

Ministry of Defence: The Equipment Plan 2017 to 2027

5-6 minutes

The Ministry of Defence's (the Department's) ten year Equipment Plan is not affordable and does not provide a realistic forecast of the costs the Department will have to meet over the next 10 years buying and supporting the equipment it has determined the Armed Forces need, according to today's report from the National Audit Office.

Spending on equipment and associated support in the 2017 Plan is projected to be £179.7 billion, including a £6 billion contingency. But even after assuming the contingency will be used, the NAO has calculated a minimum affordability gap of £4.9 billion. There is an additional potential affordability gap of £15.9 billion if all risks of cost growth materialise and the Department does not achieve any of the savings assumed in the Plan. Overall, the potential affordability gap could be £20.8 billion.

The NAO report found that the Department has not included £9.6 billion of forecast costs in the Plan. This variance arose as a result of the Department's 2017 budget setting process not being able to match costs to available budgets. In addition, the NAO's review found that the Department has understated forecast costs by at least a further £1.3

billion as the planned cost of buying five Type 31e frigates are not included in the Plan, while the cost of nuclear-related projects continues to grow.

There are also significant risks to the cost of the Equipment Plan: over-optimism in forecast costs of £3.2 billion as calculated by the Department's independent Cost Assurance and Analysis Service; and the risk of increased costs of £4.6 billion due to the Department not using foreign currency exchange rates that reflect market rates at the date of the Plan.

The Department is also relying on ambitious savings to help fund the Plan. The Department reports that it has achieved savings of approximately £7.9 billion against an increased savings target of £16 billion, with approximately £8.1 billion still to be achieved by 2027. However, there is a lack of transparency on the full amount of savings included in the Plan and the Department does not have evidence to support all the savings it has claimed to date.

The Department has limited flexibility to use other budgets to address the funding shortfall for equipment and support. It was unable to agree a balanced defence budget for 2017-18 and is now managing a significant projected overspend in 2017-18. Our past work has identified an £8.5 billion funding gap for managing the Department's estate. Also, the Department faces challenges in managing its staff budget.

Notes for Editors

Affordability gap range

£179.7bn

Total size of the Ministry of Defence's (the Department's) 10-year equipment and support budget, including contingency

£4.9bn

The minimum size of the affordability gap in the Department's Equipment Plan, after contingency

£15.9bn

Additional affordability gap if all identified financial risks materialise and no assumed savings are achieved

£20.8bn

Potential affordability gap (£4.9 billion + £15.9 billion)

Costs not included in the Plan

£9.6 billion

Excess of the Department's forecast project costs over the 2017 budget, that are not included in the Plan

£1.3 billion

The Department's forecast cost of buying five Type 31e frigates not included in the Plan

(£6 billion)

Centrally held contingency

£4.9 billion Minimum affordability gap

Further risks to affordability

£3.2 billion

Estimated potential understatement of costs in the Plan as calculated by the Department's Cost Assurance and Analysis Service

£4.6 billion

Potential increase in costs if the Department had used the exchange rate prevailing at the start of the Plan period (1 April 2017) to forecast costs

£8.1 billion

Remaining savings assumed within the Plan that the Department must achieve over the next 10 years

£15.9 billion

Additional affordability gap if all identified financial risks materialise and no assumed savings are achieved

£20.8 billion

Potential affordability gap

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2. The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund, nationally and locally, have used their resources efficiently, effectively, and with economy. The C&AG does this through a range of outputs including value for money reports on matters of public interest; investigations to establish the underlying facts in circumstances where concerns have been raised by others or observed through our wider work; landscape

reviews to aid transparency and good practice guides. Our work ensures that those responsible for the use of public money are held to account and helps government to improve public services, leading to audited savings of £734 million in 2016.