclusion: The Plan's affordability relies on the Department achieving a number of different types of savings, including £7 billion of 'cost reductions' by 2031.

3: PAC recommendation: The Department should urgently set TLBs targets to develop and implement concrete plans to achieve the cost reductions allocated to them in the Plan.

3.1 The government agrees with the Committee's recommendation.

Recommendation implemented

3.2 This recommendation has been implemented and TLBs have targets and plans to achieve these savings.

3.3 As outlined in the [Equipment Plan 2021-2031 \(EP21\)](#), the department's top level budget holders (TLBs) have planned £7 billion of cost reductions over ten years. The department closely monitors and scrutinises Top Level Budget (TLB) planned cost reductions in the annual budget cycle. If there are concerns about the deliverability of these savings the department would work with TLBs to identify remedial action.

3.4 As explained in [EP21](#), the department considers that the savings are achievable. This was demonstrated in financial year 2020-21 when the department held spending to within budget without the need for a centrally directed savings exercise.

3.5 Further information on TLB cost reductions will be included in the upcoming Equipment Plan 2022 due to be published in Autumn 2022.

4: PAC conclusion: Likely additional costs in other areas of departmental spending, such as on its workforce and sizeable estate, may squeeze the Plan's budget in future years, further threatening its affordability.

4: PAC recommendation: The next Equipment Plan report must clearly set out the quantified realistic affordability risk to it posed by the Department's plans for its other areas of spending.

4.1 The government agrees with the Committee's recommendation.

Target implementation date: Autumn 2022

4.2 The department recognises the importance of managing risks to affordability, particularly from challenges in areas such as workforce and estates.

4.3 The [EP21](#) set out an affordable plan for 2021-2031, providing detail of levers in place to protect against the risk of overspend and unaffordability. The 2020 Spending Review uplift, alongside savings measures, enabled the department to address a pre-existing deficit whilst also holding contingency to mitigate against unforeseen risks.

4.4 A major focus of the EP22 will be the affordability picture for 2022-32, how the department is ensuring a sustainable plan and the reliability of data and assumptions behind this. The department will describe the range of risk factors, whilst setting out how it plans to address these to maintain an affordable Plan.

4.5 However, the scope of the Plan and associated report will remain focused on equipment procurement and support, not on defence spending as a whole.

5: PAC conclusion: The Department remains a long way short of having the finance skills it needs to manage the Plan effectively.

5: PAC recommendation: The Department should accelerate its efforts to increase its financial skills by making a career in finance more attractive and making qualifying easier. It should aim to be in the top quartile of financial capability within government departments within 3 years and set out a credible plan to achieve this.

5.1 The government agrees with the Committee's recommendation.

Target implementation date: Autumn 2023

5.2 The department is committed to improving financial professionalism recognising that this is vital to improving financial outcomes. It takes time to train personnel and the department works with the professional bodies and academic providers to tailor programmes to individual's needs, recognising the diverse needs of the profession. The department is committed to supporting professional development with over 500 personnel studying a professional qualification. With around 200 finance apprentices, the department is committed to providing a balance between gaining the professional qualification and relevant work experience.

5.3 The department is fully committed to the Government Finance Function (GFF) ambition of ensuring at least 60% of the finance profession are qualified and is working to be in the top quartile in both capability and broader departmental performance. The department progresses on the right trajectory achieving substantive assurance for the finance function in 2021-22 and improved positioning on In-Year forecasting performance.

5.4 The department continues to develop a range of interventions to improve workforce retention and enable effective and efficient study. These include embedding the Government Finance Function Career Framework, developing associated career and learning pathways with standardised role templates clearly articulating the level of qualification required at each level and supporting lateral moves across the Function to meet development needs. Attraction interventions will be developed as part of the employee value proposition.

5.5 The department has launched a mentoring scheme to support personal development and continues to strengthen its financial capabilities more broadly through mandatory training, key topic webinars and training to improve general business skills.

6: PAC conclusion: The Department has made little impact in its efforts to change its longstanding cultural resistance to change or criticism, which has for many years hindered a clear-eyed view of its equipment procurement performance.

6: PAC recommendation: Within three months the Department should set out when and how it is going to implement the outstanding NAO and PAC Equipment Plan recommendations made in their reports since 2015. At the same time, it should write to the Committee on how it intends to change the culture within equipment procurement and support to make it more open and realistic about performance.

6.1 The government agrees with the Committee's recommendation.

Target implementation date: Autumn 2022

6.2 The department monitors progress of National Audit Office's (NAO's) Value for Money recommendations including Equipment Plan report recommendations. The status of the recommendations is reviewed annually. A summary of progress made on NAO and PAC recommendations is provided to the department's Audit Assurance and Risk Committee (DARAC) on a quarterly basis. The department [provided an update on the Equipment Plan PAC recommendations through refreshed Treasury Minutes](#), published on 9 June 2022. One recommendation remains in progress under the Defence Equipment Plan 2020.

6.3 The department's Acquisition Reform agenda includes work to promote critical acquisition behaviours and culture. This includes a 'one team' approach encouraging greater transparency on performance across organisational boundaries; applying judgement to tailor approaches based on 'appropriate risk' in support of timely evidence-based decisions; and embedding a 'learning culture'.

6.4 Significant progress has been made in the use of management information, with data dashboards providing a single version of the truth being shared widely.

6.5 The department is forging closer links with industry through the Supplier Partnering Programme, to improve schedule alignment, risk and dependency management and management information sharing.

6.6 Further detail of progress with the recommendations and how this translates to changes to the plan will be provided as requested in the Autumn.