

Tenth Report of Session 2019-2021

Ministry of Defence

Defence capability and Equipment Plan

Introduction from the Committee

The Department's Equipment Plan report 2019 to 2029 (the Plan) sets out its spending plans for the next 10 years on projects to equip the Armed Forces. This currently amounts to £181 billion of equipment and support projects (42% of its entire budget). The Plan also assesses whether its equipment and support projects and programmes are affordable. The Department needs to manage this expenditure effectively to ensure the Armed Forces can secure and maintain all the equipment that they need. It introduced the Equipment Plan in 2012 after identifying a significant gap between funding and forecast costs across the defence programme.

Equipment delivered through the Plan is key to meeting the Department's strategic requirements and objectives. In order to fully deliver the capability, it also needs sufficient trained personnel, information technology, and logistics and maintenance support. The Department estimates that around 20,000 civilians and military personnel within the Department are involved in delivering such capabilities. The Department has historically struggled to deliver new or replacement capabilities on schedule and in a fully functioning state.

Based on a report by the National Audit Office, the Committee took evidence, on 28 May 2020 from the Ministry of Defence. The Committee published its report on 15 July 2020. This is the Government response to the Committee's report.

Relevant reports

- NAO report: [Defence Capabilities - delivering what was promised](#) Session 2019-21 (HC 106)
- NAO report: [The Equipment Plan 2019 to 2029](#) Session 2019-20 (HC 111)
- PAC report: [Defence capability and Equipment Plan](#) – Session 2017-21 (HC 247)

Government responses to the Committee

1: PAC conclusion: *The government has still not taken the strategic decisions required to establish an affordable Equipment Plan and deliver the crucial military capabilities needed by our Armed Forces.*

1a: PAC recommendation: *The Department must demonstrate financial prudence by developing the next Equipment Plan with affordability and long-term sustainability at its core. The Department should write to the Committee within one month of the publication of the next Equipment Plan to explain what it has done differently in order to reduce the Plan's affordability gap.*

1.1 The Government disagrees with the Committee's recommendation.

1.2 The department fully agrees on reducing the Plan's affordability gap and delivering long-term sustainability. However, the department disagrees with the Committee's recommendation as it will need to complete the Comprehensive Spending Review (CSR) and Integrated Review before reducing the Plan's affordability gap. It is therefore not possible to do this with the publication of the next plan – Equipment Plan 2020 (due October 2020) and not before the outcomes of the reviews have been reflected and agreed in the financial plans. With the publication of both reviews planned for later this year - the department's plan for affordability and long-term sustainability will be provided in the subsequent Equipment Plan, after the implementation of those reviews.

1.3 The years beyond 2020-21 remain challenging for the department to maintain affordability while

delivering policy ambition. The controls on financial commitments will be maintained to ensure that the department remains able to deliver within its spending planning assumption, while retaining freedom of choice for the CSR and Integrated Review.

1.4 The CSR and Integrated Review will present an opportunity to address the funding challenges facing the department over the following three years, allowing it to make the capability choices and investment decisions needed to respond to the diversifying and intensifying threat set out in the Modernising Defence Programme. The long-term financial challenges within the Plan will remain until the outcomes of the reviews are implemented. The department will continue to work with Treasury to ensure that the department is adequately funded as it did with the 2019 Spending Round settlement.

1b: PAC recommendation: *The government's promised Integrated Review must balance ambitions for future military capabilities with an affordable long-term investment programme. Given the Review has been delayed, in the interim, the government should provide as much certainty as possible on as many defence programmes as possible.*

1.5 The Government agrees with the Committee's recommendation.

Target implementation date: Winter 2020

1.6 The department will work to ensure that it has a long-term financial settlement consistent with ambition through the multi-year CSR. The Integrated Review will be closely aligned to the CSR which will report later this year, although implementation of its recommendations will be a multi-year project.

1.7 The Integrated Review will define the UK Government's ambition for the UK's role in the world and the long-term strategic aims for national security and foreign policy – setting out the way in which the UK will be a problem-solving and burden-sharing nation. The Integrated Review is underpinned by existing commitments to continue to exceed the NATO target of spending 2% of GDP on defence, to commit 0.7% of GNI to international development and to maintain the nuclear deterrent. The department is fully committed to its part in supporting the successful delivery of the government's ambition for the Integrated Review.

1.8 Equipment Plan 2019 set out the department's equipment procurement priorities, pending the Integrated Review, and progress continues apace on major acquisition programmes. For example, in July, the first six ARES Armoured Vehicles have been delivered to the Army under the AJAX Armoured Vehicle programme. The Strategic Facility that will house the Poseidon MRA Mk1 fleet has been handed over to the department, and steel has been cut on the final unit of HMS Glasgow, meaning all sections of the first Type 26 frigate are now under construction.

2: PAC conclusion: *The Department's focus on managing financial pressures on an annual basis creates bigger problems for future years as the budgetary imbalance grows, and slows the development of military capabilities.*

2: PAC recommendation: *In line with the Commission's recent recommendation on nuclear infrastructure programmes, we urge the Department and HM Treasury to consider greater flexibility to manage strategic programmes on a multi-year basis. Such an approach should be introduced cautiously, with the Department demonstrating why it should be trusted. Together they should report to the Commission by 31 December 2020 on the progress of discussions to this end.*

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2020

2.2 As part of the Spending Review and Integrated Review, discussions are underway between the department and HM Treasury (HMT) to review the nuclear funding model. Details on this will be shared once discussions have concluded. As recommended, the department will look to see how this could be explored more broadly.

3: PAC conclusion: *The Department's ways of working have not helped it to deliver capabilities effectively, and its ambitions for the reform of capability delivery will be undermined if it does not change an internal culture that focuses on milestones and cost constraints but appears not to prioritise progress towards delivery against those two measures.*

3: PAC recommendation: *The Department should decide how it is going to measure and demonstrate progress in transforming capability in a way that optimises delivery of results without undermining budgetary controls. It should report to the Committee on measures taken to combat poor practice in programme reporting and delivery by 31 December 2020.*

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2020

3.2 The department continually seeks to improve procurement and delivery of the capability needed by the Armed Forces. As part of the Modernising Defence Programme, an internal review of the department's end-to-end acquisition system was undertaken. This considered what changes were required to enable better delivery, and drive pace and agility so that the department is better able to exploit evolving technology.

3.3 The Acquisition and Approvals Transformation Portfolio is taking forward issues identified by the recent Acquisition Review, as well as embedding changes to the department's approach to investment decision making. It will include greater transparency, including up front agreement of the specific acquisition and approvals route and information requirements for each new programme.

3.4 As part of Project Speed, the department is continuing work to improve governance of major projects and expedite delivery. Defence expects to use this initiative to drive improvements across capability, transformation and infrastructure projects. The department will increase the number of Defence related Major Projects on the government's Major Projects and Portfolio list, providing suitable oversight from HMT and Cabinet Office to a larger number of Defence projects. The Infrastructure and Projects Authority's gateway review process will be applied to a larger number of programmes, bringing external support and challenge to project planning and reporting. HM Treasury will ensure assurance recommendations are completed before releasing additional funding.

3.5 The Integrated Review is an important opportunity to consider the department's approach to procurement. The department will write to the Committee by 31 December 2020 to provide an update.

4: PAC conclusion: *The impact of COVID-19 will increase the widespread delays to deliveries of equipment and weaken the resilience of key suppliers.*

4: PAC recommendation: *The defence and security industrial strategy offers the Department an opportunity to reset the relationship with its key suppliers. In return for commitments to support the defence industry as part of this strategy, it should set out its expectations of how the industry will improve its performance to address the endemic delivery and quality issues that afflict the sector. The Department should write to the Committee by 31 December 2020 on what steps it has taken to enhance contractor performance.*

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2020

4.2 The review of the UK's defence and security industrial sectors is considering how the department can ensure the UK continues to have competitive, innovative and world-class defence and security industries that drive investment and prosperity across the Union, that underpin national security now and in the future. This includes the broader relationship and contracts with industry. This review will inform the Integrated Review, and as such no final decisions have been taken on this work.

4.3 Alongside this review, the department has over the past 18 months introduced the new Strategic Partnering Programme (SPP), which covers 19 Strategic suppliers and accounts for over 50% of annual procurement spend. The SPP is developing genuinely collaborative relationships focusing on delivering continuous performance improvement through evidence-based joint workstream activity. As it matures, the SPP process will allow us to continually assess the quality of service delivered by the Strategic Suppliers, adopting regular 360-degree assessments of project delivery and the development of structured performance improvement plans where the service drops below the required levels.

4.4 The department will write to the Committee by 31 December 2020 to update on steps to enhance contractor performance.

5: PAC conclusion: The Department is full of good intentions as to how it will transform capability delivery, but it is unclear how it will know if this has happened.

5: PAC recommendation: The Department should set out clear metrics indicating what progress it expects to have made, and by when, against its objectives of improving the effectiveness of the reformed procurement process. It should report to the Committee on this by 31 December 2020.

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2020

5.2 The department acknowledges the challenge of measures of effectiveness and metrics for reforming the procurement process. During the hearing, the Committee and the department explored the drive in the Acquisition transformation portfolio towards improving time taken in procurement as a key measure. The Portfolio has commissioned work which will start in September 2020 to establish the "time" baseline across acquisition. Once achieved, this will enable the department to understand the cumulative impact of multiple measures being taken across the department to improve time in Acquisition, including the cultural changes envisioned which are generally harder to measure.

5.3 [The NAO report on Defence Capabilities](#) recognised that there has been an improvement in this over the last ten years and in developing a Portfolio approach across Defence. While progress has been made on these measures, the department will write to the Committee by 31 December to provide further details on additional progress.

6: PAC conclusion: The Department has not yet established a stable basis for assessing the Equipment Plan affordability gap or a realistic approach to delivering efficiency savings.

6: PAC recommendation: The Department should write to the Committee as soon as possible setting out its approach—agreed with the NAO—for reporting on the Equipment Plan 2020–2030. It should also provide details of a stable methodology for assessing the affordability gap, and its plans for measuring efficiency savings realistically and improving financial capabilities as soon as possible. In due course, the Department should write to the Committee on the impact of the Integrated Review.

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: October 2020

6.2 The Department [wrote to the Chair of the Committee](#) on 3 July 2020 to confirm that it agreed with the NAO that it will provide a summary of the Equipment Plan funding position for 2020-2030 and supporting data no later than October 2020. The department will also provide a brief update on work to improve financial management and an update on efficiencies in detail comparable to 2019. The department expect to demonstrate continued progress improving the robustness of forecasting and management of efficiencies and will present an analysis of affordability on a consistent basis to last year.

6.3 The publication of the Annual Report and Accounts for 2019-20 (also to be published in late October) will contain an update on the financial management improvements as agreed with the Committee last summer.

6.4 Managing these ambitious, complex programmes can be challenging, but the department has already achieved £7.5 billion of efficiency savings and last year secured an extra £2.2 billion for defence as part of the 2019 Spending Round. The department is embedding an improved approach to identifying and developing efficiencies through its Transformation programme, which will allow greater insight into the risks and maturity of efficiencies, including those within the Equipment Plan.

6.5 The department will write to the Committee on the impact of the Integrated Review in due course.