Fiftieth Report of Session 2019-21

Ministry of Defence

Defence Equipment Plan 2020 – 2030

Introduction from the Committee

The Department's 2020–2030 Equipment Plan (the Plan) sets out its spending plans for the next 10 years on projects to equip the Armed Forces. It shows that the Department has allocated a budget of £190 billion to equipment and support projects, 41% of its entire forecast budget. The Plan assesses whether its equipment and support projects 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. The Department must also retain a level of flexibility to develop new high-priority capabilities and replace some existing capabilities as they go out of service.

The Department first published its Equipment Plan in 2013. Under the Department's delegated model, managing projects is the responsibility of the Front-Line Commands (Navy, Army, Air and Strategic Command), the Defence Nuclear Organisation and the Strategic Programmes Directorate. These organisations are known as Top-Level Budgets (TLBs) and are required to deliver their agreed defence outcomes within delegated budgets. The Department's Head Office aggregates the information provided by the TLBs to establish the departmental position on the affordability of the Equipment Plan.

Based on a report by the National Audit Office, the Committee took evidence, on 4 February 2021 from the Ministry of Defence. The Committee published its report on 16 March 2021. This is the Government response to the Committee's report.

Relevant reports

- NAO report*:* *The Equipment Plan 2020 to 2030* Session 2019-2021 (HC 1037)
- PAC report: *Defence Equipment Plan 2020 - 2030* (HC 693) Session 2019 -21 (HC 693)
- *Global Britain in a Competitive Age: the Integrated Review, Security, Defence, Development and Foreign Policy* – 16 March 2021
- *Defence in a Competitive Age*' – 22 March 2021
- *Defence and Security Industrial Strategy* – 23 March 2021

Government response to the Committee

1: PAC conclusion: ***It is very disappointing that the Department's latest Equipment Plan is unaffordable for the fourth year in a row.***

1: PAC recommendation***: In its next Equipment Plan report, the Department must demonstrate that its Plan is affordable and has the resilience to absorb financial pressures—like cost inflation—and respond to changing capability needs.***

1.1 The government agrees with the Committee's recommendation.

Target implementation date: Autumn 2021

1.2 On 19 November 2020, the Prime Minister announced an increase in defence spending which will mean £188 billion will be spent on defence over the following four years – an increase of £24 billion or 14%. This settlement was confirmed in the 2020 Spending Review and will allow the department to deliver the ambition of the Integrated Review and Defence Command Paper published in March 2021 (above).

1.3 This additional funding will allow the Ministry of Defence (the MOD or the department) to reset the balance between ambition and resources, but an affordable plan is not the result of additional funding alone. The department is taking difficult decisions to retire older capabilities and to bear down on operating costs to create the headroom needed for modernisation and investment. In addition, the department is continuing to improve its financial management.

1.4 In the next Equipment Plan report (publication Autumn 2021), the implications of the 2020 Spending Review settlement and the Integrated Review will be set out and the department will demonstrate how this has improved the affordability of the Equipment Plan.

2: PAC conclusion: *Because of the repeated delays to the publication of the Integrated Review of Security, Defence, Development and Foreign Policy, the Department was not able to provide details of how it proposes to use the £16.5 billion additional defence funding, or what capabilities it will cut to develop a balanced investment programme.*

2: PAC recommendation*: Within three months of the Integrated Review being published, the Department should provide full transparency on its allocation of the additional funding, including: full details of disinvestment decisions; how the funding has been used to address existing shortfalls; and the investment in new capabilities.*

2.1 The government agrees with the Committee’s recommendation.

Target implementation date: June 2021

2.2 Following the publication of the *Integrated Review* on 16 March 2021, the MOD published a summary of key spending and investment decisions in the Defence Command Paper, ‘*Defence in a Competitive Age*’ on 22 March 2021.

2.3 The department will write to the Committee before summer recess with a summary of the investment and savings decisions the department has taken. The department will work with the NAO over the summer to allow them to review Defence’s Equipment Plan and will publish the annual Equipment Plan in Autumn 2021 alongside the NAO’s report.

3: PAC conclusion: *The Department’s failure to break the cycle of short-term financial management is preventing it from developing essential military capabilities in ways that achieve value for money and is restricting its ability to respond to new opportunities or threats*.

3: PAC recommendation: *After the Department has translated the decisions in the Integrated Review into a balanced investment programme, it should write to the Committee setting out the key principles of how it will make future investment decisions and manage its equipment budget to achieve value for money.*

3.1 The government agrees with the Committee’s recommendation.

Target implementation date: Autumn 2021

3.2 Alongside the Equipment Plan 2021, the department will write to the Committee, outlining the key principles that will guide future investment decisions and steps the department is taking to ensure that the equipment plan remains affordable and delivers value for money.

3.3 Since the Committee's report, the department published the Defence Command Paper which sets out new policy aims and the capability decisions that were underpinned by the additional £16.5 billion investment from the 2020 Spending Review. The department has taken a balanced approach, with an appropriate level of risk and contingency, investing in the current programme and new capabilities such as space, research and development (R&D) and the Future Combat Air System (FCAS). In doing so, the department has demonstrated that it has the mechanisms in place to deliver a coherent programme and to fund modernisation will disinvest in capabilities such as in the case of Warrior Capability Sustainability Programme (CSP).

3.4 Alongside this firmer financial footing, the department is already strengthening the approach to managing the defence portfolio whilst ensuring agility to respond to future threats and opportunities. The department's approach will build on the current acquisition and approval transformation programme (AATP) and new policy framework outlined in the *Defence and Security Industrial Strategy* published in March 2021 to ensure future investment decisions deliver long-term value for money. The department will provide further details alongside the Equipment Plan 2021.

4: PAC conclusion*: The Defence equipment programme is routinely jeopardised by factors that drive inflation in defence projects.*

4: PAC recommendation: *The Department should undertake a comprehensive study to better understand the drivers of defence costs inflation. This should not merely be a statistical exercise but should look at attitudes and behaviours within the defence acquisition system, and how commercial realities and competition with other nations drive up costs. It should report the results to the Committee.*

4.1 The government agrees with the Committee's recommendation.

Target implementation date: Autumn 2021

4.2 The department will write to the Committee alongside the department's annual Equipment Plan report which will be published in Autumn 2021.

4.3 Understanding defence cost inflation is critical to enabling the department to make realistic and affordable plans. Defence's economics and statistics teams routinely review evidence on Defence inflation.

4.4 The department is committed to changing attitudes and behaviours within the Defence acquisition system. The department has already upgraded our investment decision-making approach and its work on acquisition culture and behaviours focuses on setting programmes up for success from the outset. This encourages early consideration of the strategic factors that affect programme risk and complexity and could drive up costs. This work will continue as part of wider acquisition and approvals transformation.

4.5 In addition, the Defence and Security Industrial Strategy (DSIS) will inform and shape ongoing work to take a more strategic approach towards UK defence and security industries.

5: PAC conclusion: *The Department has not established a reliable and sophisticated approach to estimating the cost of its future equipment programme, including setting realistic efficiency savings.*

5: PAC recommendation: *The Department should strengthen its approach to assessing risk in long-term projects, liaising with other government departments to establish and draw on best practice. In the next Equipment Plan report, it should explain the improvements made and set out how it has tested confidence in its ability to deliver planned efficiency savings, including those for 2021–22.*

5.1 The government agrees with the Committee's recommendation.

Target implementation date: Autumn 2021

5.2 The next Equipment Plan report will explain the improvements made to assess risk in long-term projects and detail on the department's planned efficiency savings.

5.3 As part of the work to strengthen the approach to assessing risk across the portfolio, the department has established a programme board to review how the department records risk in its financial forecasts to inform and support financial decision-making and control. The programme board has made several improvements, most notably the creation of centralised guidance on the methodologies for calculating risk costings and appropriate use. Supporting tools have also been made available to the project delivery community, which have purposefully been developed to accompany the new guidance.

5.4 The programme board will lead an implementation phase starting in financial year 2021-22, with the aim of fully embedding the guidance and improving the reporting, visibility and monitoring of risk across the portfolio. For the department's major programmes, this will partly be achieved by improving risk management information presented at the Quarterly Portfolio Review.

6: PAC conclusion: ***The Department does not have all the necessary arrangements or qualified staff in place to provide assurance that its Equipment Plan is reliable and has been subject to rigorous quality assurance.***

6: PAC recommendation: ***The Department should re-assess the role of its Head Office team in providing assurance on the affordability of the Equipment Plan and strengthen financial capabilities across the Department, ensuring that TLBs have adequate capacity and capability to make reliable and consistent assessments of future costs.***

6.1 The government agrees with the Committee's recommendation.

Target implementation date: March 2023

6.2 Strengthening the financial capabilities within the department is a key part of the department's Finance Functional Leadership Programme. The department will be delivering professional training for level 3, 4 and 7 apprenticeships for staff currently within the finance function. In addition, the department has in place a Finance Skills Certificate for finance function staff. For the senior civil service and military equivalents, the Defence Strategic Finance Programme is available, for which prior completion of the Finance Skills Certificate is mandated. The department is also in the process of developing finance training for budget holders.

6.3 As part of the design of the finance service delivery model, professional qualifications are recommended for those roles that require it and this will form part of the recruitment process when posts become vacant. It takes time to both train and recruit professionally qualified staff, but numbers will increase over time.

6.4 As part of the same programme, the department is also looking to increase capacity by introducing a standardised service delivery model; simplifying and standardising processes and exploiting the use of corporate systems.

6.5 The department is developing a centralised pool of guidance and resources to support analysts across defence which will be ready in Summer 2021. The department's Analysis Function runs a Quality Assurance Working Group to enable best practice to be shared more widely and increase knowledge of the department's business critical models.

6.6 The department's Cost Assurance and Analysis Service (CAAS) has developed training and advice in modelling and quality assurance which it provides across defence.