Ministry of Defence

The Defence Equipment Plan 2014








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List of abbreviations

ABC 13 – Annual Budget Cycle 2013 (financial year 13/14 onwards)
ABC 14 - Annual Budget Cycle 2014 (financial year 14/15 onwards)
CAMM – Common Anti-Air Modular Missile
CAAS – Cost Assurance and Analysis Service
CBRN – Chemical, Biological, Radiological and Nuclear
DE&S – Defence Equipment and Support
EPP - Equipment Procurement Plan
ESP - Equipment Support Plan
FASGW – Future Anti-Surface Guided Weapon
FLAADS – Future Local Area Air Defence System
FLC – Front Line Command
GMPP – Government Major Projects Portfolio
ISS – Information Systems and Services
ISTAR – Intelligence, Surveillance, Target Acquisition and Reconnaissance
JFC – Joint Forces Command
MOD – Ministry of Defence
MPA – Major Projects Authority
MPR – Major Projects Report
NAO – National Audit Office
PR 12 – Planning Round 12 (financial year 12/13 onwards)
QRPC – Quarterly Review of Programme Cost
SEPP – Submarine Enterprise Performance Programme
SSPR – Single Source Procurement Reform
SSRO – Single Source Regulations Office

The Defence Equipment Plan 2014

Foreword

I am very pleased to lay before Parliament the annual publication of the defence equipment plan. For the third consecutive year, we have a realistic and affordable plan. We have built strong foundations which are enabling us to deliver the vision we set for the Armed Forces in the last Strategic Defence and Security Review.

The report sets out our plans to spend around £163bn on new equipment and equipment support over the next ten years. We continue to hold a substantial contingency of £4.6bn over the ten years and around £8bn of headroom in the later years of the decade. The stability, soundness and realism of the plan allowed the Prime Minister to announce in July 2014 an investment package of £1.1bn in military capability.

We are making substantial improvements to the procurement process. This includes a programme designed to continue improvements in forecasting accuracy; a real focus on delivering equipment support more efficiently; and making enduring changes to the Defence Equipment & Support organisation which became a 'bespoke trading entity' in April 2014 with unique freedoms to allow the organisation to operate in a more business-like manner.

Today the National Audit Office (NAO) are publishing their independent assessment of the affordability of our equipment plan. The NAO report recognises the progress we are continuing to make, including the relative stability of forecast project costs, as well as highlighting areas where we must continue to improve and refine our processes.
This year for the first time the NAO are publishing a single document which brings together their review of the defence equipment plan and the Ministry of Defence's Major Projects Report (MPR)[1].

Of the 11 projects within the MPR sample of 17 projects that have passed the main investment decision point, we have delivered 99% of requirements, the forecast cost of the projects has reduced by £397m and the in-service dates have had a small increase of 14 months. This is the best cost performance since 2005 and the best time performance since at least 2001, with delivery of military requirements routinely good over the period.

13 January 2015

Philip Dunne MP
Minister for Defence Equipment, Support and Technology

[1] More detail on the MOD's major projects can be found in the NAO report on the Equipment Plan 2014-2024 and Major Projects Report which will be published in parallel.

Section A - Defence Equipment Plan 2014

Summary

1. This is the third annual published summary of the defence equipment plan. It sets out the defence equipment budget and forecast expenditure plans to deliver and support the equipment the Armed Forces require to meet the objectives set out in the National Security Strategy and the Strategic Defence and Security Review. It covers the period from 1 April 2014 to 31 March 2024. In line with our commitment to greater transparency and assurance, the National Audit Office (NAO) has again reviewed our plans in detail. They have carried out an independent assessment of the robustness of our financial data and affordability of the forward equipment plan, as they have done for the previous two statements. In Section A we describe the overall equipment plan; Section B sets out the areas in which we are continuing to improve our processes; and Section C sets out where we currently plan to spend the equipment budget over the next 10 years.

Equipment Budget

2. The data summarised in this report, and reviewed by the NAO, is correct as of the end of the Department's Annual Budget Cycle 2014 (ABC 14). This was finalised in April 2014 and covers the ten year period from Financial Year 2014/15 to 2023/24. The Defence budget has been agreed with the Treasury up until 2015/16 as part of the Spending Review settlement in 2013. The Treasury has given an indication that the Department should plan on the equipment plan continuing to be funded at 1% above inflation until 2020/21. For internal planning purposes we have assumed that the budget will continue to increase at this rate for the remaining years of ABC 14. Any change in inflation or foreign exchange assumptions will be managed centrally.

3. The total ten year budget for the equipment plan at ABC 14 is £163bn. The table below shows a comparison of the budgets at Planning Round 12 (PR 12) and ABC 13.

Figure 1 – Equipment budget

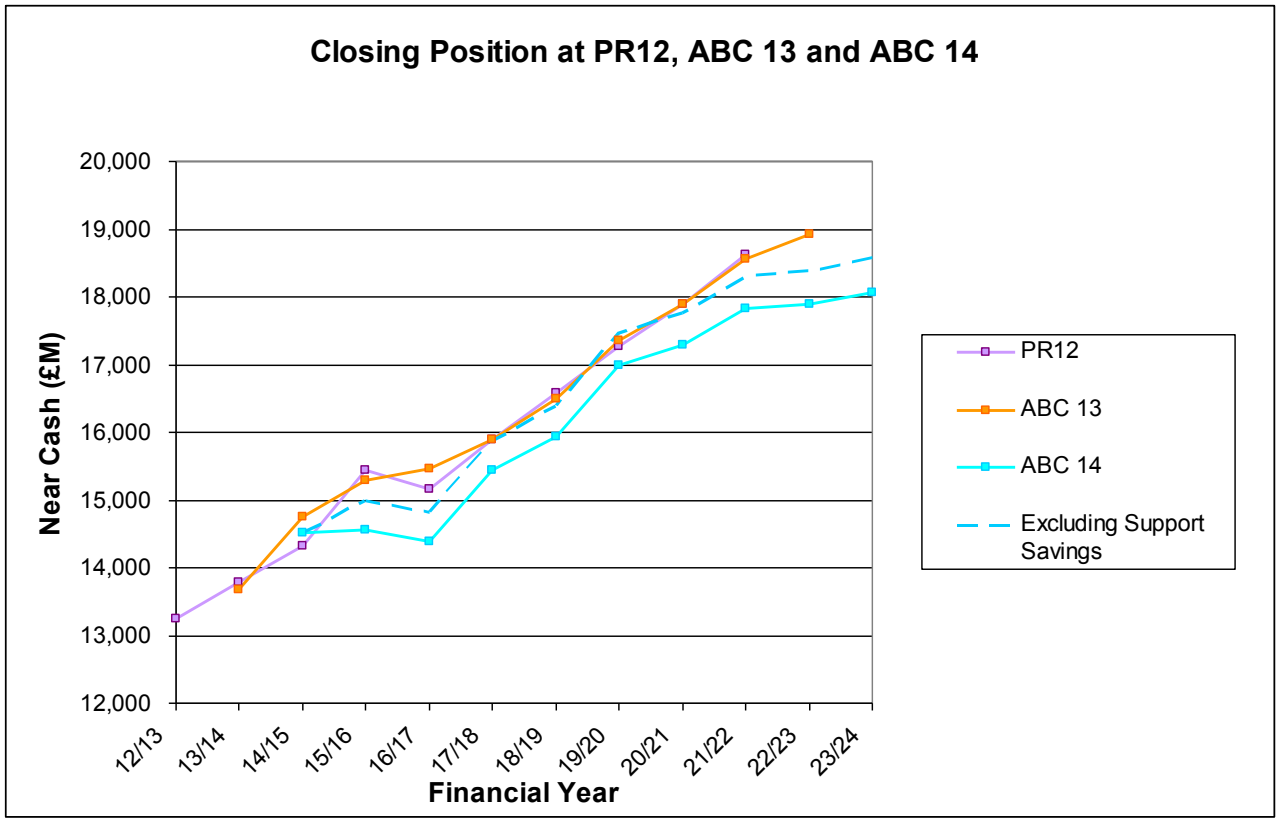
	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	Total
End of PR12 Budget	13,240	13,779	14,324	15,431	15,157	15,898	16,575	17,273	17,884	18,633			158,194
End of ABC 13 Budget		13,688	14,758	15,295	15,472	15,897	16,501	17,348	17,884	18,559	18,914		164,297
End of ABC 14 Budget			14,511	14,566	14,381	15,434	15,939	16,987	17,283	17,822	17,887	18,074	162,885

4. We have made a small reduction in the equipment budget which reflects our confidence that we can achieve efficiencies in the delivery of equipment support, providing the required level of output at reduced cost. A significant programme of work is underway to deliver efficiency savings and good progress has been made so far, with around £3bn of potential efficiencies identified by end of October 2014. We have been able to continue delivering equipment and support for the Armed Forces without making any reductions in the planned scope of the equipment plan, and during ABC 14 we were able to invest £1.1bn in additional capabilities, mainly a package of joint enablers, Special Forces and cyber capabilities.

5. A like for like comparison of the planned budget for the equipment plan at the end of Planning Round 12, ABC 13 and ABC 14 is shown in the graph below. This illustrates the

impact of the efficiencies the Department is delivering in the equipment support element of the budget that occurred during the ABC 14 process.

Figure 2 - Closing position of budget at PR 12, ABC 13 and ABC 14

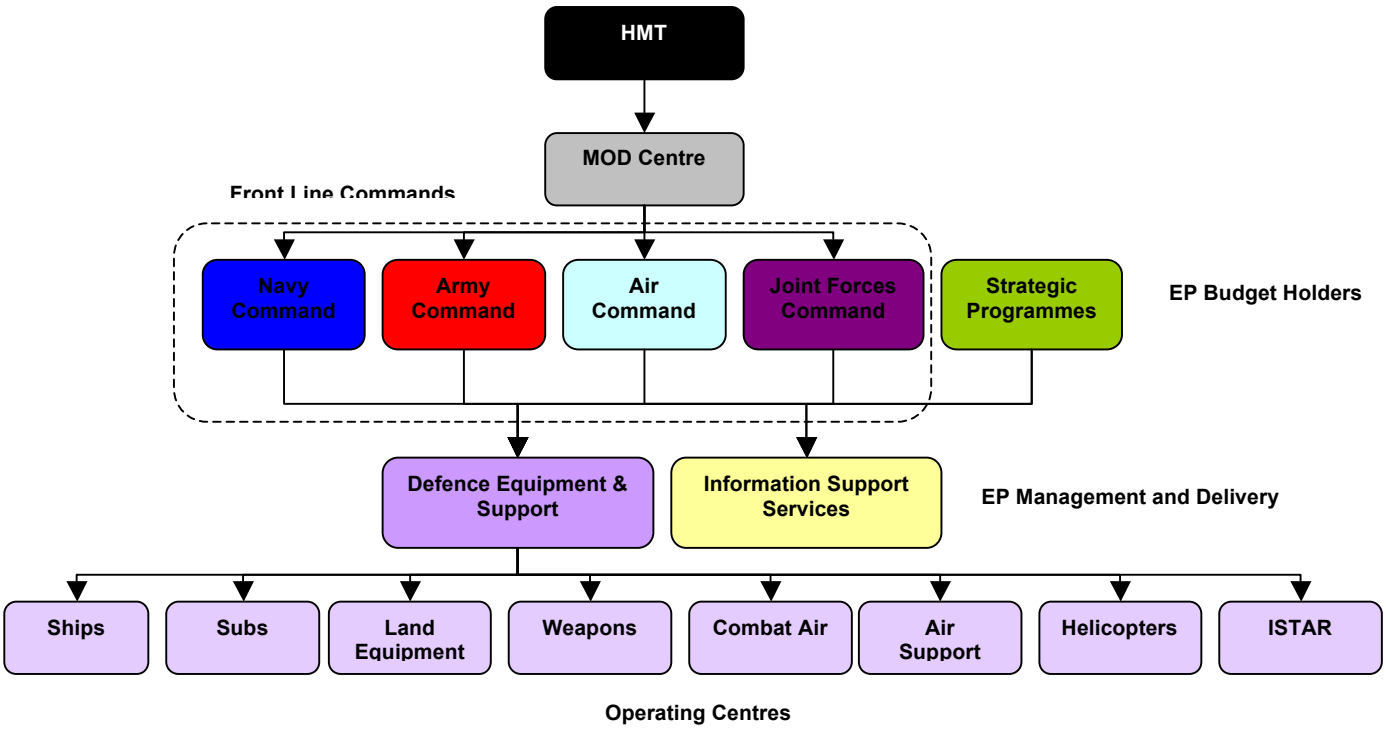


6. Whilst the defence budget is allocated from the Treasury to the Department, the introduction of the delegated model in April 2013 means responsibility for managing the bulk of the equipment budget has been disaggregated from the Head Office to the Front Line Commands (FLCs)[2], in line with the principles of the Levene Report. The delegated model gives the FLCs the flexibility to adjust spending priorities to the areas they consider most critical for the delivery of output in order to meet the requirements of Defence.

7. In support of the transformation of Defence Equipment and Support (DE&S) into a Bespoke Trading Entity, it was confirmed that from ABC 15, Joint Forces Command (JFC) would take on responsibility for delivery of Information Systems and Services (ISS). The remaining JFC portfolio of C4ISR, Medical, Special Projects and Cyber capability will continue to be delivered through DE&S. The diagram below shows how the budget flows in the delegated model.

[2] For the purposes of this document, Front Line Commands includes the Royal Navy, Army, Royal Air Force, Joint Forces Command, and the Strategic Programmes directorate which is held within the MOD Head Office.

Figure 3 – Budget flow in delegated model



Equipment Costs

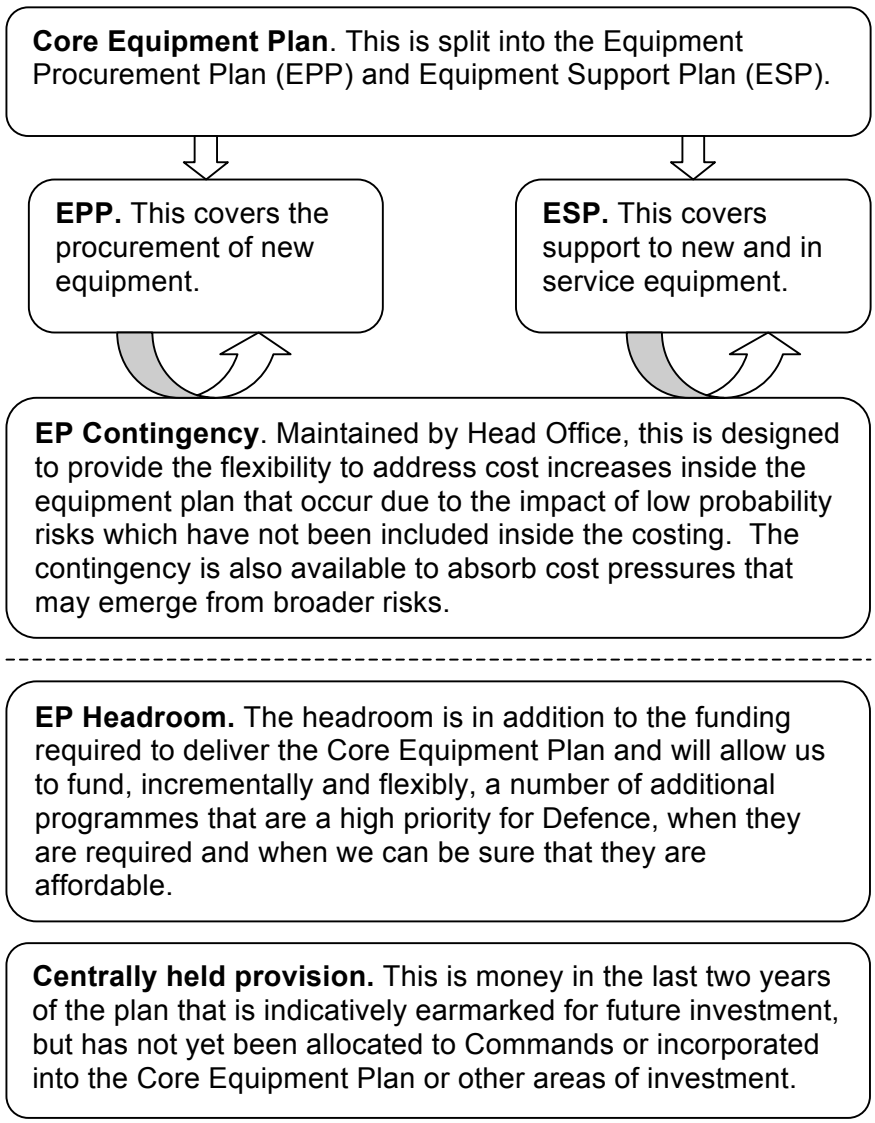
8. In contrast to the equipment budget, which is allocated top-down, the cost of the equipment plan is built up from cost forecasts generated by individual project teams who have responsibility for delivering the projects to time, cost and agreed performance. Project teams produce these cost forecasts using quantitative risk analysis to model the range of cost outcomes for projects. The cost forecasts are made at the 50 per cent confidence level, which means that there is estimated to be an equal chance of outturn costs being above or below the estimated amount.

9. DE&S and ISS continue their internal Quarterly Review of Programme Cost (QRPC) process, first introduced during ABC 13. Each QRPC is followed by a Quarterly Customer Review where FLCs have the opportunity to review programme performance and costs. This governance mechanism ensures that the cost of every project in the Equipment Plan receives assessment and oversight at senior level. The Reviews include consideration of in-year spend to date and of the level and profile of risk funding held within the projects in the FLCs portfolio.

Equipment Plan

10. The Defence Equipment Plan is made up of a number of different elements, which are shown in the diagram below.

Figure 4 – Constituent elements of the equipment plan



11. **Over the next 10 years the Department plans to:**

a. **spend £68.9bn on the procurement of new equipment.** This is an increase on last year's figure of £64.5bn, which is driven by the impact of the roll forward (the difference between the budget in 2013/14 which drops out of the plan and that in 2023/24 which replaces it), the decision to fund additional early years enhancements and the drawdown of £393m from headroom to fund the Merlin Life Sustainment Programme and the Scout Specialist Vehicle programme.

b. **spend £16.0bn on support arrangements for new equipment**. This is an increase on last year's figure of £14.8bn, which reflects the increased spend on the procurement of new equipment.

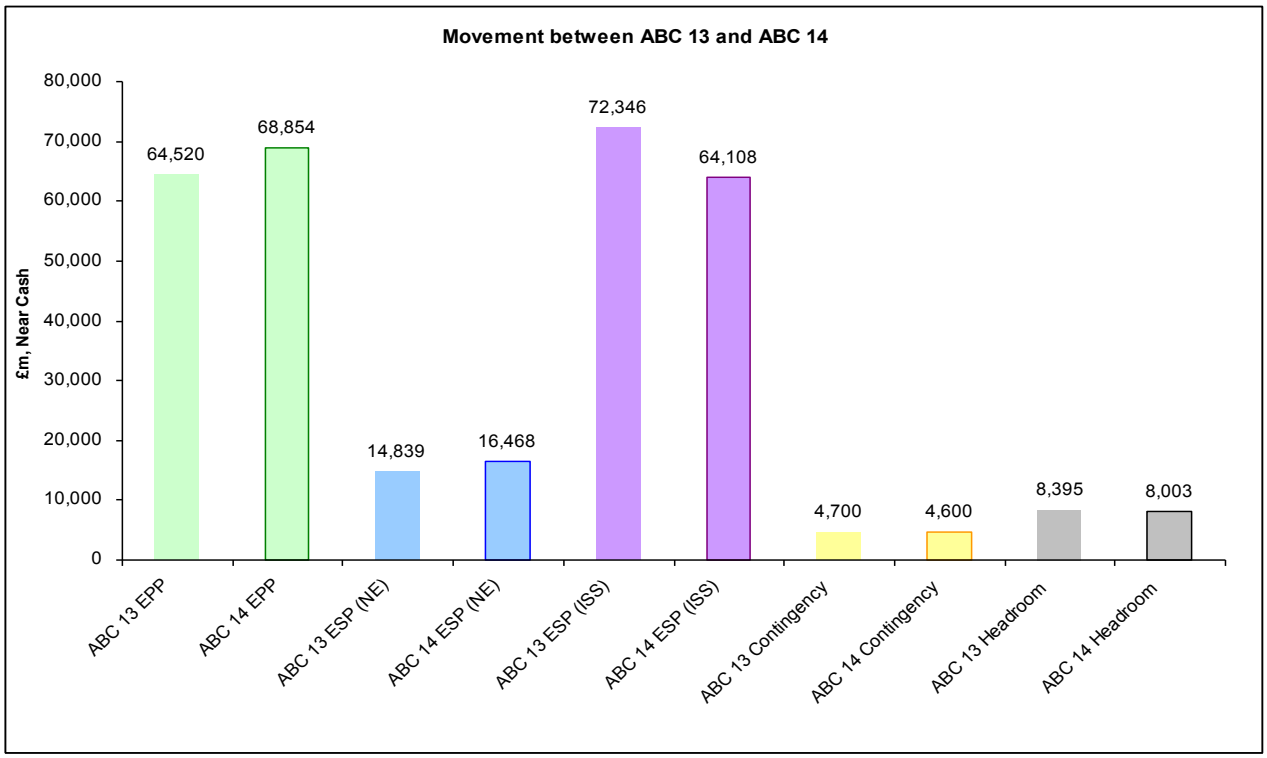
c. **spend £64.1bn on support for existing, in-service equipment.** This is a significant decrease on last year's figure of £72.3bn, which is driven by the introduction of the efficiency savings targets for the support programme and the effect of equipment coming out of service.

d. **hold a contingency provision of £4.6bn.** This is a minor decrease from last year's figure of £4.7bn and continues the work done in PR 12 and ABC 13 to ensure that the equipment plan remains affordable.

e. **retain unallocated headroom of £8bn**. This is a minor decrease from last year's figure of £8.4bn due to the drawdown for Merlin and Scout. The headroom is notionally allocated by FLC but will only be drawn down when programmes are at a sufficient level of maturity.

f. **retain a centrally held provision of £1.2bn, an increase from last year's figure of £750m.** The increase is largely a result of the budget roll-forward in 2023/24.

Figure 5 – Movement between ABC 13 and ABC 14. This illustrates the increased spend on procuring new equipment and the more efficient delivery of equipment support.



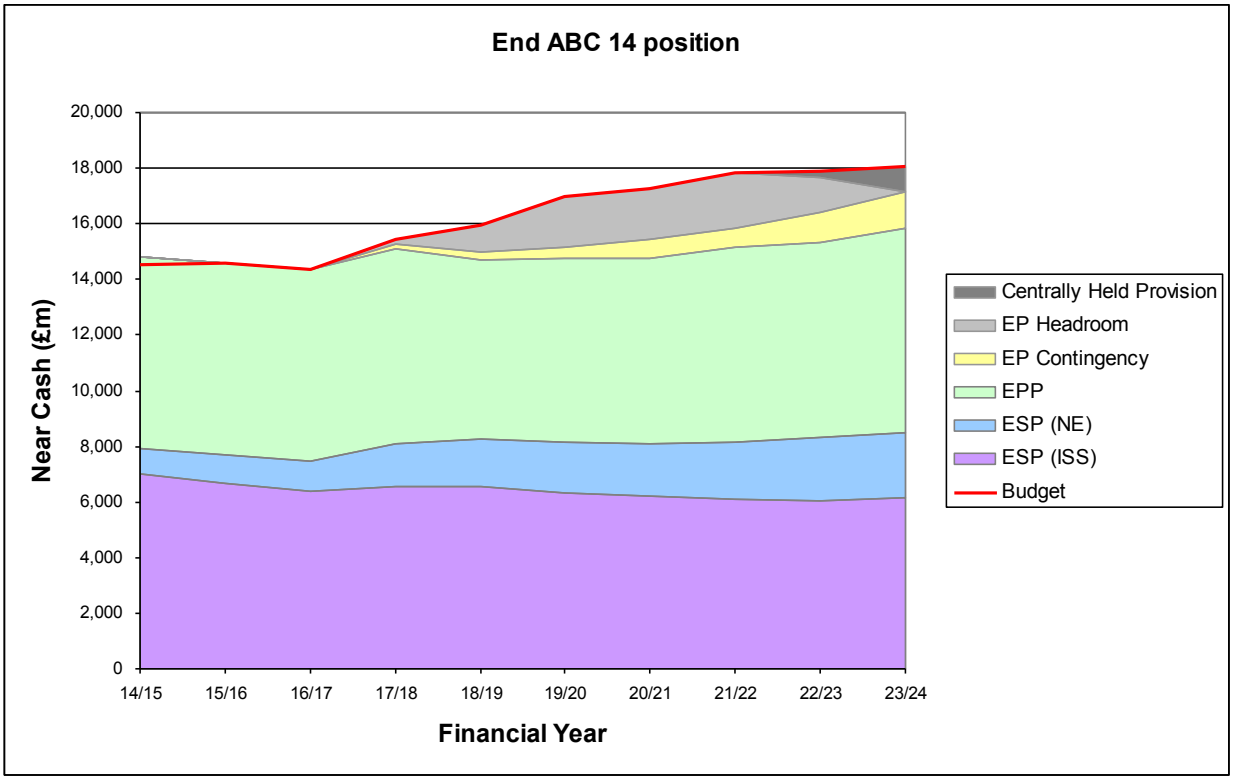
12. Within the individual project costings that make up the core equipment plan, there is specific risk provision that amounts to a total of £10.1bn over ten years. The overall level of funding held as risk inside costing at the end of ABC 14 is a decrease on the previous year's figure of £11.2bn. This is underpinned by a continuing focus on risk identification and risk management throughout the annual cycle.

13. The equipment plan also includes an adjustment for the programme fade likely to arise in each of the first three financial years of ABC 14. Fade occurs when planned

financial expenditure fails to materialise in year, and is caused by a range of factors which are discussed in more detail later as part of the description of the work being undertaken to improve performance (see para 25).

14. At the end of ABC 14, the cost of the core programme matched the equipment budget when taking the contingency, unallocated headroom and early years programme fade into account. This can be seen in the table and graph below.

Figure 6 – Equipment plan at the end of ABC 14



ABC 14 Equipment Plan (Near Cash, £m)	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	Total
ABC 14 Core Programme	14,811	14,566	14,381	15,089	14,673	14,764	14,777	15,172	15,349	15,847	149,430
of which EPP	*6,884*	*6,882*	*6,942*	*7,019*	*6,421*	*6,639*	*6,696*	*6,996*	*7,043*	*7,332*	*68,854*
of which ESP	*7,927*	*7,685*	*7,439*	*8,070*	*8,253*	*8,125*	*8,081*	*8,176*	*8,306*	*8,515*	*80,576*
EP Contingency				200	300	400	650	650	1,075	1,325	4,600
EP Headroom				145	966	1,823	1,856	2,000	1,213		8,003
Centrally held provision									250	902	1,152
Assessment of Programme Fade	-300	*-500*[3]	*-400*								-300
Actual End of ABC 14 Budget	**14,511**	**14,566**	**14,381**	**15,434**	**15,939**	**16,987**	**17,283**	**17,822**	**17,887**	**18,074**	**162,885**

[3] The fade in years 15/16 and 16/17 has been programmed in to the cost of the Equipment Plan, and as such does not show as a difference between the cost and budget.

Annual Budget Cycle 14

15. During ABC 14 the Department was able to introduce a number of enhancements to the core programme and to bring forward a number of capabilities that will be delivered sooner rather than previously planned. These were affordable due to the prudent management approach pursued since balancing the budget, which allowed us to release additional funds to invest in further capabilities and equipment for the Armed Forces when those funds became available. This underlines the positive impact that sound financial management continues to have on Defence and has helped to mitigate areas of capability risk, with the investment totalling around £1.1bn.

16. The investment package included an extra £800m for joint enablers to extend the range and flexibility of our Armed Forces, including that of our Special Forces capabilities in responding to the threat of global terrorism. It also included an investment of £300m in existing capabilities including development of the new E-Scan radar for Typhoon and the purchase of the Ice Patrol Ship HMS Protector. Funding was also brought forward for key capabilities including two A400M transport aircraft, which had the additional benefit of freeing up money in later years of the equipment plan. More detail on the action taken during ABC 14 can be found in the breakdown of spend by Operating Centre breakdown in Section C.

17. To mitigate the risk of under spending that results from programme fade, there was £920m of additional work planned for financial year 13/14, over and above the budgeted programme. This number included fade assumed by Operating Centres in the delivery of their projects and DE&S corporate level fade. During 13/14 an underspend emerged across the Defence budget, and additions to the equipment plan were made in-year to compensate. The fade adjustments and the management action taken to invest in additional capabilities resulted in a small net overspend of £185m against the planned equipment budget in 13/14 of £13.7bn, compensating for under spending elsewhere in the Defence Budget.

Figure 7 – Financial Year 13/14 Cost and Budget

Financial Year 2013/14 Budget and Outturn	Near Cash, £m
Opening EP Budget	13,688
Initial Fade Assumption	920
Additional Programming In Year	213
Total Workplan for 2013/14	14,608
Outturn	13,873
Performance against Opening Budget	**185**

18. The level of contractual commitment in the core equipment plan has remained broadly similar to that at the end of ABC 13. Around 69% of the plan is contractually committed in 14/15 (compared to the 70% contractually committed in 13/14 referenced in last year's equipment plan), falling to around 17% at the end of the decade.

Figure 8 – Contractual Commitment at Close ABC 14

Level of Contractual Commitment	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	Total
% of Budget Committed	69%	53%	40%	31%	28%	24%	23%	21%	20%	17%	32%

Section B: Improvements in MOD processes and functions

19. Following engagement with the NAO during their two previous reports into the MOD's forward equipment plan, we have continued to take forward a series of improvements in our data, cost, and risk management processes.

20. DE&S have put in place a 'Forecasting Improvement Programme' designed to continue improvements in forecasting accuracy and deliver a better understanding of over or under-spend when it does occur, including the implications for future years. Other areas being addressed include work to understand historic performance, improving our understanding of EPP and ESP costs and to continue the improvement in understanding and managing financial risk within project teams.

Equipment Procurement Costs

21. The Cost Assurance and Analysis Service (CAAS) team has provided an independent view of the cost of equipment projects since May 2011, which has been used to inform the judgements made by Head Office on the appropriate level of contingency provision. In August 2014, building on its independent cost estimates put forward to inform the QRPC, CAAS provided their view on the realistic outturn cost of the projects and an assessment of the total procurement plan. The CAAS analysed 29 of the largest EPP projects by value (69% of the total cost of new equipment buy over the next ten years) and identified a variation between the forecasts made by project teams and the CAAS view of realistic project outturn costs of £3.2bn over the ABC 14 period (2014/15 to 2023/24). This is a reduction in the difference seen in ABC 13, which was £4.4bn, though the numbers are not directly comparable as they are based on differing populations and a different 10 year planning window. The continuing convergence of the CAAS estimates of most likely costs and the project teams forecast costs reflects better alignment of CAAS and project team judgments and of the processes behind the forecasts.

Equipment Support Costs

22. The CAAS has also begun to provide independent cost estimates for ESP projects in the same way that they have done previously for EPP costs. In ABC 14 they looked at 16 of the largest ESP projects (28% of the total cost for support over ten years), but they will not present a view of the overall affordability of the ESP until they have a more mature view of the entire programme. The CAAS work on independent cost estimates for support programmes will continue to mature the Department's understanding of ESP costs and during ABC 15 the aim is to increase the number of projects considered by CAAS in the ESP to an anticipated level of at least 50% of the ten year cost of the total ESP.

23. Following the review by the CAAS team of the EPP and ESP programme costs, we have concluded that the EP contingency of £4.6bn is sufficient to deal with the likely level of cost growth within the equipment plan and broader risks that may emerge.

24. We have also engaged private sector support to help identify cost savings across the largest ESP projects and develop enduring methodologies to reduce ESP costs while still delivering the required level of support. At the end of October 2014, 11 major support projects have been reviewed with a combined value of c£3bn a year, representing just less than 40% of the total Equipment Support programme. So far the support project teams

have agreed that efficiency savings plans worth £2.9bn over 10 years are deliverable. The process of confirming and delivering these efficiencies, which do not affect outputs, is under way. The review has conducted several lessons learned exercises which will be taken forward by the MOD to support the Department's overall aim of delivering equipment support in a more cost-effective manner.

Historic Project Performance

25. The CAAS has also carried out a study into the financial performance of a sample of 21 projects in 2012/13 and 2013/14, when compared to a baseline of PR 12. They identified a number of factors that have led to significant variations between what project teams planned to spend in-year and what actually happened. These include:

a. Project Teams allowing insufficient time to assemble the evidence required by the approvals process.

b. Programme slippage and the performance of contractors.

c. Genuine cost savings arising from robust negotiations with suppliers.

d. Risk provision being retired when it emerges that it is no longer required.

e. Accountabilities for financial management being unclear and a lack of capability to apply complex financial planning assumptions.

f. A culture of overbidding for funding.

26. In financial years 12/13 and 13/14, these six factors accounted for 90% of the underspend in the 21 projects reviewed. CAAS found that the previously applied fade adjustments and bring forwards had been effective in reducing the level of gross underspend across the overall programme in year 13/14. They also found that only £200m of the gross movement of around £700m in equipment project costs was re-profiled to later years. We will continue to use fade adjustments and the bringing forward of planned expenditure to manage our budget while we work to tackle the root causes of underspend in the equipment plan and continue to improve the accuracy of our cost forecasting. CAAS plans an equivalent analysis for FY14/15 in 2015, delivered as part of the Understanding Historic Performance workstream within the Forecasting Improvement Programme.

Efficiency savings in major programmes

27. As part of the Department's drive to deliver continuous improvement in the equipment plan there are a number of large projects that are set to deliver efficiency targets. This includes the Complex Weapons pipeline and the Submarine Enterprise Performance Programme (SEPP).

28. The Complex Weapons pipeline is designed to meet the UK's enduring requirement to have battle winning complex weapons capability. The approach meets the UK's Complex Weapons requirements through an innovative approach based on the development of families of weapons which focuses on commonality, modularity and reuse. The Complex Weapons pipeline aims to provide net financial benefits of £1.2bn to the

Department over the period 2010 to 2019 and is delivering its benefits to plan; the latest audited figure for benefits delivery to date is £196m.

29. The SEPP is being pursued in cooperation with the three main prime contractors in the support and procurement of our Submarines aiming to make the Enterprise more efficient, improve overall performance and increase sustainability; based on a stable submarine programme. SEPP is a continuing programme of activity committed to delivering £900m of savings over the first ten years of the programme. Good progress is being made – financial benefits of £356m have so far been delivered. All three Foundation Contracts have been signed; a robust benefits delivery and audit process has been established and Submarine Portfolio Office has been formed providing a coherent joint programming function across the Enterprise.

Changes to the MOD's capability planning

30. Under the delegated model which came into effect for ABC 14, the FLCs have the responsibility for delivering military capability across their own environments and supporting capability delivery where other FLCs have the lead. Head Office sets the outputs that the FLCs are then expected to deliver within respective financial Control Totals. The FLCs provide an update partway through the ABC process setting out performance and risk against their position.

31. The FLC returns to Head Office are informed by the capability audits they are responsible for running. These identify the strengths and weaknesses within capability plans using analysis to measure any risks between the required output and the capabilities we expect to be available at the front-line. Capability audits provide an input to the Defence Capability Assessment Register which gives an overview of Defence capability across all environments and highlights areas of capability risk and potential investment.

32. This overview, coupled with the FLC returns to the Head Office, allows the Defence Board to make investment choices coherent with Departmental plans in the budgeting cycle. During ABC 14 we decided that joint enabling capabilities required further investment; prudent budget management allowed the £800m investment in joint enablers described earlier in this document. This has reduced the level of capability risk in the joint enablers area and across Defence. Future Force 2020 remains deliverable and affordable with tolerable risk within current budget assumptions, but we continue to monitor the level of capability risk held across the equipment plan and this will be reviewed in the next Strategic Defence and Security Review.

33. The FLCs are already taking advantage of the delegated model by exploiting the freedom to reprioritise resources across the entirety of their programmes. For example, Navy Command has reallocated funding to allow the purchase of additional Tomahawk Land Attack Missiles to restore the stockpile to planned levels; the Army has reallocated resources to fund bringing Urgent Operational Requirements into core and helicopter safety measures; and Air Command has reallocated resources to invest in improved and more integrated synthetic training systems to improve the quality and efficiency of flying training.

Defence Materiel Strategy

34. The Materiel Strategy programme is designed to make real and enduring changes to the way in which the MOD procures and supports the equipment used by our Armed Forces. As previous analysis has demonstrated, three root causes led to the cost and schedule overruns: an over heated equipment budget; an unhealthy relationship between the requestor and the deliverer; and insufficient skills and management freedoms within DE&S.

35. A number of operating models have been examined as part of looking at how DE&S can operate differently to become more effective and more efficient. In December 2013, the then Defence Secretary announced that DE&S would be established as a Bespoke Central Government Trading Entity, remaining wholly within the public sector, but with a number of unique freedoms to allow the organisation to operate in a more businesslike manner.

36. DE&S was launched as a Bespoke Trading Entity on 1st April 2014 and is now operating as an Arm's Length Body from the rest of the MOD. It has a separate governance and oversight structure, including a Board led by an independent chairman and a Chief Executive who is responsible to Parliament for the performance of the organisation. DE&S has also secured a number of important freedoms and flexibilities with HM Treasury and the Cabinet Office around how it operates, particularly in relation to the recruitment, retention, reward and management of its civilian staff.

37. DE&S is bringing in specialised external support through contracts for Managed Service Providers, who will provide assistance in the areas of Project Delivery, Finance, Management Information, Information Technology and Human Resources.

38. The Materiel Strategy will drive the transformation required to deliver significant improvements in DE&S, delivering incremental change over the next three years as part of the journey towards becoming "match fit"; that is, a best-in-class acquisition and support organisation, recognised for its ability to deliver results and the professionalism of its people.

Single Source Procurement Reform (SSPR)

39. In Lord Currie's independent report into Single Source Procurement (2011) he recommended a fundamental overhaul to the existing approach to single source procurement based on greater transparency and standardised reporting, with stronger supplier efficiency incentives, underpinned by a stronger governance arrangement and an independent regulator – the Single Source Regulations Office (SSRO). This report formed the basis for Part 2 of the Defence Reform Act 2014 which was presented to Parliament in July 2013 and which received Royal Assent in May 2014. Part 2 of the Act set out the principles underpinning this new single source procurement framework. At the heart of the new approach is the principle that industry should receive a fair and reasonable price in exchange for providing the MOD with the protections needed to assure value-for-money.

40. Secondary legislation, which set out in detail the regulations to support this new SSPR framework, was laid before Parliament in October and was approved on 15 December 2014. The new approach – known as the Orange Book – came into force on 18

December. Initially, only new single source contracts falling within the appropriate criteria and over £500m in value will qualify, but from the end of March 2015 all new contracts meeting the criteria and over £5m in value will be covered.

41. A key part of the new framework is the establishment of the SSRO as an independent, arms-length regulator. Work is progressing to establish this new body which will act as the regulator between MOD and Industry, issue guidance to both parties in how the new framework will operate, and to resolve issues of dispute.

42. The MOD recognises that this reform represents a radical change to the way in which it approaches single source procurement (which amounts to around 45% of the Department's overall procurement budget). Considerable work is on-going to support the early adopter teams, which will be covered first by the new framework and in developing detailed guidance and training courses for those affected in the commercial, financial, and project management communities. We are working closely with industry to ensure successful implementation.

The Government Major Projects Portfolio

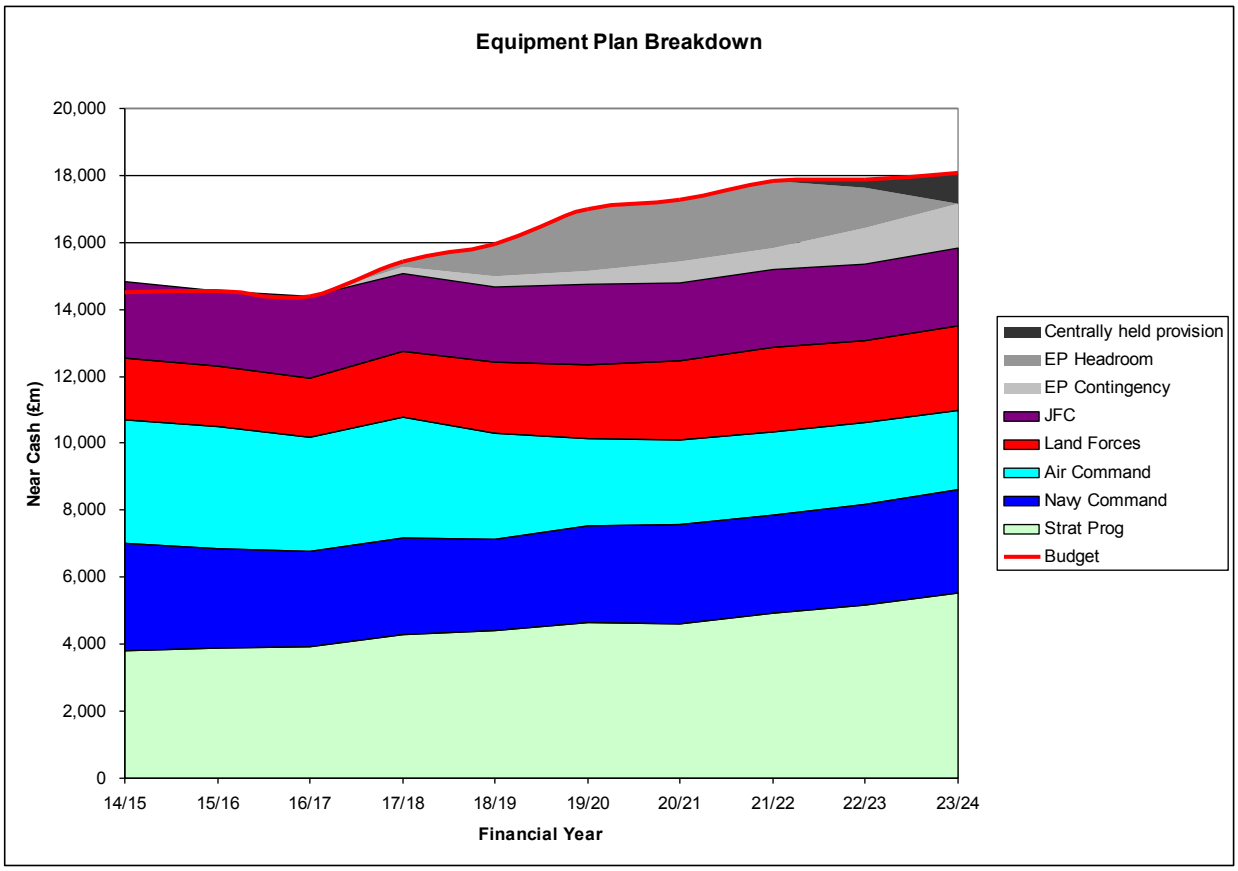
43. The most significant business change and capability change programmes in MOD are included within the Government Major Projects Portfolio (GMPP). The MOD reports on the performance of its GMPP programmes quarterly to the Major Projects Authority (MPA) and selected performance data is published with the MPA's annual report. Though a number of the capability change programmes in the GMPP include equipment procurement projects reported on through the MPR, the scope of GMPP and MPR reporting is different and the two are not directly comparable. The MPR focuses on equipment procurement only, whereas GMPP reporting includes all Lines of Development (i.e. equipment procurement plus infrastructure, training, manpower and other contributing areas).

44. Information on the GMPP, including detail from MOD's reports, is published by the Cabinet Office on the GOV.UK website.

Section C: Sector Analysis – Where does the money go?

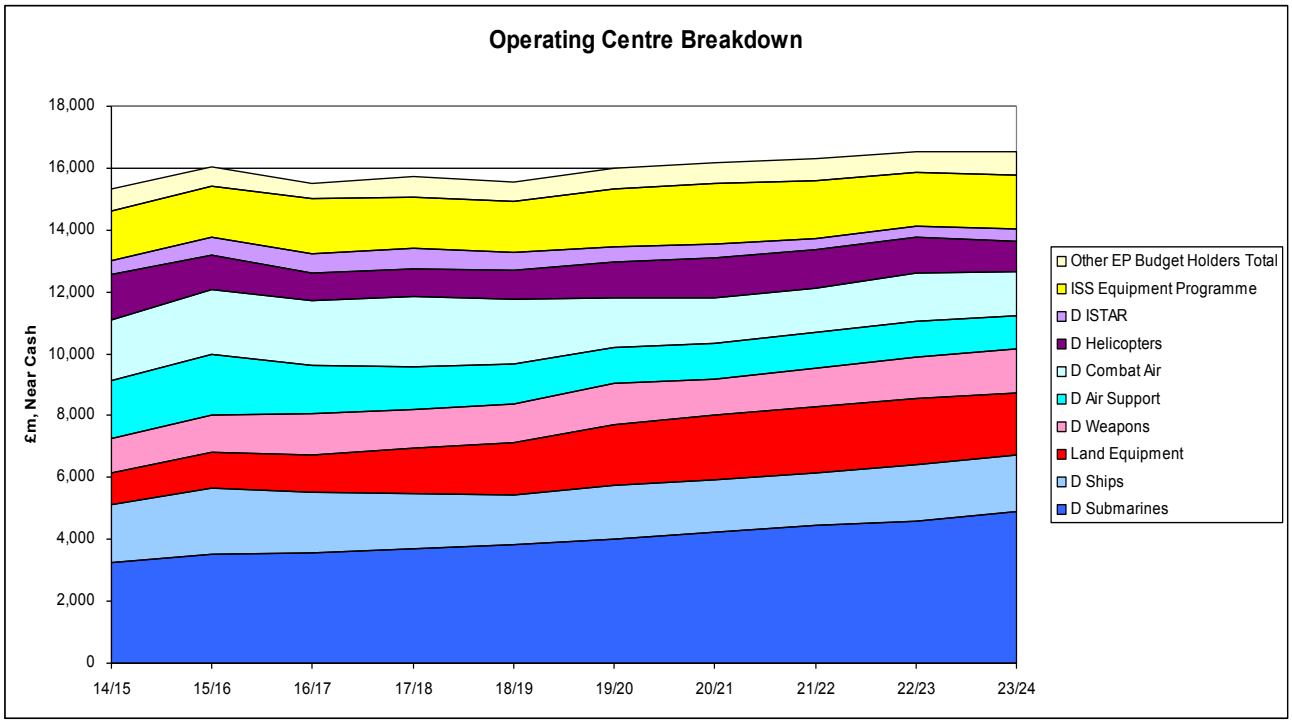
45. The breakdown of the equipment plan by FLC is shown in the graph below, along with contingency, headroom and centrally held provision.

Figure 9 – Equipment Plan by Command



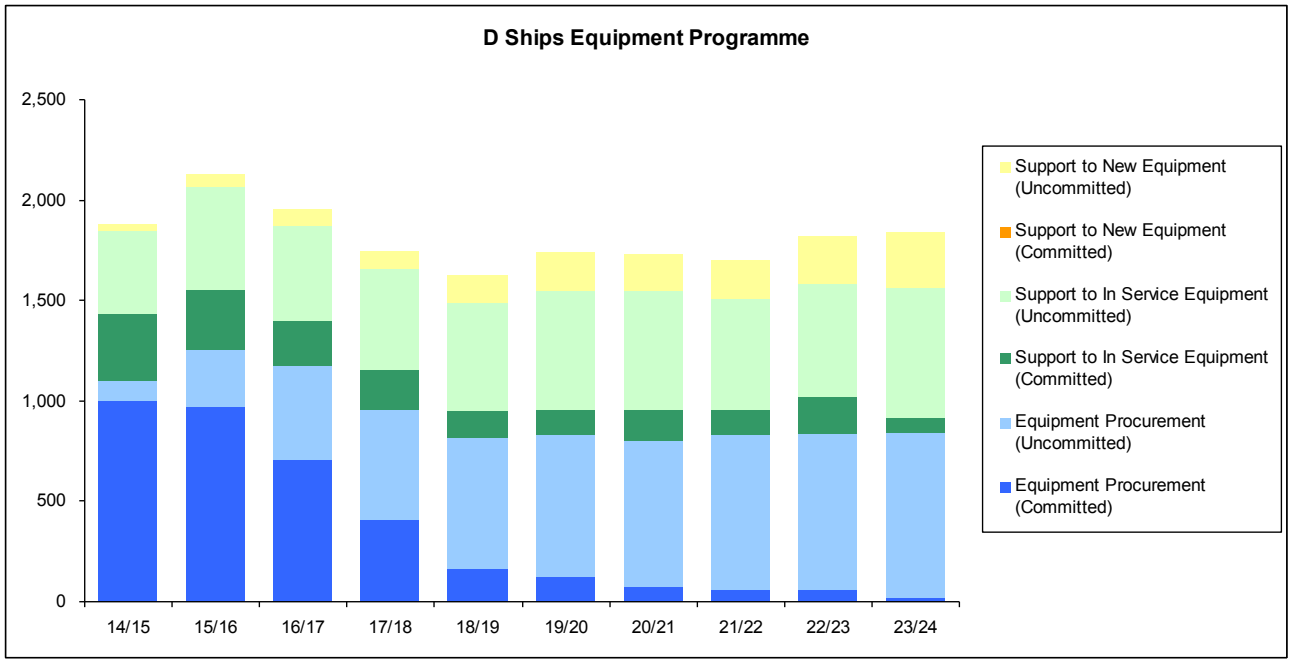
46. The FLCs manage and distribute their equipment budget to the individual DE&S and ISS teams that are responsible for delivering equipment and support projects. These project teams are grouped up by Operating Centres based on the type of equipment delivered. A breakdown of the budgets issued to the eight main Operating Centres (Submarines, Ships, Land Equipment, Weapons, Air Support, Combat Air, Helicopters and Intelligence, Surveillance, Target Acquisition and Reconnaissance (ISTAR)), along with the ISS equipment programme and the remaining equipment plan Budget Holders, is shown in the graph below. The sum of these budgets exceeds the total equipment budget in places. This is because the FLCs hold a number of adjustments (including the ESP efficiency savings) centrally and have not yet attributed them by Operating Centre.

Figure 10 – Equipment Plan by Operating Centre



Ships

47. We plan to spend around £18.2bn on surface ships over the next ten years, in comparison to £17.4bn at the end of the previous planning cycle.



48. This sector covers spending on the design, build and maintenance of surface ships together with the supply and maintenance of the equipments onboard. This includes investment in:

- the completion of the two Queen Elizabeth Class aircraft carriers.
- the design and development of the Type 26 Global Combat Ship, which will replace the Type 23 Frigate.
- Four new Tide Class Tankers, to provide modern ships for the Royal Fleet Auxiliary from 2016. The contract for all four vessels was placed in 2012 and the first will enter service from 2016.
- Three new Offshore Patrol Vessels, for which a firm price contract has been awarded to BAE Systems. The first ship is planned to enter service in 2017.

49. During ABC 14 we:

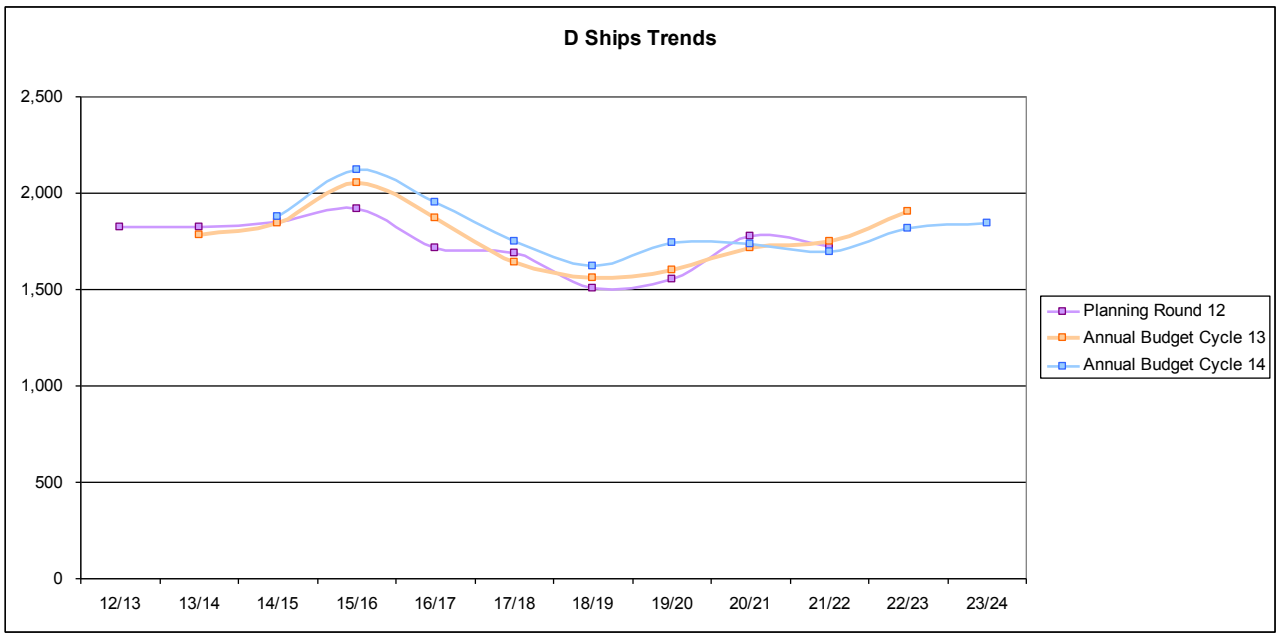
- Renegotiated the Queen Elizabeth Class carrier contract to ensure a better contract for the tax payer by rebalancing the risk and reward mechanism. As a result, any future variation in price, whether up or down, will be shared equally between the Department and Industry.

- invested additional funding to purchase the Ice Patrol Ship, HMS Protector, which had previously been leased.

- updated HMS Chiddingfold's main propulsion engines during a major refit in Portsmouth.

- fitted a new long range radar (Artisan) to HMS Iron Duke which has provided a significant upgrade in capability.

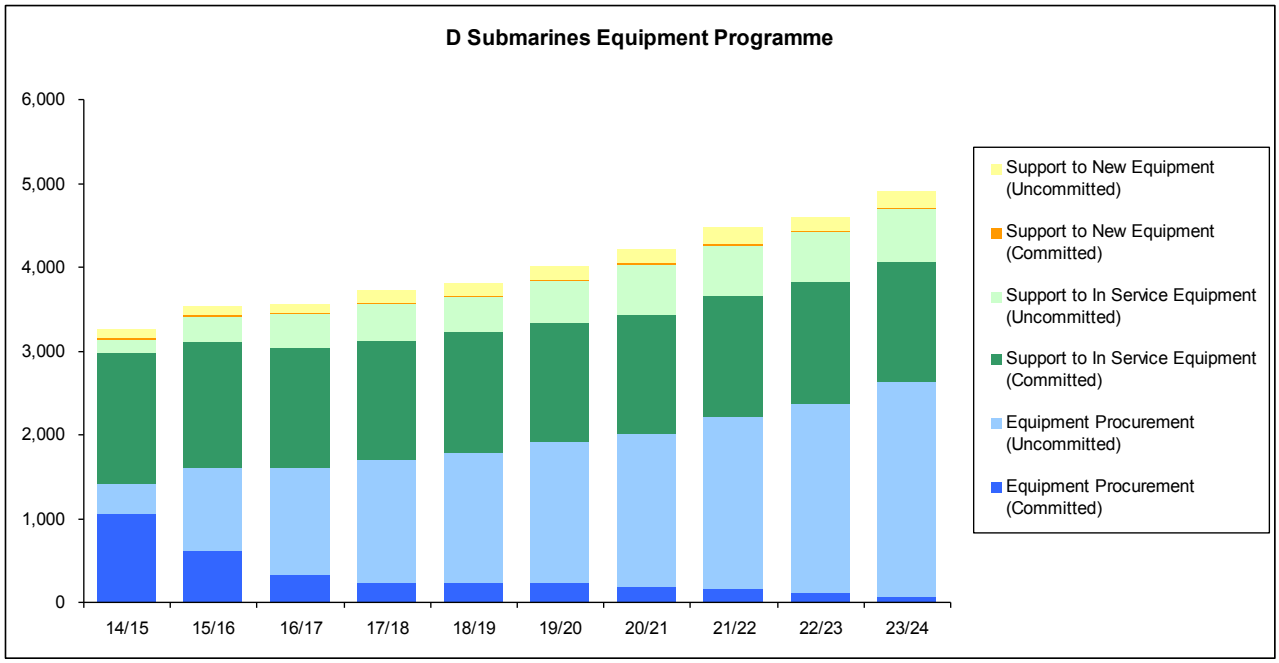
- signed a contract for the maintenance and repair of 17 different Sonar and Electronic Warfare Systems fitted across the fleet, at a value of £600m over the next 10 years.



50. The planned spend profile over the next 10 years for the Ships Operating Centre has increased slightly, with growth the result of many small changes across what is a wide and diverse portfolio of programmes and projects. The peak in the early years is caused largely by Tide Class Tanker completion and delivery.

Submarines

51. We plan to spend around £40bn on Submarines over the next decade in comparison to £38bn at the end of the last planning cycle.



52. This sector covers spending on all Submarine procurement and support. This includes investment in:

- support to In-Service Submarines, including the provision of engineering and design authority support to the UK Submarine flotilla to ensure that they remain safe, available and capable.

- the delivery of 7 Astute Class Submarines, the initial support and training, as well as the delivery of the Astute Capability Sustainment Programme.

- the Successor submarine design and build activities at Barrow; the common missile compartment arrangements with the US; the command and control and naval base infrastructure upgrades required.

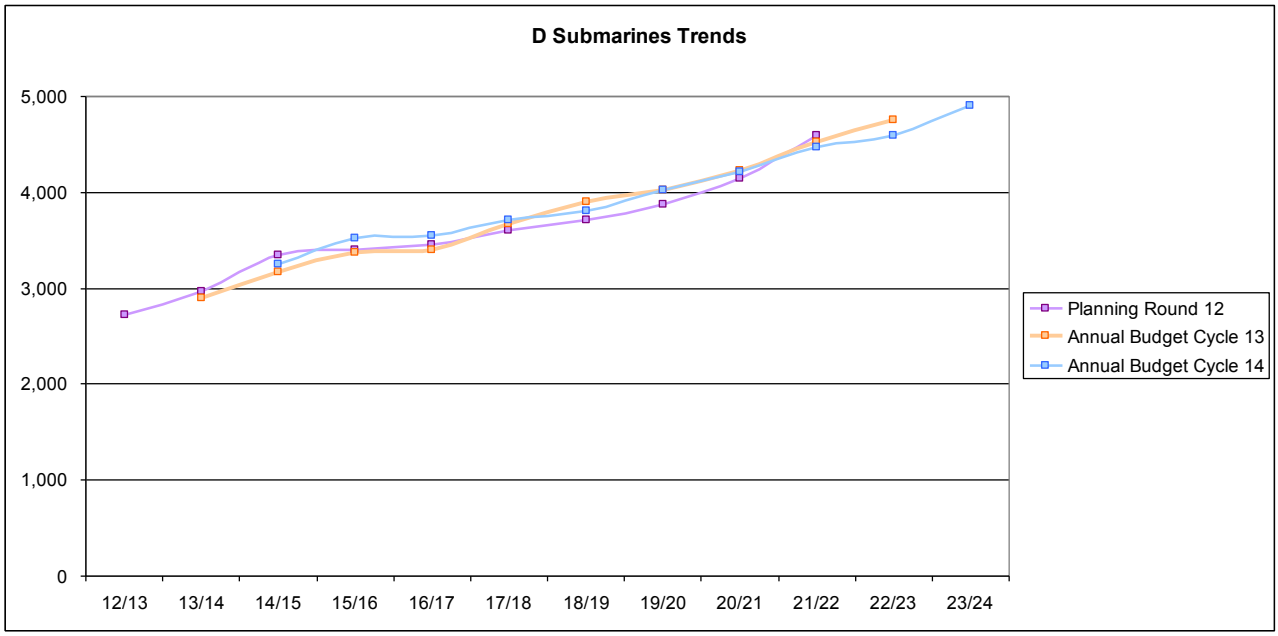
- the support, procurement and design of naval nuclear propulsion systems.

- the nuclear weapons capability sustainment programme, which covers the operation, maintenance and updating of the Atomic Weapons Establishment; the Trident missile system with the US; the UK/French collaborative Teutates project, and the provision of other services and activities across the Strategic Weapons System.

53. During ABC 14 we:

- maintained Continuous At Sea Deterrence with the Vanguard class submarines and provided Trafalgar and Astute class submarines to support Fleet operations.
- accepted into service and deployed HMS Astute and HMS Ambush (boats 1 and 2) launched HMS Artful (boat 3), progressed the construction of boats 4-6 and cut steel on Astute boat 7.

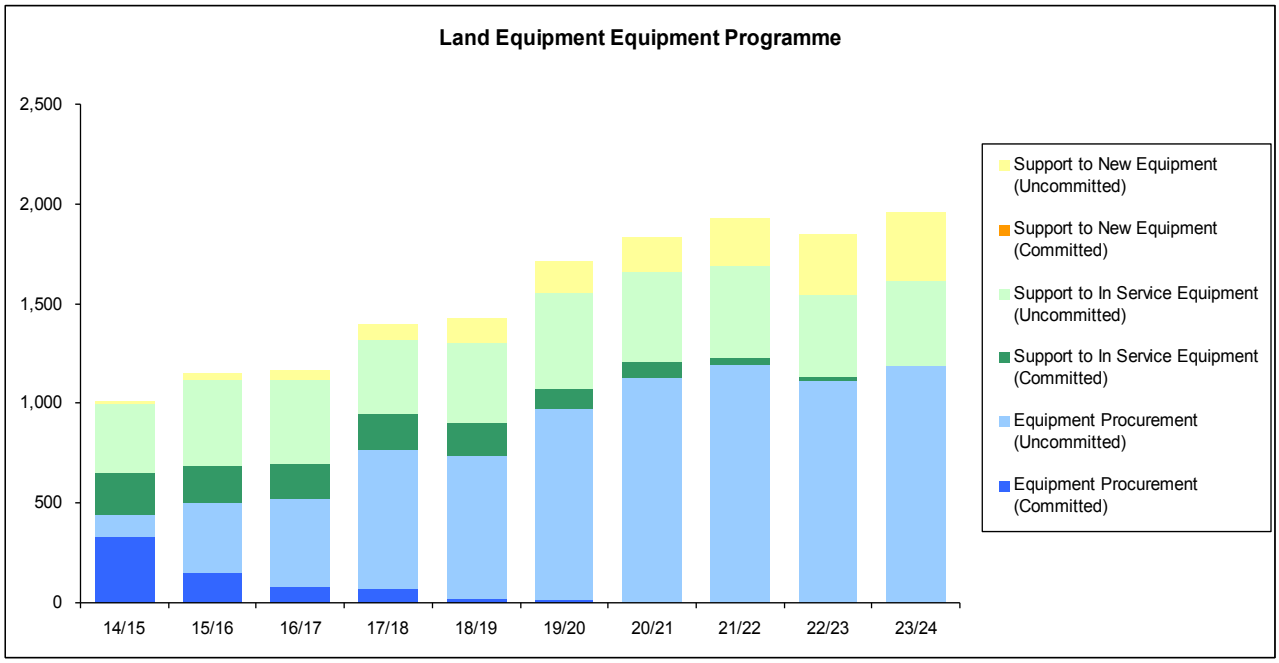
- increased the design maturity of the Successor submarine and its nuclear propulsion plant.



54. The increase in the planned spend profile over this period is mainly due to the effect of the roll-forward at the end of ABC 14 with higher spend planned in financial year 23/24. In addition there is the impact of new Successor submarine infrastructure and production activity, the final stages of Astute class production, and the cost of supporting Vanguard class submarines as they approach end-of-life.

Land Equipment

55. We plan to spend around £15.4bn on Land Equipment over the next decade in comparison to £13.1bn at the end of the previous planning cycle.



56. This sector covers spending on the delivery and support of armoured, protected and support vehicles, operational infrastructure, soldier fighting systems, and training solutions. This includes:

- the Warrior Capability Sustainment Programme, delivering capability enhancements and an extended service life.
- the Challenger 2 Life Extension Programme.
- the Scout Specialist Vehicle and Utility Vehicle programmes which will replace a range of tracked armoured vehicles reaching the end of their viable lifespan.
- modifications to equipment purchased as Urgent Operational Requirements for Afghanistan in order to optimise their continued utility.

57. During ABC 14 we:

- invested additional funding from the headroom in the Scout Specialist Vehicle to ensure that there was a realistic funding profile for this programme, which subsequently enabled delivery of a £3.5bn contract for 587 vehicles in September 2014.

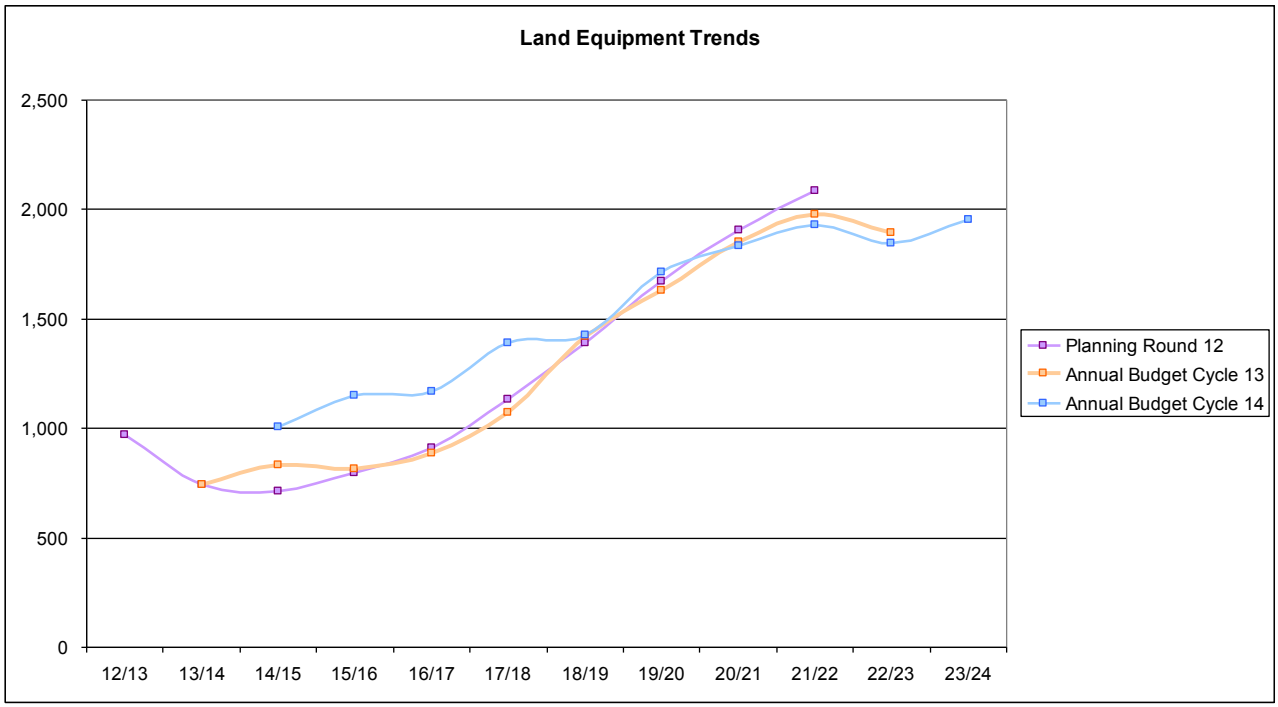
- progressed the Warrior Capability Sustainment Programme, which passed its latest milestone - the Preliminary Design Review – in December 2013. The programme is advancing towards a series of integration and firing trials.

- supplied the Army Reserves with over 16,000 quadrails and downgrips for their SA80 Assault Rifles, equipping them to the same standard as their regular counterparts. The contract was awarded in September 2013 at a cost of approximately £5.8m with all items being delivered before the end of March 2014.

- regenerated 75 of 99 VIKING Armoured Vehicles for the Royal Marines at a cost of over £30m, meeting target dates.

- fielded to Afghanistan a new lightweight mine roller for use with Husky protected patrol vehicles.

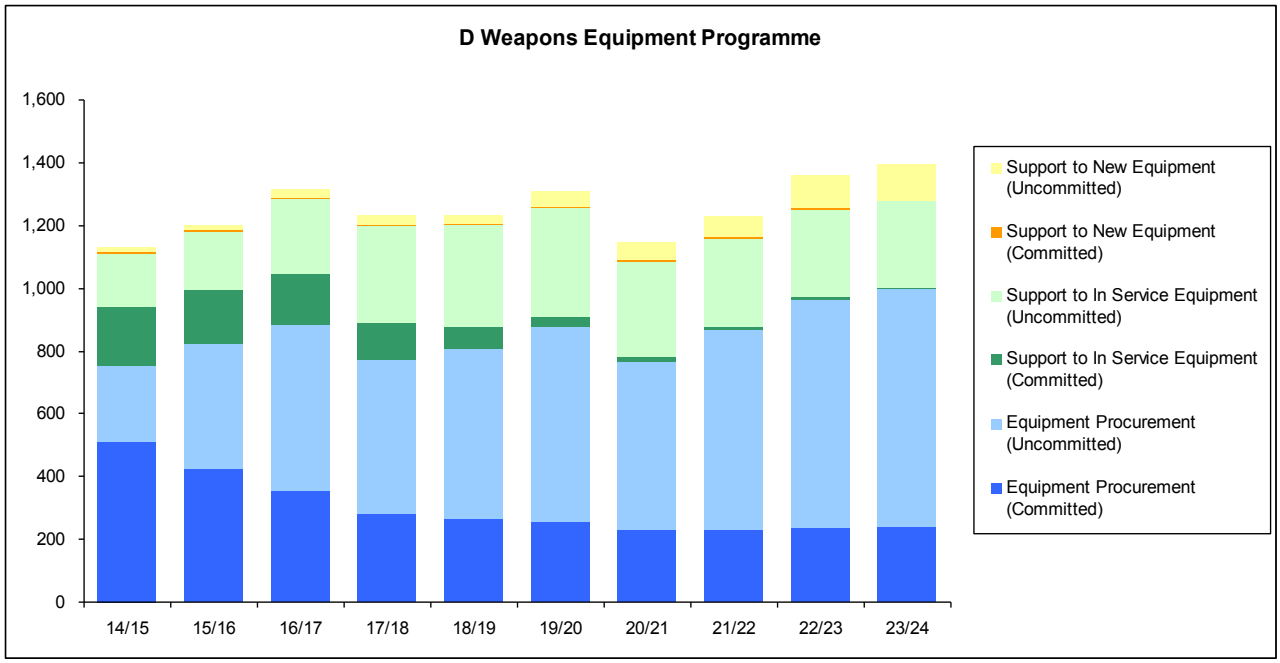
- declared Full Operating Capability for the Future Power Capability which represents the delivery of 100 new fuel efficient, variable speed generators and associated power distribution equipment at a cost of £9m.



58. The increase in planned spending compared to last year's plan reflects two factors: the re-profiling of funding for the delivery of Scout Specialist Vehicle and additional work for new projects, including starting Concept and Assessment phases.

Weapons

59. We plan to spend £12.6bn on the Weapons Programme over the next ten years, in comparison to £11.6bn at the end of the previous planning cycle.



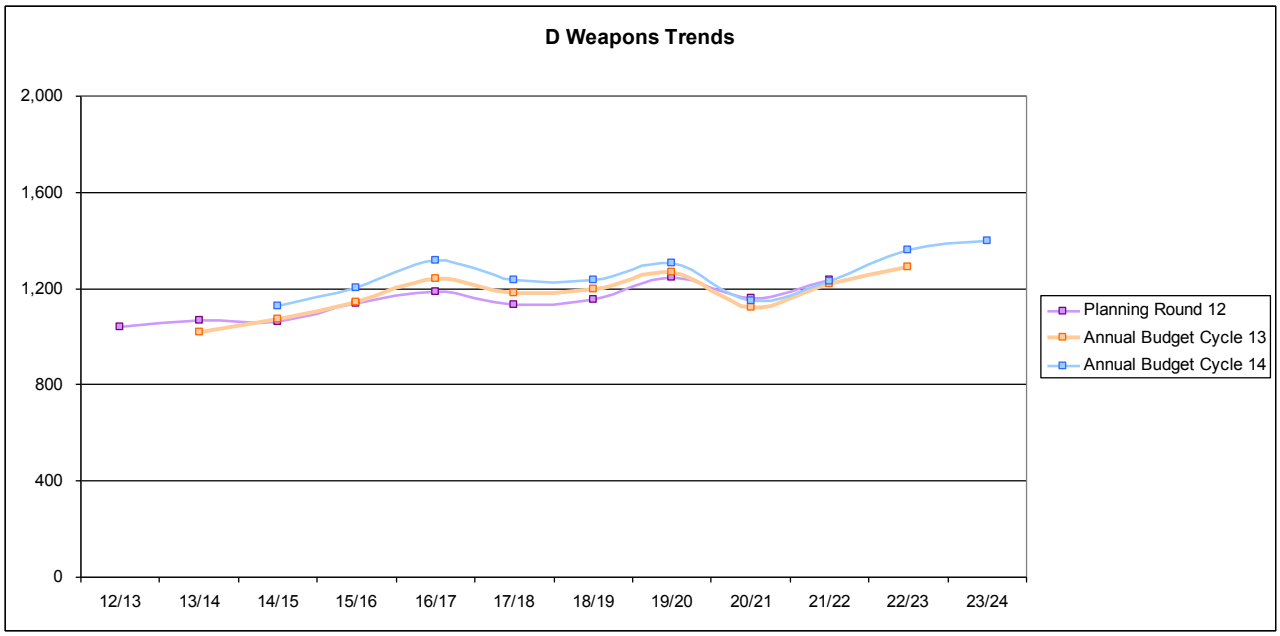
60. This sector covers spending on the procurement of our more sophisticated weapon systems, predominantly through the Complex Weapons Pipeline arrangement, a wide ranging agreement with our industry partners worth around £7bn over the decade. This investment includes:

- the Common Anti-Air Modular Missile (CAMM), which evolved from the Advanced Short Range Air-to-Air Missile and has been developed for the Future Local Area Air Defence (FLAADS) System for the Maritime and Land environments.

- manufacture of the Maritime variant of CAMM, known as Sea Ceptor, which will enter service on Type 23 Frigates in 2016.

- delivery of a new Future Anti-Surface Guided Weapon (FASGW) which will equip the Royal Navy's new Wildcat Helicopters.

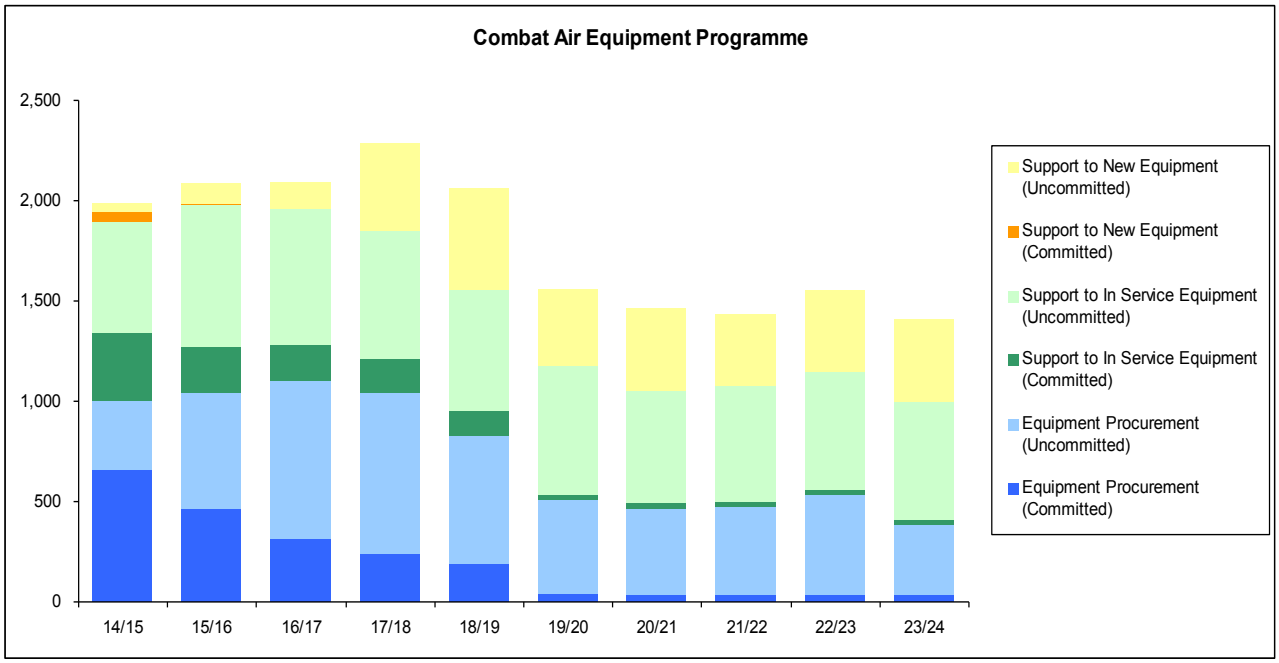
61. During ABC 14 we let two significant contracts (total value c£600m) for FLAADS on Type 23 Frigates and the FASGW (Heavy).



62. The main reasons for budget increases between ABC 13 and ABC 14 are the £229m impact of roll-forward (the budget for Year 1 ABC 13 was significantly lower than for Year 10 ABC 14) and £218m net movements across programmes. This included a transfer of £160m munitions support costs into the ESP from operating costs and £106m increase on the FASGW programme.

Combat Air

63. We plan to spend around £17.9bn in the Combat Air sector over the next ten years, in comparison to £18.5bn at the end of the previous planning cycle.



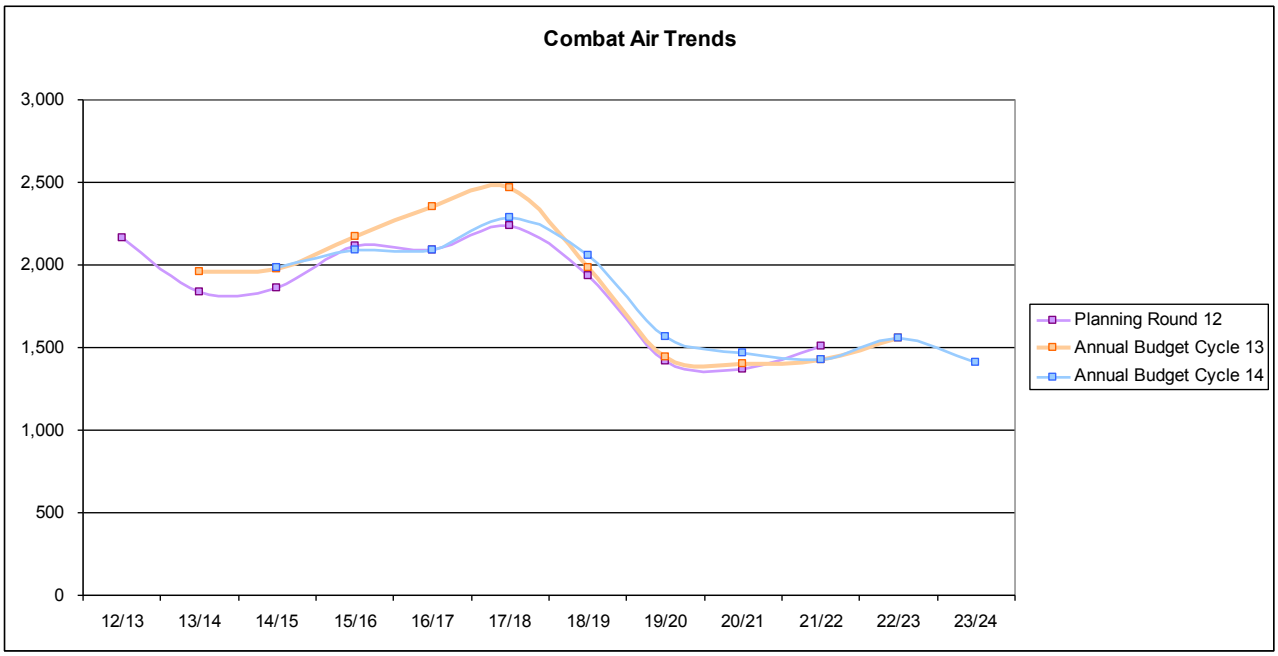
64. This sector covers fast jets, Unmanned Air Systems and military flying training, including the procurement of training aircraft. This investment includes:

- Typhoon capability, including the integration of a suite of weapons capabilities that will enhance its utility in the ground attack role.
- the Joint Strike Fighter programme, a critical element of our plans to deliver a high-end power projection capability for decades to come.
- Unmanned Air Systems.

65. During ABC 14 we:

- invested £72m in the development of E-Scan radar to enhance capability of Typhoon fleet and invested £130m to develop the unmanned Future Combat Air System concept.
- received a third F-35B Short Take-Off and Vertical Landing variant Joint Strike Fighter.
- took delivery of the final Tranche 2 and initial Tranche 3 Typhoon aircraft.
- delivered capability enhancements to our Typhoon fleet including air-to-surface capability and enhanced interoperability with coalition forces.

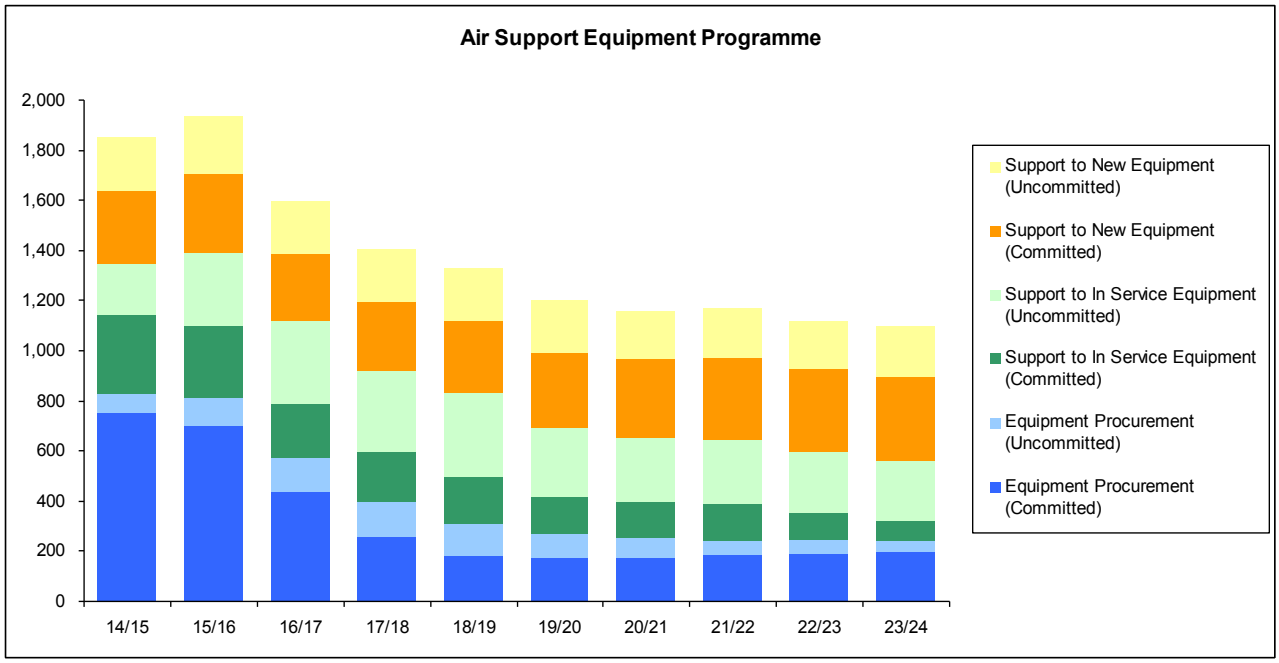
- invested in METEOR, a beyond visual range air to air missile, which is currently being integrated on the Typhoon fleet.



66. The table above shows the budget allocated to the Combat Air sector increasing in financial years 13/14 to 16/17 and reducing thereafter. These changes are driven by adjustments to the Typhoon and Joint Strike Fighter production schedules.

Air Support

67. We now plan to spend around £13.8bn in the Air Support sector over the next ten years, in comparison to £13.6bn at the end of the previous planning cycle.



68. 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.
- the continuation of the Voyager transport and air-to-air refuelling aircraft programme, which replaced the VC10 and TriStar fleets from April 2014.
- new Airseeker, Intelligence, Surveillance and Reconnaissance Rivet Joint aircraft to replace the Nimrod R1 and provide us with a state-of-the-art airborne signals intelligence collection capability.

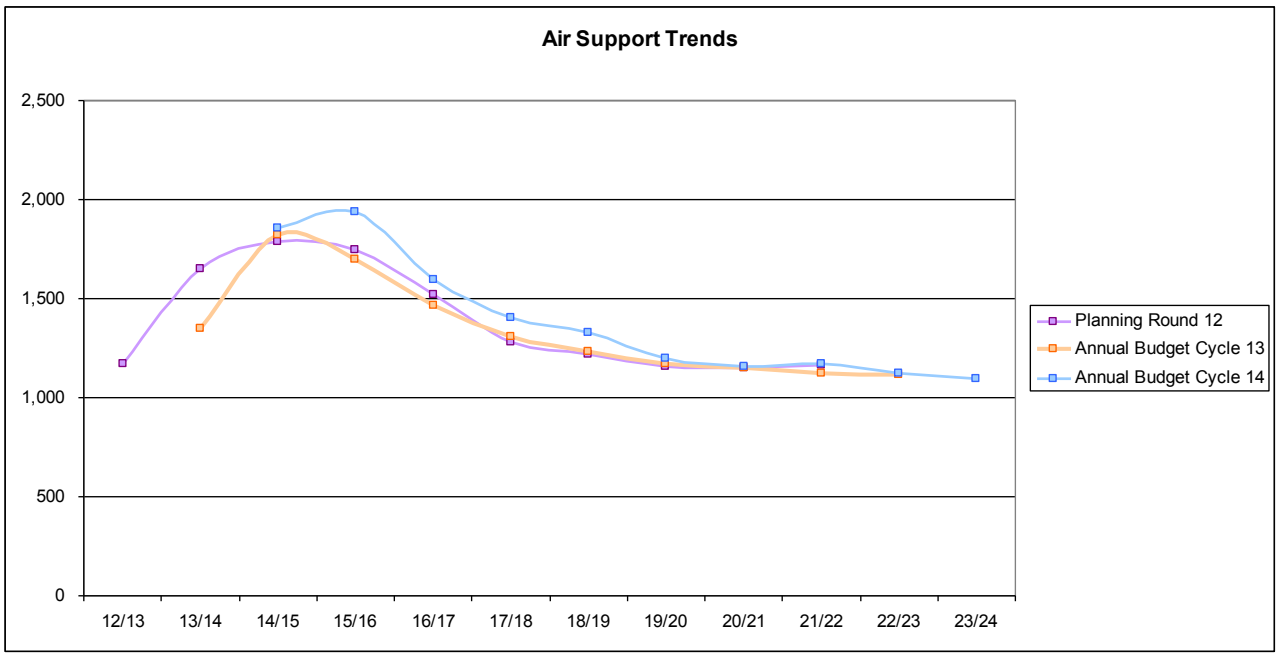
69. During ABC 14 we:

- were able to invest in extending the planned life of the Sentinel surveillance aircraft from 2015 to 2018 and to bring forward the purchase of two A400M transport aircraft.
- made good progress building up core military capability of the Voyager air-to-air tanker and passenger transport aircraft with nine delivered by July 2014.
- took delivery of the first Rivet Joint aircraft in November 2013 as part of the Airseeker capability.

- accepted into service the second of two BAE 146QC transport aircraft procured under an Urgent Operational Requirement in April 2013.

- took delivery of satellite communication equipment at the end of financial year 13/14 to commence modification of C17 fleet in financial year 14/15.

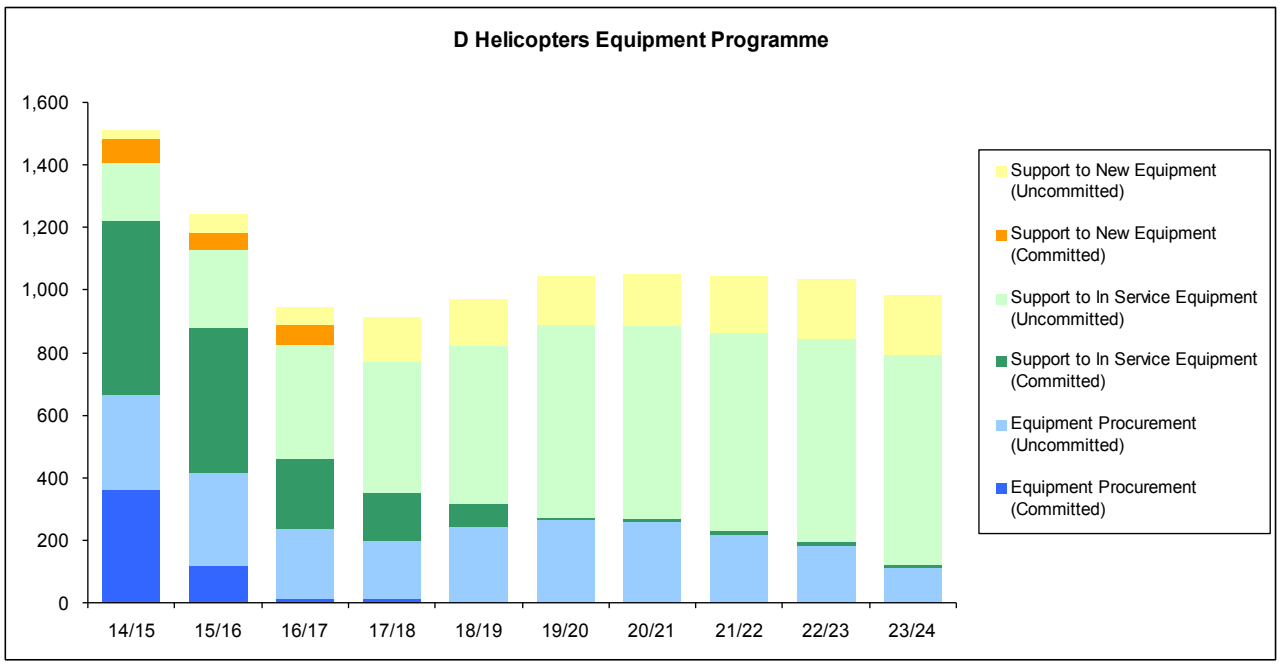
- took delivery of a cargo hold trainer in support of A400M training.



70. Overall there is little change between ABC 13 and ABC 14, with the main difference being driven by the extension to the Sentinel ISTAR air platform out of Service date from 2015 to 2018.

Helicopters

71. We plan to spend around £11.1bn on helicopter capabilities over the next ten years, broadly unchanged from the end of the previous planning cycle.



72. This sector covers spending on all helicopter procurement and support. This investment includes:

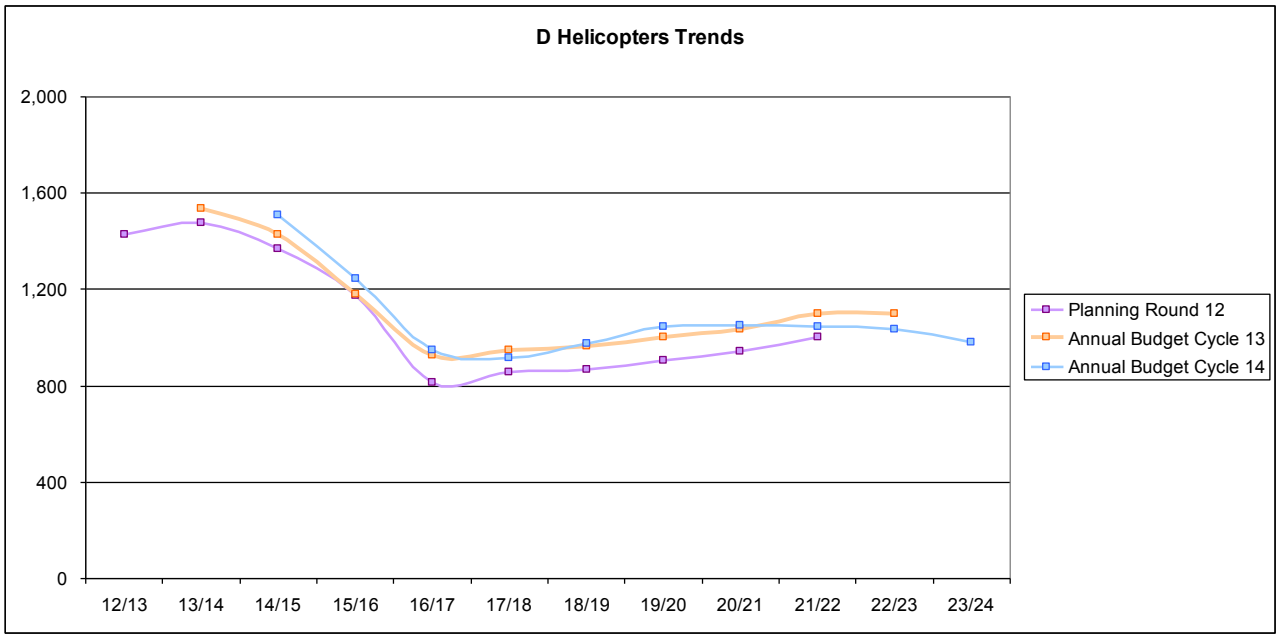
- upgrades to our existing airframes and investment in new ones.
- longer term rationalisation to four core helicopter fleets - Chinook, Merlin, Apache and Wildcat - which we plan to sustain until at least 2040.

73. During ABC 14 we:

- invested additional funding in vital rotary wing safety across the helicopter fleet, additional funding for the sustainment and conversion of Merlin Mk3 and Mk3a helicopters, and we were able to bring forward the purchase of 6 Wildcat helicopters.
- had Puma Mk2 helicopters released to service with the Royal Air Force in August 2013. The modifications made to our Puma fleet will significantly enhance its performance and handling.
- committed to contracts in December 2013 to modify our Royal Air Force Merlin Mk3/3a helicopters to enable their use in support of the Royal Navy Commando Helicopter Force. This will enable them to transport Royal Marines and vital cargos from sea to land.

- had the first Chinook Mk6 helicopters delivered to the UK and released to service with the Royal Air Force in April 2014; user training has commenced. The first 5 of 14 aircraft we have ordered have currently been delivered, with the remainder forecast for delivery before the end of 2015.

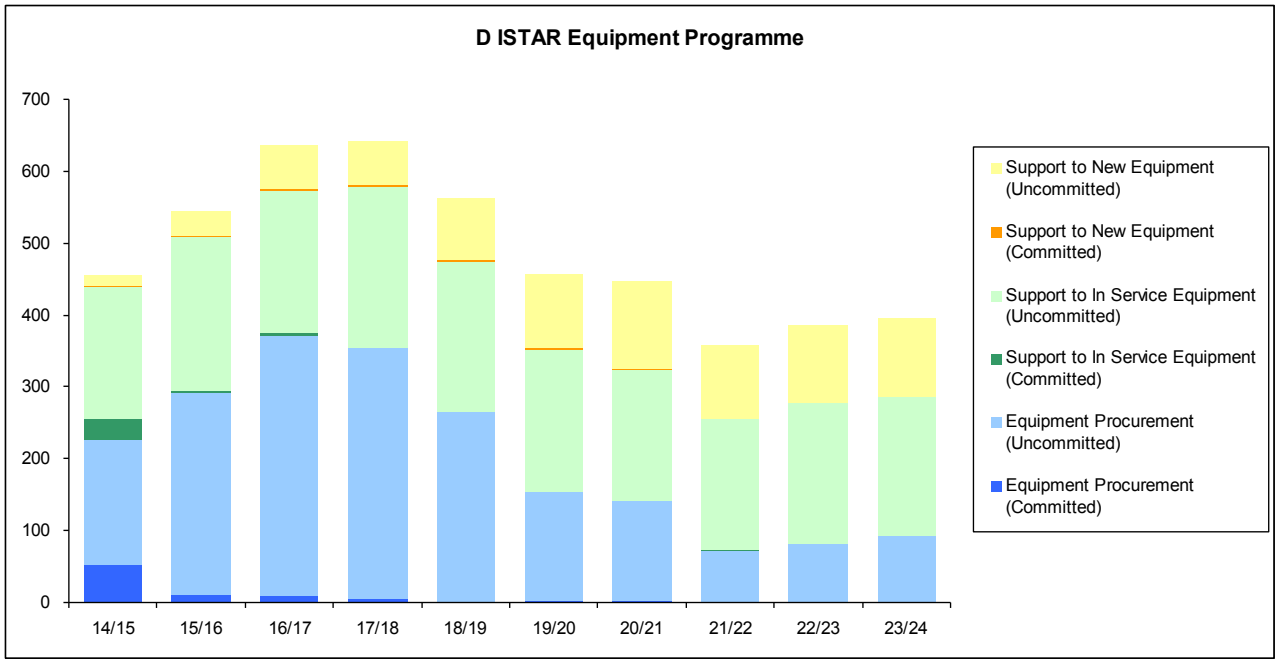
- committed to multi-year availability contracts for the provision of support to our Apache fleet and to the engines used on Chinook, Apache and Merlin fleets.



74. While there was no change to the total programme value across the 10 years, there were two significant changes within the Helicopter budget. These were the introduction of a new procurement project in ABC 14 to upgrade and modify Merlin Mk3/3As, and additional safety related investment. The increases from these are partially offset by cost efficiencies achieved in negotiating the latest Apache support contract.

ISTAR

75. We plan to spend £4.9bn on ISTAR over the next decade, unchanged from £4.9bn at the end of the previous planning cycle.



76. This investment includes spend on intelligence networks and applications; CBRN detection and countermeasures; operational surveillance systems and electronic countermeasures; a range of Special Forces equipment; air defence; air traffic management and tactical data links. It excludes expenditure on Air ISTAR platforms in the Air Support Operating Centre, including Airseeker and the Reaper Unmanned Aerial Vehicles.

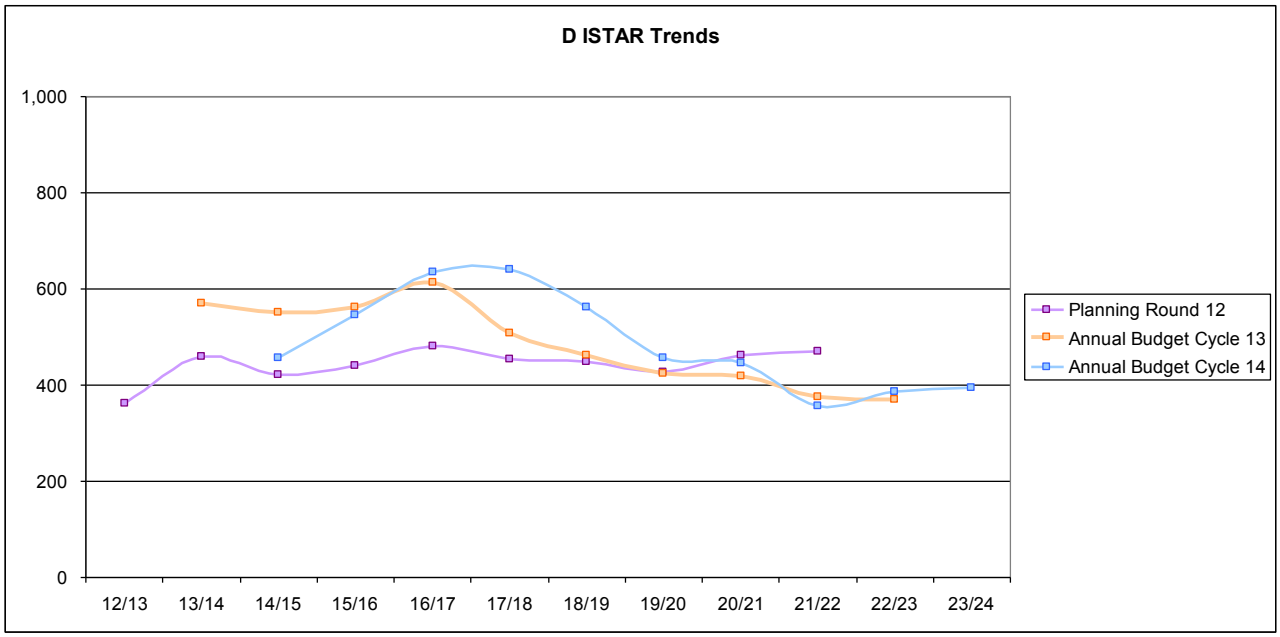
77. During ABC 14 we:

- invested additional funding in ISTAR capabilities such as Chemical Biological Radiological and Nuclear (CBRN) detection and countermeasures, as part of the early years £800m joint enablers package.

- introduced the Land Environment Air Picture Provision programme to provide ground commanders with increased air situational awareness - the warning and interdiction of air threats, coordination of air activity, and deconfliction of airspace - leading to greater combat effectiveness.

- delivered three Large Access Devices to the US Department of Defence to support the elimination of chemical warfare agents from Syria; protective CBRN equipment for aircrew; and a reach-back capability to analyse CBRN-affected soil samples.

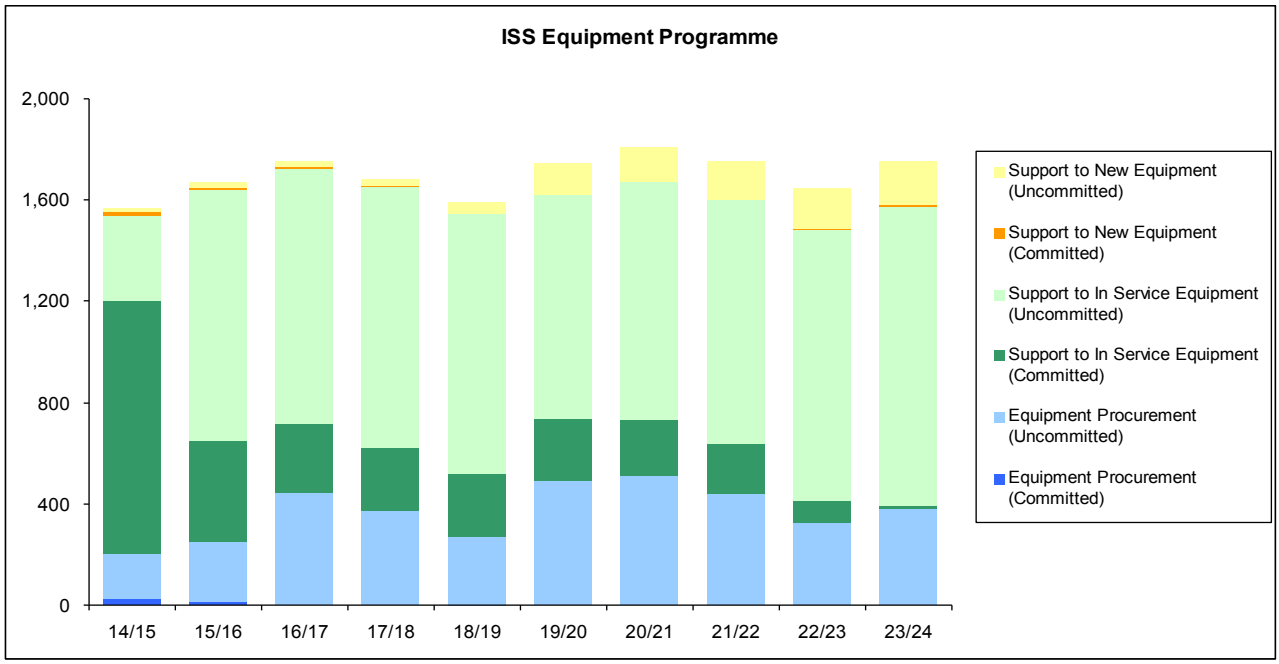
78. The early years options package, which includes significant funding for enhanced CBRN protection and other ISTAR capabilities, increases spend in the early years of the budget cycle. The impact on the ten year budget in the D ISTAR area is balanced by the roll forward which sees a smaller budget in financial year 23/24 than there was in 13/14.



79. ISTAR's future profile is dominated by Project MARSHALL which is planned to amount to around £1.5bn over 22 years. MARSHALL will deliver air traffic management services for government aerodromes in the UK, permanent airbases abroad and deployed forces worldwide.

Information Systems and Services (ISS)

80. We plan to spend around £16.9bn on Information Systems and Services over the next decade. This is an increase from the planned spend of approximately £15.8bn at the end of the previous planning cycle.



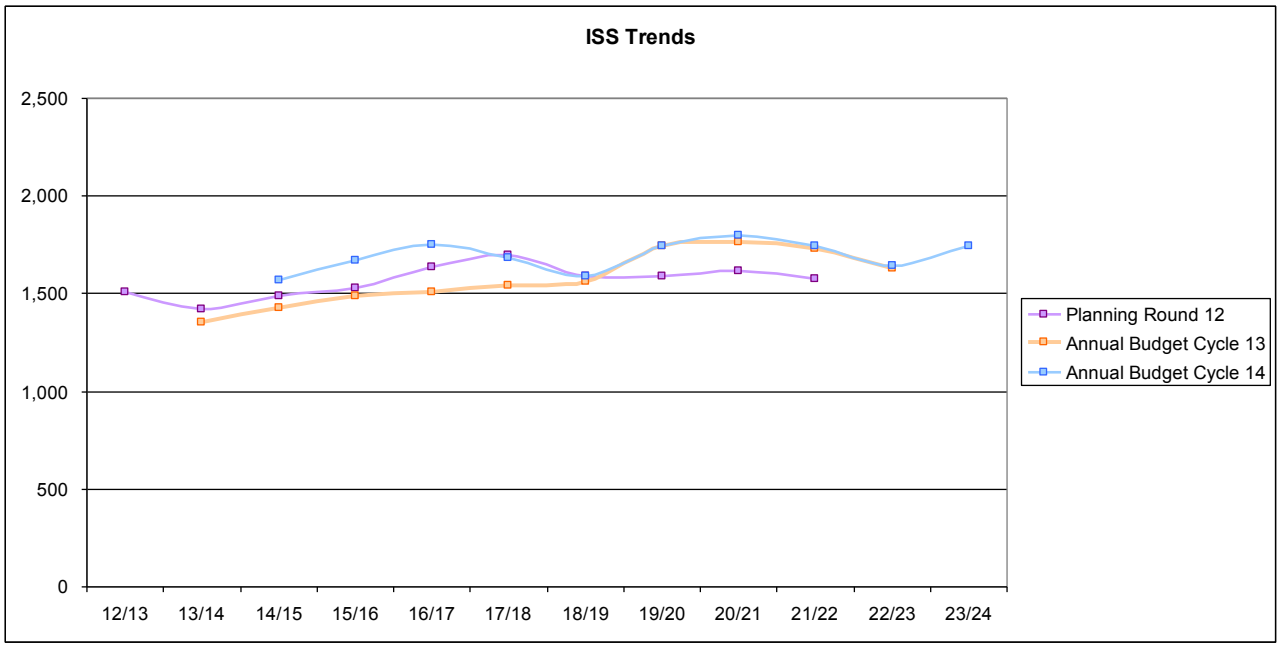
81. This sector covers all of our expenditure on procurement of data and voice communications and the development and upkeep of our entire supporting network infrastructure.

82. During ABC 14 we:

- invested additional funding in our Cyber Defence capabilities, as part of the early years £800m joint enablers package.

- developed and integrated the next upgrade to the Bowman tactical communications system which integrates digital voice and data technology. It delivers significant improvements to the software elements of the system, in particular the Combat application and the commonality between software used in barracks, on exercise and on operations. The upgrade is currently on time and within budget and is expected to complete by March 2015.

- accepted into service the first two increments of the BAE Systems supplied Falcon communications system. This system offers highly resilient, scalable broadband and voice communications across a theatre of operations.



83. A more detailed examination of capability requirements in the ISS area and other joint enablers is a priority for the new JFC. We would expect the results of this work to be taken forward in ABC 15.

Other elements of the Equipment Plan

84. Other elements of the equipment plan not individually broken down in this analysis total around £6.6bn in comparison to £6.4bn at the end of the previous planning cycle. The largest individual section of this (£3bn) represents our planned spend on supporting our three naval bases. Also included in this area is spend on the Joint Supply Chain, Logistics & Commodities and other smaller areas of spend, including a line for the minor adjustments that Front Line Commands make as part of managing their budgets. The total spend is broken down in the table below.

Other Elements of EP (Near Cash, £m)	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	Total
Logistics & Commodities	77	86	79	95	95	87	39	115	50	113	836
Joint Supply Chain	213	209	188	189	195	202	207	218	214	222	2,058
Naval Bases	271	275	283	293	305	313	328	332	341	349	3,088
Naval Authority Group	20	21	22	23	23	23	24	24	25	26	230
Technical Services	27	23	20	18	10	11	11	10	12	12	154
FLC Adjustments	130	9	-97	52	23	32	41	27	26	23	266
Total	739	623	494	669	651	668	650	727	668	744	6,633

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