



Update to Planning Round 2012

As part of the process of constructing the forward Equipment Plan and bringing the Ministry of Defence budget back into balance, the Department's Cost Assurance and Analysis Services team (CAAS) provided an independent (i.e. non-project team) view of the cost of the ten year Equipment Plan, focusing on new equipment procurement.

The review was in two parts:

- production of Independent Cost Estimates for 26 (then increased to 40) major projects covering 45% (67% at the 40 project level) of planned equipment procurement spend over the ten year planning horizon.
- application of historic project performance data for the remainder of the new equipment project portfolio, applied on the "most conservative" basis of improvement in project schedule but no improvement in past performance levels of cost management.

The CAAS assessment which informs today's NAO report on the *Equipment Plan 2012 to 2022* related to the Equipment Plan as defined at June 2011. That assessment suggested that, as at June 2011, costs within projects could have been understated by up to £12.5bn in aggregate over the ten year planning period. This is the figure the NAO refer to in their report (para.20).

Since that time, individual project budgets have been reviewed and, in some cases, adjusted to include greater levels of risk provision at the project level. In consequence, in October CAAS has revised its assessment of the potential understatement of project costs from £12.5bn to £4.4bn.

Against the latest CAAS estimate of appropriate centrally-held contingency of £4.4bn of project costs, the Department retains a centrally-held reserve – in addition to risk funding held inside individual project costings – of £4.8bn. We will continue to keep an appropriate level of contingency under review in future planning rounds.