



Ministry of Defence



The Defence Equipment Plan 2012

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Foreword

The Rt Hon Philip Hammond MP
Secretary of State for Defence

When I first took on this job, I recognised that establishing a sustainable equipment programme was absolutely key to delivering the vision set out in the Strategic Defence and Security Review—a vision of formidable, adaptable and well-equipped armed forces built on a foundation of balanced budgets, disciplined processes and an efficient and effective Department.

The previous Government left us a legacy of poor project management, weak decision making and financial indiscipline which added up to an unaffordable defence programme. To bring the equipment programme back into balance has required tough and difficult decisions. But those decisions were right and necessary. The best way I can support our Armed Forces, as they restructure and refocus themselves for the future, is to give them the assurance of stable and well-managed budgets and the confidence that the equipment programme is affordable and deliverable.

This report provides a summary of our future Equipment Plan, covering around £159 billion for new equipment, data systems and equipment support over a ten year period. The plan includes £8.4 billion of risk provision within individual project budgets as well as centrally-held contingency provision of £4.8 billion, and unallocated headroom totaling around £8 billion. This puts the Department in a strong position, with an affordable core Equipment Plan and the flexibility we need to be able to deliver our Future Force 2020 headmark.

The publication of this summary of the Equipment Plan is part of an ongoing commitment across Government to transparency. It provides more information on the Equipment Plan than has ever previously been published. I believe this report will help deliver greater efficiency within the Department and enable the Defence Industry to plan future investment with greater confidence.

Today, the National Audit Office are publishing their first independent assessment of the affordability of our Equipment Plan. I'm delighted the NAO have also recognised the significant progress we have made with the Equipment Plan and the positive steps we have taken to deal with the accumulated affordability gap. I also welcome the NAO's guidance as to how we can further improve our processes in future years. I look forward to the NAO's continued engagement in this process which, coupled with the transparency around publication of the Equipment Plan summary, will give Parliament and taxpayers a growing confidence in the robustness of the Defence Budget.

A handwritten signature in black ink, which appears to read "Philip Hammond". The signature is written in a cursive style and is positioned above a short horizontal line.

Context and Background

1. The SDSR set out the Government's commitment to deliver well-resourced and well-equipped Armed Forces, fit for the challenges they are likely to face in the future, and to delivering a balanced and affordable Equipment Plan that will deliver the equipment we need, when we need it. The Defence Equipment Plan sets out our plans over the next ten years to deliver and support the equipment our Armed Forces need to do the jobs we ask of them. Regular and sustained investment in new and upgraded equipment is essential if our Armed Forces are to maintain their effectiveness in the face of the uncertainties we are likely to face in the future. But that investment must be affordable over the short and long term.
2. As part of the Government's commitment to greater transparency, we have committed to publish details of the forward Equipment Plan, to demonstrate its affordability and deliverability, and to give the defence industry more information on which to plan for the future. In parallel, we have agreed that each year, we will ask the National Audit Office to carry out an independent assessment of the Equipment Plan, and to give their view on the developing robustness of our financial data and planning processes. Their first assessment is being published today.

The Equipment Budget

3. This document sets out the Equipment Plan as at the end of Planning Round 2012, concluded in May 2012; all figures are as at that date. This is also the position on which the NAO has performed its assessment. Over the next ten years, we plan to spend £159Bn on new equipment and equipment support. This budget, set out in the table below, reflects the commitment announced in July 2011, to 1% real terms growth each year from 2014/15 to 2020/21 in the funding available for equipment.

| | 12/13 | 13/14 | 14/15 | 15/16 | 16/17 | 17/18 | 18/19 | 19/20 | 20/21 | 21/22 | Total Year 1 to 10 |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------------------|
| End of PR12 Budget | 13,247 | 13,805 | 14,390 | 15,542 | 15,317 | 16,061 | 16,741 | 17,443 | 18,058 | 18,811 | 159,415 |

4. The department currently spends around 40% of its budget on equipment and equipment support. On current plans, we forecast that by the end of the decade this will increase to 45%.
5. Funding for essential equipment enhancements, procured as Urgent Operational Requirements, to meet operational needs in Afghanistan, as well as the net additional costs of supporting equipment in that operational theatre, are met from the Treasury Special Reserve, not from the Defence Budget, and are not included in the Equipment Plan. For example the Treasury have provided funding of £202m for the procurement of the Foxhound Light Protected Patrol Vehicle and £100m for the procurement of TRUST, a state-of-the-art electronic vehicle protection system for Afghanistan.

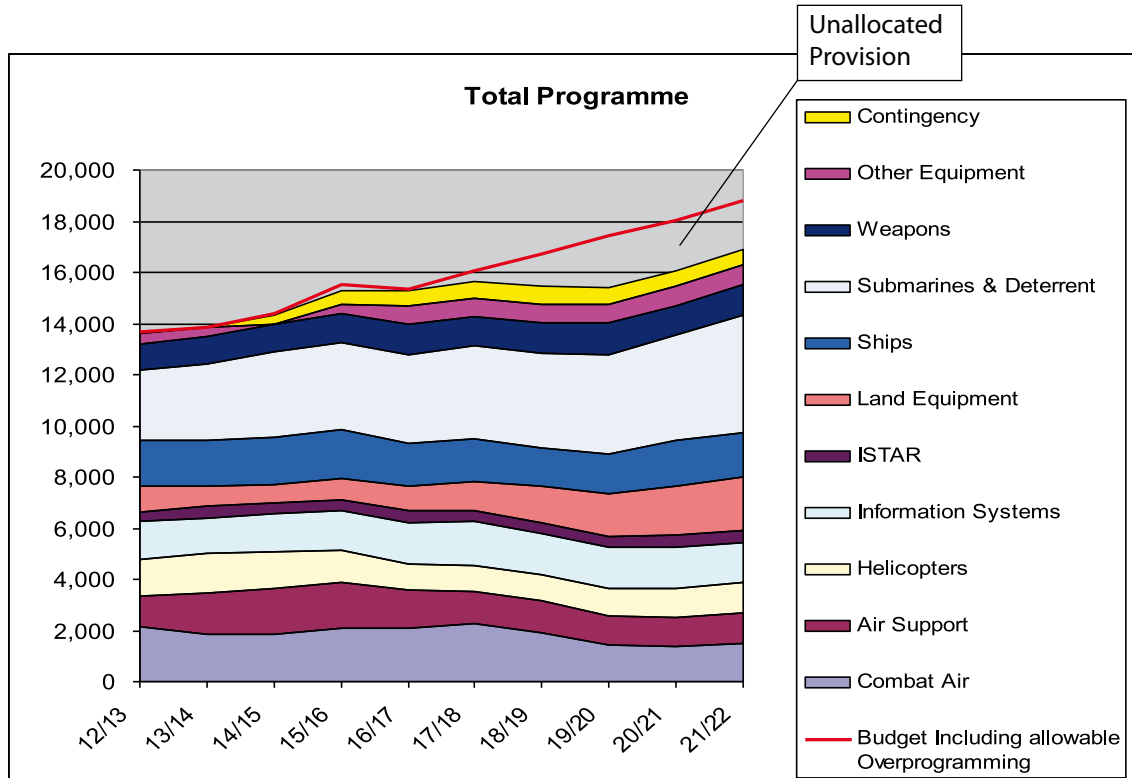
Approach

6. We have taken a new approach to our equipment planning work in 2012-13. We have established an affordable and fully funded core Equipment Plan which covers our current project commitments, the major equipment programmes announced in the SDSR and in July 2011, future investment in a successor to the Vanguard class of nuclear submarines and in the wider submarine enterprise and the associated support costs for all our current in-service and new equipment.

7. For the first time, this core programme is supported by a centrally held contingency provision worth £4.8bn over the next ten years. This is the first time we have made provision specifically to ensure that any problems resulting in cost increases in major programmes can be managed without having a wider impact on the programme. This is in addition to the £8.4bn of risk funding held inside individual project costings.
8. We have also, again for the first time, ensured that we have unallocated budget in the latter part of the decade, totalling around £8bn, which is over and above the funding required to deliver the core programme. This will allow us to fund, incrementally and flexibly, a number of additional programmes that are a high priority for defence, as soon as we can be sure that they are affordable. We have a Single Integrated Capability Priority List which details our priorities for future equipment expenditure beyond the core programme. This list will change over time in response to changing threats, emerging technologies and a range of other factors. It is therefore prudent to commit funding to items on that list only at the point when commitment is necessary to meet the operational requirement and only in accordance with the military assessment of priority at the time. Our ability to proceed with new programmes will be reviewed on a quarterly basis and we will only enter into new commitments when we can be satisfied that we have sufficient headroom to see them through to completion. No project will be allowed to be committed without a 10-year budget line to cover not only its procurement, but also its support costs.
9. Overall we now have an Equipment Plan which will deliver the programme required to reach our Future Force 2020 headmark, with, for the first time, centrally-held contingency in addition to financial risk provision within individual project budgets. to protect the programme from emerging risks. We also have the financial headroom and the flexibility to allow us to sequence our procurement priorities beyond the committed core programme in accordance with their operational priority, rather than simply on the basis of their immediate affordability. This programme is affordable on the basis of the agreement with the Treasury to a 1% increase above inflation in the Equipment Programme budget from 2015-16 through to 2020-21.

Summary of equipment spending plans

10. Based on this approach, we have allocated £152bn of the available equipment budget to projects and other areas of spend. This includes both the £4.8bn of centrally-held contingency and £8.4bn of financial risk provision held inside individual project costings against identified project risks.



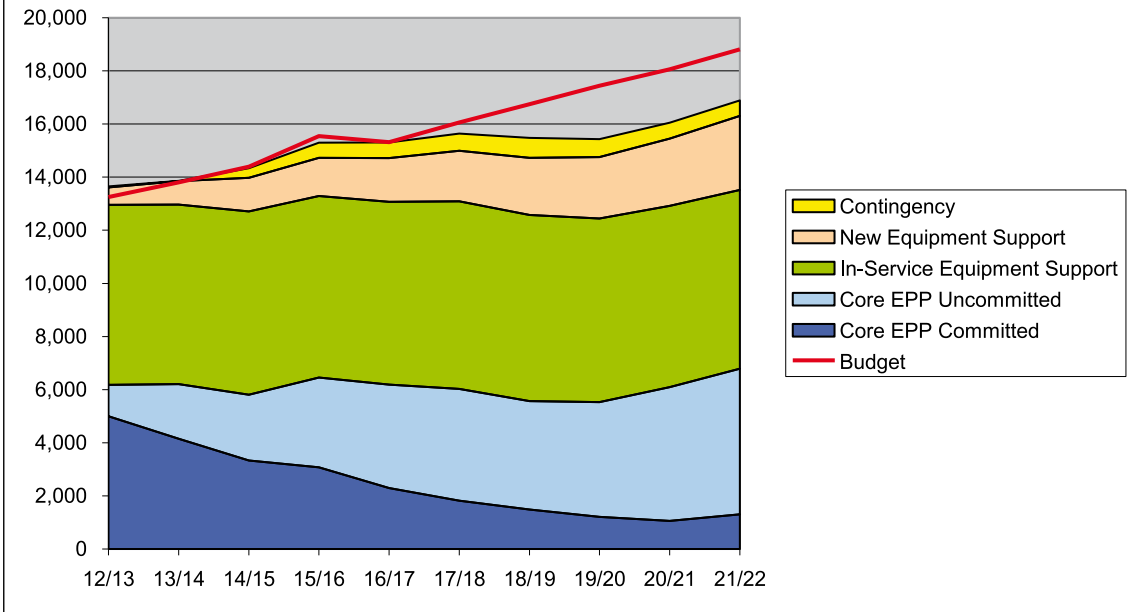
* Year 1 Programmed at 102% of Budget, Year 2 at 101%

11. In headline terms, over ten years we plan to spend:

- £60Bn on the procurement of new equipment.
- £18Bn on support arrangements for new equipment that will enter service during this period
- £68Bn on support for our existing in-service equipment, including spending on routine spares and maintenance, ship refits, support arrangements for our communications and information infrastructure, and the running costs of the nuclear propulsion and nuclear weapons production facilities.
- and have earmarked £4.8Bn as a contingency against potential cost growth, beyond the risk provision held in individual equipment project budgets.

In the early years of the programme, around 80% of the programme is contractually or otherwise committed, falling to 20% at the end of the decade. The contractually committed proportion of the Equipment Procurement Programme is shown in the following graphs. However, as contractual arrangements are subject to frequent change, these figures are indicative only.

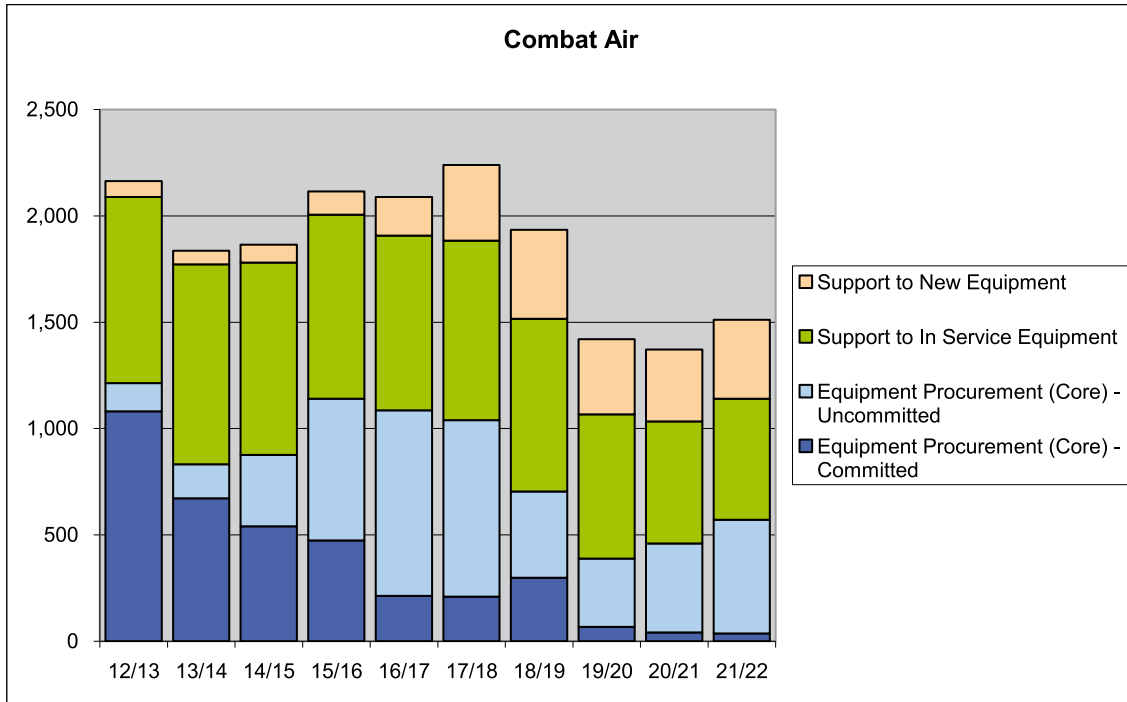
Equipment Programme at the end of Planning Round 12



Sector analysis – where does the money go?

Combat Air

12. We plan to spend around £18.5bn in the Combat Air sector over the next ten years.



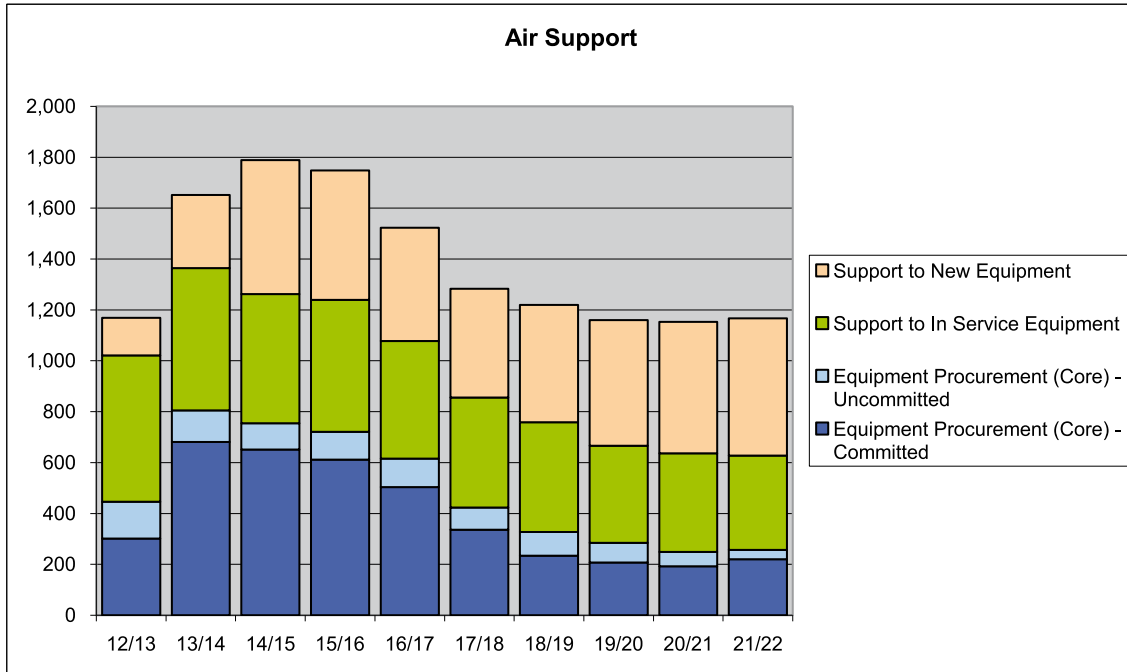
13. This sector covers fast jets, Unmanned Aerial Vehicles and military flying training, including procurement of training aircraft. This investment includes:

- continuing investment in Typhoon to bring Tranche 2 & 3 aircraft fully into service. Further investment to develop and enhance the aircraft’s multi-role and ISTAR capabilities are priorities for use of unallocated headroom in the plan budget;
- increasing investment in the Lightning II (Joint Strike Fighter) – a state-of-the-art fifth generation carrier capable aircraft, incorporating cutting edge stealth technology which, together with the Queen Elizabeth Class Aircraft Carriers, will deliver a high-end power projection capability for decades to come;
- a growing investment in unmanned aerial vehicles, including through co-operation with France.

A priority for future investment when funds allow will be to expand our investment in simulated pilot training.

Air Support

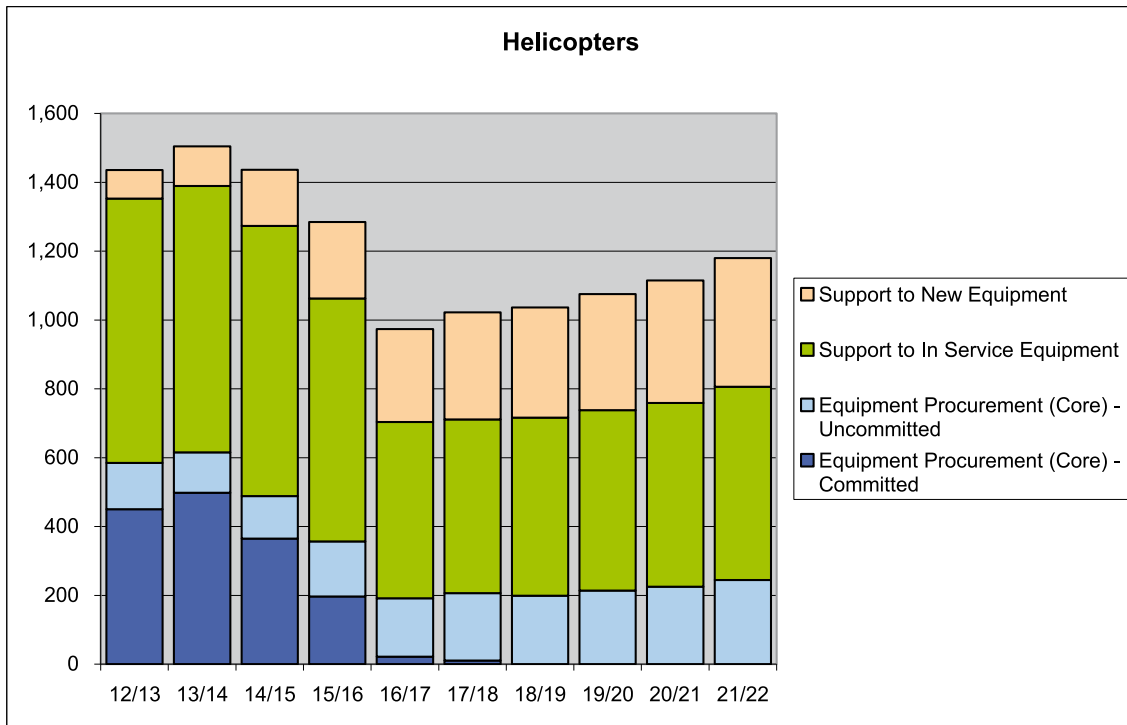
14. We plan to spend around £13.9bn in the Air Support sector over the next ten years. This covers all other aircraft, simulators, other equipment required to enable our airfields to function and air platform protection.



15. This sector covers all large aircraft, including transport, air-to-air refuelling and large ISTAR platforms. This investment includes:
- The A400M future generation of strategic/tactical air transport aircraft;
 - Bolstering our strategic airlift capability with the purchase in 2012-13 of an additional C17 to bring the fleet up to 8 aircraft
 - The brand new Voyager transport and air-to-air refuelling aircraft, which will replace the VC10 and TriStar fleets;
 - New Airseeker Intelligence, Surveillance and Reconnaissance aircraft to replace the Nimrod R1 and provide us with a state of the art airborne SIGINT collection capability;
16. In the later years of the programme we expect to make further investment in the latest technology to enhance and protect our Air Support fleet.

Helicopters

17. We plan to spend around £12.1bn on helicopter capability over the next ten years.



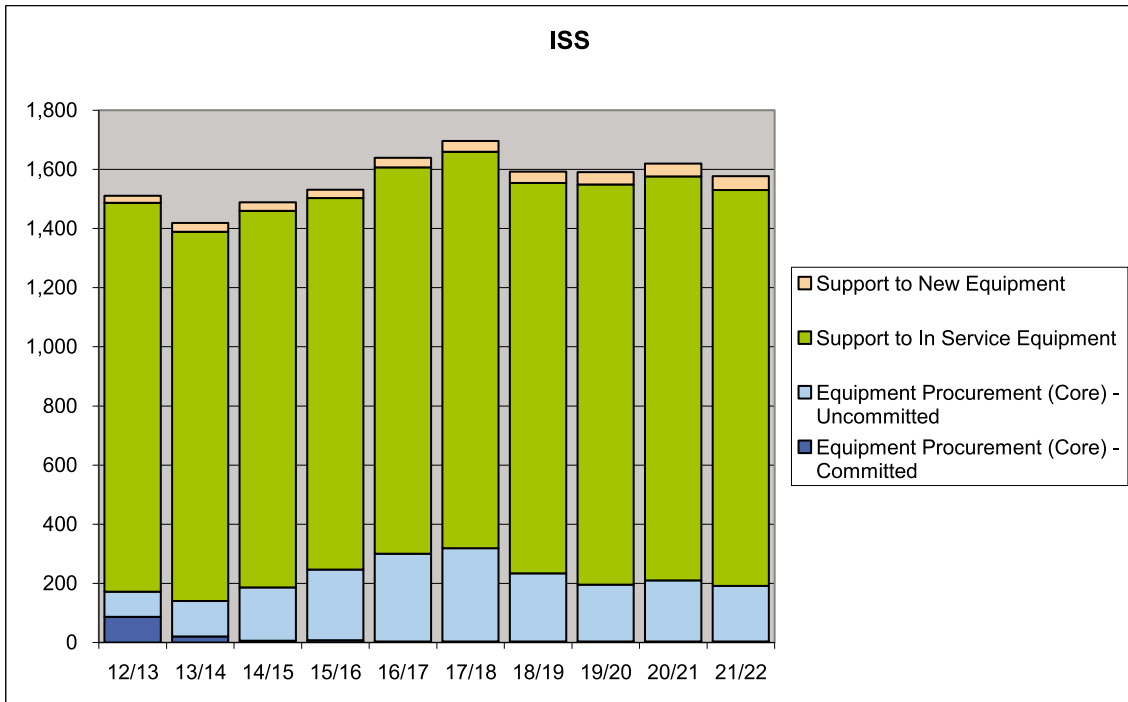
Our plans in this area include:

- The purchase of an additional 14 Chinook helicopters as confirmed by the Secretary of State in July 2011;
- Completion of the Life Extension Programme for Puma;
- A capability sustainment programme for our attack helicopters, to maintain the capability until 2040;
- The completion of the Wildcat programme, which will replace our existing Lynx helicopters, with separate variants for the Navy and Army;
- Continuing the Julius programme to upgrade the Chinook Fleet;
- Taking forward the Assessment Phase for work to address obsolescence and ship optimisation for the Merlin Mk3 helicopters. Continuing that programme into demonstration and manufacture is a high priority for future investment later in the decade.

ISS

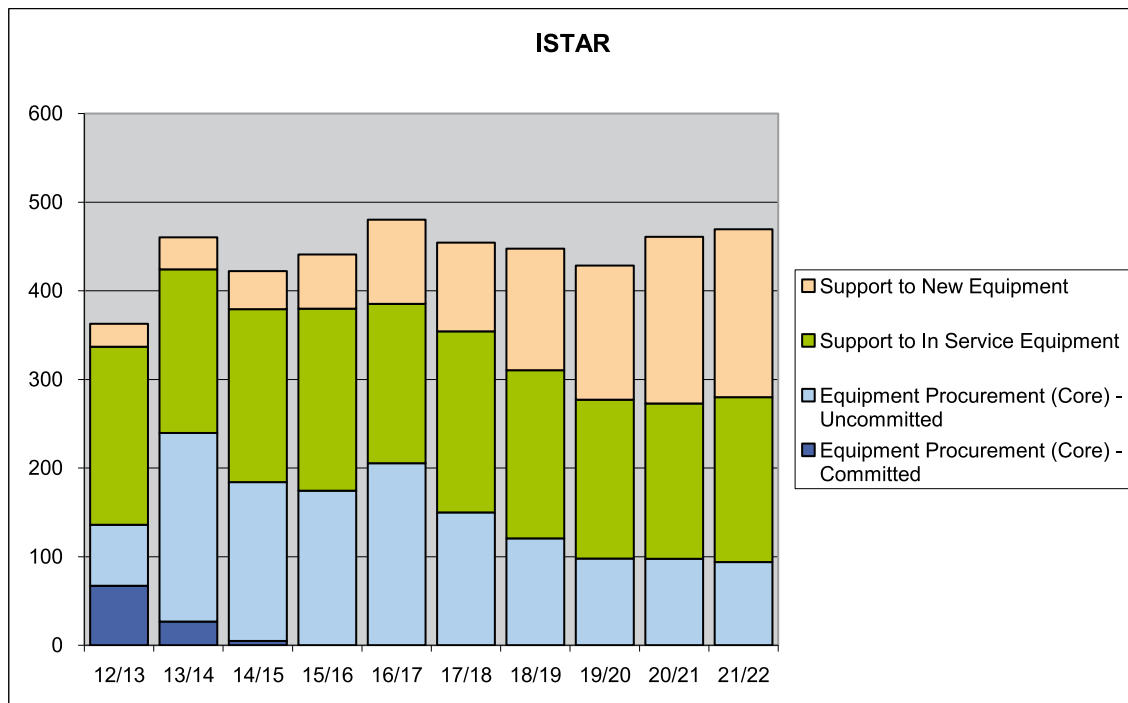
- 18.** Intelligence, Surveillance, Target Acquisition and Reconnaissance (ISTAR) and Information Systems and Services (ISS) are managed by the MOD under a combined portfolio approach. This means that we will be able to manage capability trade offs more effectively from within the sector, taking advantage of synergies between programmes and reducing the risk of cost growth leading to pressure on other parts of the programme.

We plan to spend some £15.7bn on ISS over the next ten years. This includes significant investment in Defence Information Infrastructure support costs and support costs for BOWMAN Tactical Communications and Information Systems.



ISTAR

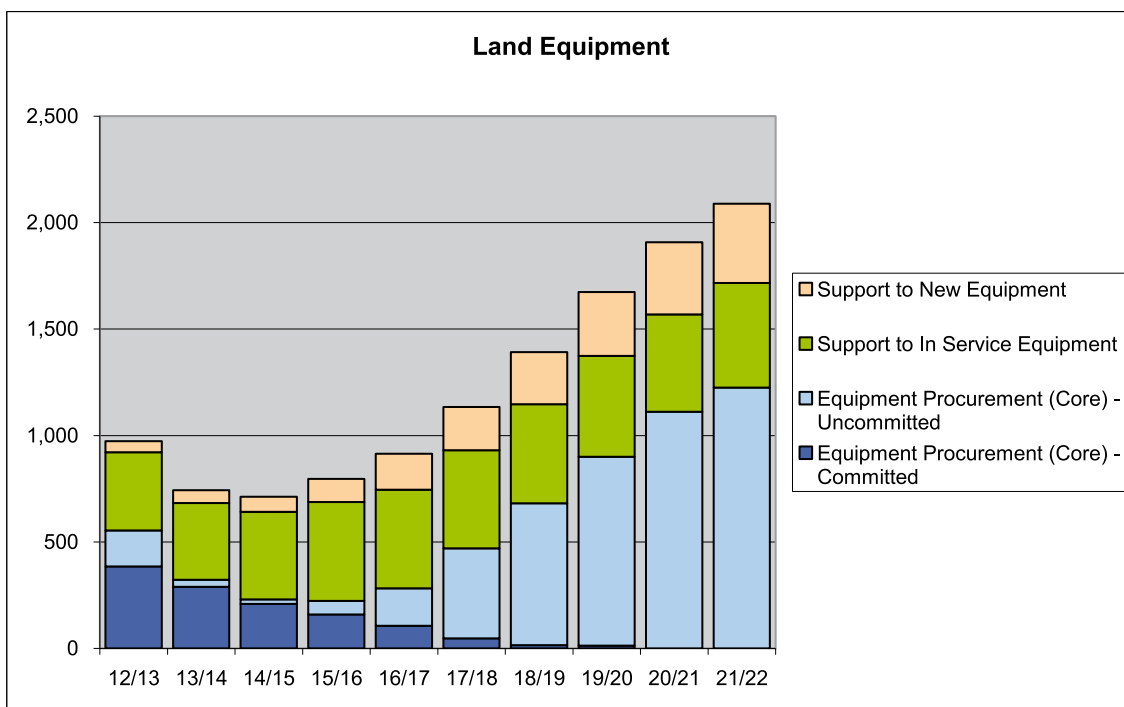
19. We will be spending around £4.4bn on ISTAR programmes over the next decade. This excludes some significant platform spend, for example the new Airseeker aircraft which will replace the Nimrod R1 Intelligence platform, which is included within the Air Support area.



20. The main areas of spend cover deployable and fixed communications networks and services. This area also includes our CBRN detection and countermeasures programmes and a range of Special Forces Equipment. This is in addition to the considerable sums invested in this priority area through the UOR process, including the procurement of REAPER Unmanned Aerial Vehicles

Land Equipment

- 21.** We plan to spend around £12.3bn over the next ten years on land equipment. This spend will increase substantially over the decade as a result of the establishment of an Armoured Fighting Vehicles pipeline approach. This approach has delivered significant savings in the early years, while guaranteeing sufficient funding across the decade to deliver the required capabilities.



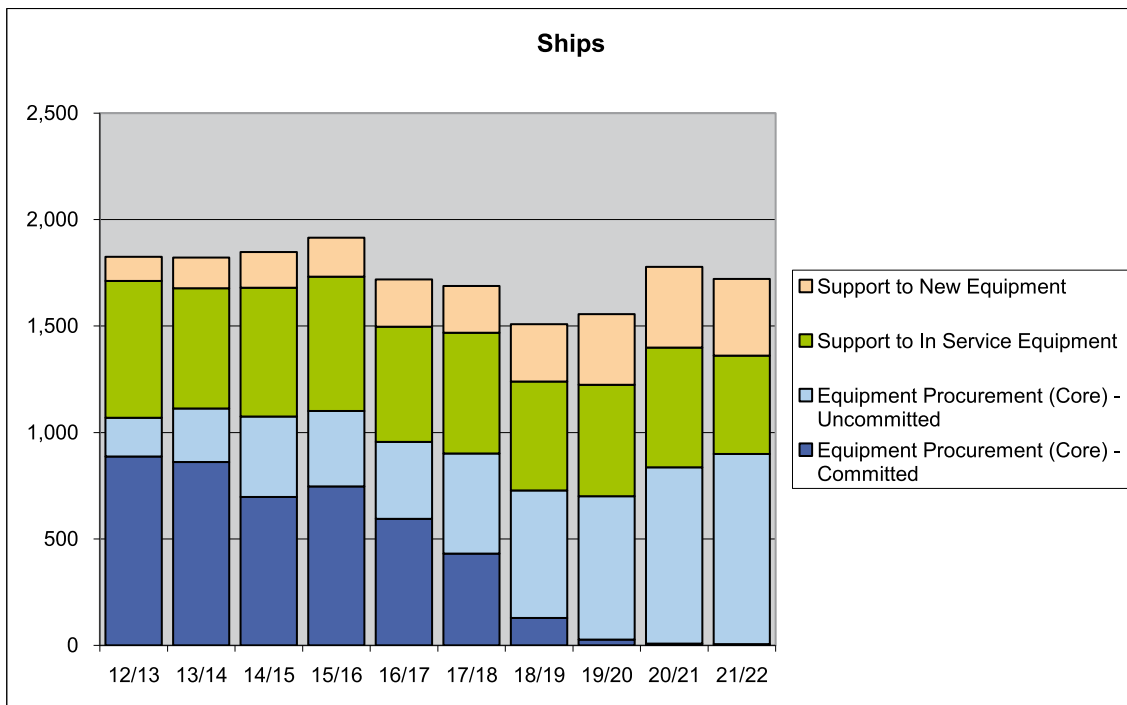
- 22.** Our planned investment includes:

- An upgrade to our fleet of Warrior Infantry Fighting Vehicles, to maintain that capability with enhanced lethality out to 2040 and beyond;
- Continued development of the family of Future Rapid Effects System (FRES) vehicles, including Scout and Utility variants, which will replace a wide range of legacy armoured and protected vehicles;

- 23.** Further funding will be allocated in due course to cover the cost of bringing appropriate equipment procured for the Army in Afghanistan under UOR processes permanently into our core inventory, based on their future utility, current condition and the cost to recover and reconstitute them for further service.

Ships

24. We plan to spend around £17.4bn on surface ships over the next ten years.

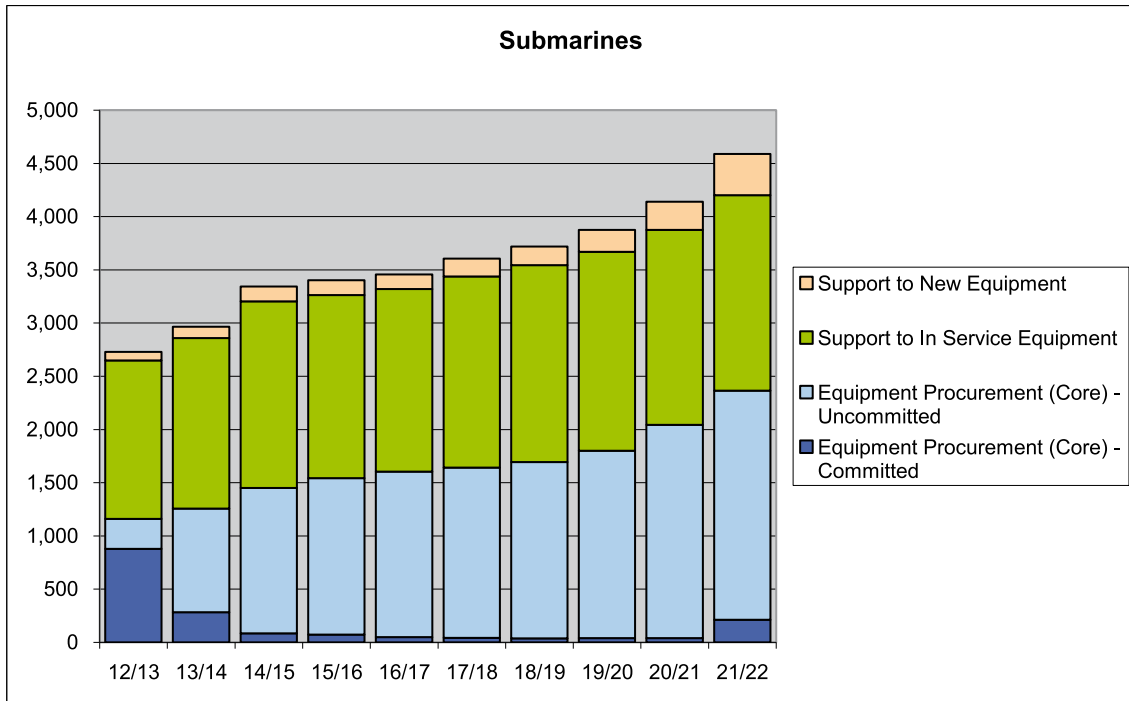


25. Our plans in this area include:

- Completion of the two Queen Elizabeth Class aircraft carriers which, together with the Lightning II aircraft, will deliver a high-end power projection capability for decades to come;
- Delivery of the remainder of the 6 state-of-the-art Type 45 Destroyers with Samson RADAR and Aster missiles combining to offer an unparalleled air defence capability;
- Design and development of the Type 26 Frigate, which will replace the Type 23;
- Development of the Maritime Afloat Reach and Sustainability programme, which will provide a fleet of new, modern vessels for the Royal Fleet Auxiliary.

Submarines and Deterrent

26. We plan to invest around £35.8bn in submarines and our nuclear deterrent programmes over the next ten years.

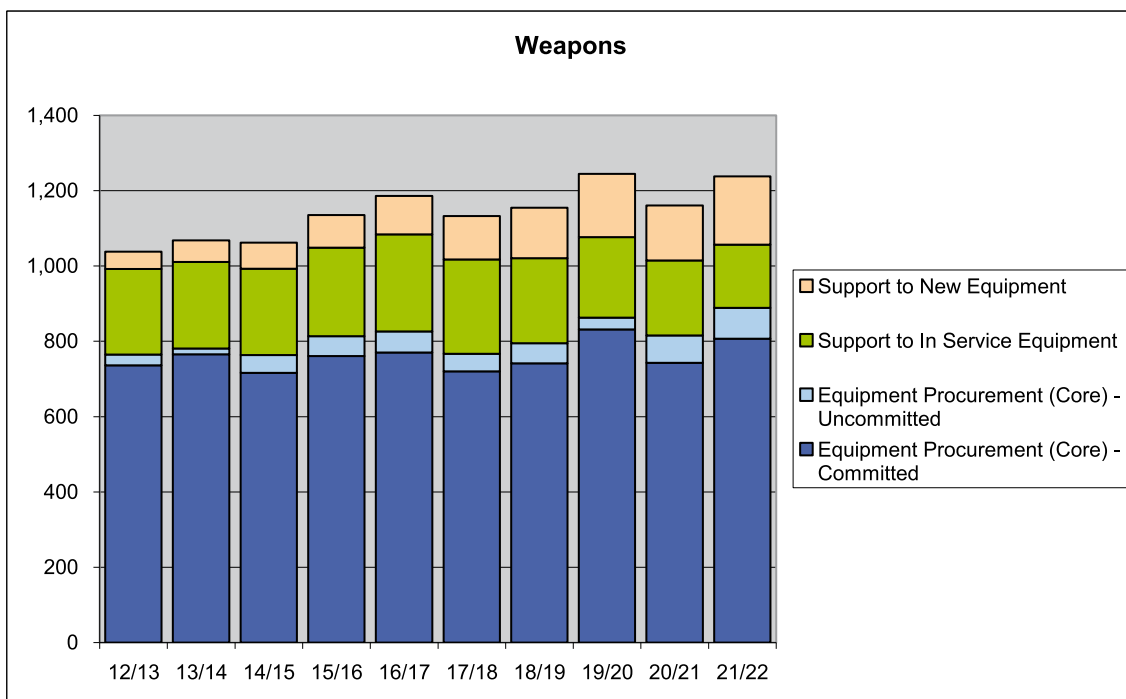


This covers all costs relating to the submarines themselves, nuclear propulsion costs and the costs of the strategic weapon system. This includes:

- The completion of the remainder of the class of 7 Astute attack submarines;
- Design, development and production of the replacement for the Vanguard class ballistic missile submarines, assuming that Main Gate approval is obtained in 2016;
- The ongoing costs of managing and maintaining the strategic weapon system, both missiles and warheads;

Weapons

27. We plan to spend around £11.4Bn on the Weapons programme over the next ten years.



28. The majority of the MOD's weapons procurement is managed through a pipeline arrangement that guarantees industry a minimum level of investment sufficient to ensure that we maintain our operational advantage and freedom of action in this critical high technology sector.

29. The programme includes investment of around £7bn in the complex weapons sector which will deliver a wide range of weapons, in the short term including the Future Local Area Air Defence System, which will be based on the Sea Ceptor missile, and the Future Air-to-Surface Guided Weapon (heavy) which will equip the Royal Navy's new Wildcat Helicopters.

30. Other elements of the Equipment Plan not individually broken down in this analysis total around £5.6bn including Naval Bases, Joint Supply Chain and Logistics & Commodities.

Flexibility and Risk – how the Plan is put together?

31. The Equipment Plan is based on carefully constructed estimates of when and at what cost individual projects will deliver. This includes provision for “Risks Inside Costing” – a financial articulation of risks which are judged to have at least a 50% probability of arising. This provision sums to around £8.4bn over the decade. Projects also identify “Risks Outside Costing” – those which are judged to have a less than 50% likelihood of arising - but as the name implies no financial provision is made for these by individual projects, though the central contingency is available to address these risks, should they materialise. As part of the planning round process a set of Corporate Planning Assumptions (CPAs) are issued covering inflation and foreign exchange. In the case of inflation the best project-specific inflation data is used based on actual contract provisions, sectoral trends or historic experience adjusted as necessary for known future variations. Only where this project- or sector-specific data is not available are CPAs used for inflation. For foreign exchange, the CPAs remain unchanged throughout the planning round to ensure costing stability. The MOD hedges its exposure to foreign currency risk where it is prudent to do so. Corporately, at the end of process, an assessment is made on the impact of any movement from the CPAs and captured as part of the overall Defence Budget considerations.
32. The core Equipment Plan outlined here is affordable. Within the total budget of £159bn it contains £8bn of unallocated headroom and £8.4bn of risk funding within individual project budgets as well as £4.8bn of centrally-held contingency. The contingency is an innovation following work commissioned by the Chief of Defence Materiel and DG Finance and completed by the Cost Assurance and Analysis Service team, to produce independent cost estimates for the top 40 equipment procurement projects. It will provide greater stability by improving our ability to manage effectively any future changes in cost or profile in individual programmes without incurring a wider impact on the Equipment Plan as a whole. This new approach is also reflected in the decision not to proceed for now with a number of programmes, and to retain some unallocated provision in the programme which can be used either to sustain or reactivate those programmes, or to pursue other emerging strategic priorities. This illustrates the commitment the MOD has made to making the programme affordable, not just for this year, but for the foreseeable future.
33. We have taken the decision to programme to a maximum of 102% of our planned budget in 2012/13, and 101% in 2013/14. The over programming in 2012/13 and 2013/14 reflects the understanding that in any programme of this size and complexity some elements may not proceed at the planned rate of spend. Spend rates will be closely monitored in-year to ensure that this prudent precaution against underspend does not come to present a risk to the affordability of the programme.

Priorities for the next planning round

34. Following the provision of Independent Cost Estimates for key equipment procurement projects to support PR12, CAAS will continue to maintain and mature these to inform future Departmental budgetary cycles. CAAS has also begun to expand the scope of its independent cost analysis to address the more complex Equipment Support area. CAAS aims to develop independent cost estimates for the key equipment support cost drivers during the course of 2012-13.

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