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Ministry of Defence

A defence estate of the right size to
meet operational needs

Summary

Background

1 The Ministry of Defence (the Department) owns around 240,000 hectares and has rights of access to a further 130,000 hectares in the United Kingdom. The Department manages a further 200,000 hectares overseas. The estate, which is valued at nearly £20 billion, is diverse, with some 4,000 sites including airfields, naval bases and barracks. An estimated £2.9 billion per year is spent on running the estate.

2 The defence estate primarily exists to support defence capabilities. The Department aims to have an estate of the right size, location and quality through an estate of fewer, larger sites in the UK and overseas, which it believes will deliver efficiencies and a better fit with operational needs.

3 Defence Estates is the central organisation tasked with managing the defence estate. Customers – including the Royal Navy, Army and Royal Air Force – articulate their estate needs based on identified operational requirements. Defence Estates is responsible for supplying these needs by delivering estate projects and services, usually through managing the contractors that supply them.

Scope of study

4 Across government there is an immediate need to use the public estate better and more efficiently, in order to release funds for frontline services and secure savings. For the defence estate this means matching operational requirements with estate efficiency. This report is a high-level review of the progress made by the Department in getting an estate of the right size and the information available centrally to support a rigorous assessment of estate efficiency and to drive through structured cost reduction. Specifically, we:

- assessed trends in estate size over the last ten years, including receipts from estate sales;
- examined the Department's high-level plans, including its estate targets and the process by which it has identified the relative importance of sites; and
- identified the information needed centrally to manage the estate, in particular to better support operational needs and reduce costs and to drive through rationalisation.

This review was based on the plans and data held at the centre of the Department, to inform its thinking ahead of the Strategic Defence and Security Review, and in light of the fiscal challenges ahead.

Key findings

5 The Department has reduced the amount of built estate (the estate excluding training land) it owns in the UK between 1998 and 2008 by 4.3 per cent, taking many rationalisation opportunities and generating £3.4 billion in sale receipts between 1998-99 and 2008-09. The Department has reduced its built estate by some 3,400 hectares (from 79,900 hectares to 76,500 hectares between 1998-99 and 2008-09). Overall, it has achieved sale receipts of over £200 million each year, peaking in 2007-08 when Chelsea Barracks in Central London was sold generating nearly £1 billion. The Department's Project MoDEL to rationalise estate in North London was innovative, and used new contract mechanisms to help fund rationalisation.

6 The Department has improved its planning arrangements, including through a new Defence-wide estate plan, but its strategy does not clearly articulate what the right size of the estate is. The Defence Estate Development Plan (Development Plan), first published in 2008, has brought clear benefits to estate planning, providing a long-term focus previously absent from defence estate management arrangements. The plan as currently constituted however, lacks quantified targets or supporting measures to allow progress to be judged, does not articulate what the right size of the estate should be, or how much it would cost. The Department is now producing a supporting strategy for the Development Plan, as well as a balanced scorecard to assess the performance of estate projects and contractors.

7 The Department has a process for classifying whether each of its 571 key sites should be considered "core", and has identified 12 per cent of its sites (comprising 2 per cent of its estate by size) as surplus to defence needs. Customers, or Budget Holders, set out their long-term estate plans for individual sites via Estate Development Plans, each taking into account base commanders' views that are collated in the locally produced Integrated Estate Management Plans. The Department has identified whether each of its 571 key sites within the Development Plan should be considered "core" (needed for defence purposes to at least 2030), "retained" (needed to at least 2015) or "for disposal" (no clear need identified by relevant Budget Holder). There are 525 UK sites in the Development Plan, of which 72 per cent are core, comprising 95 per cent of UK estate land. Retained status is applied to 16 per cent of UK defence sites (three per cent of land). The Department has identified 12 per cent of its sites (2 per cent of land) as having no current operational need and being available for disposal. The classifications of sites may need to be revisited as part of the forthcoming Strategic Defence and Security Review.

8 The Department has insufficient data centrally to demonstrate that it is striking the right balance between meeting operational requirements and minimising the cost of the estate. The same data would be needed to support decisions should the Department decide it needs to drive through further rationalisation and significantly reduce its estates costs in a structured way in response to current financial challenges. Some data are held centrally, other data are produced locally at Budget Holder or site level, but data are incomplete and are stored in different data systems that are difficult to reconcile. The Department is not in a position to analyse centrally the five categories of information we have identified through our discussions with comparators and the Office of Government Commerce, and our own analysis, that the Department needs to identify the scope for further rationalisation. The Department needs to be able to consider, in combination, all of the following categories of information:

- **The relative operational importance** of sites, as sites less critical to meeting defence requirements could present scope for further rationalisation. Centrally, designation of the operational importance of sites is limited to a high level classification of whether they are “core”, “retained” and “for disposal”, but 72 per cent of sites and 95 percent of land are classified by the Customers as core. There are no rigorous central guidelines to provide further prioritisation of their operational importance, or indicators of which “core” and “retained” sites may contain pockets of land most suitable for re-use or disposal. The Department does not have information centrally on the scale of under-used pockets of land within core sites, but it has initiated a pilot project to identify surplus pockets of land within a number of sites.
- **How heavily a site is used**, as sites that are lightly used could be candidates for rationalisation. The Department has utilisation data for some of its offices that shows it has managed its office estate well, but does not know how heavily the rest of its built estate is used. There are significant challenges establishing suitable benchmarks for properties that have no obvious comparators across government, such as airfields, barracks and munitions sites. In addition, some sites, even though they have low use, may still need to be retained because of their location or operational importance. But the Department has not yet devised metrics to facilitate internal comparisons across its estate.
- **Potential receipts**, as sites with a high value could be prioritised for disposal. The Department has identified 200 sites with the greatest potential for receipts, but the majority are currently categorised as core. There are no disposal estimates for the other 371 sites in the Development Plan.
- The Department could look to dispose of the estate assets that cost the most to retain. But it does not have a central view of **running costs**. There is some information collected at site and Budget Holder level, but it is not suited to central analysis.

- Sites that are in poor **condition** or need considerable investment to make them fit for purpose could be candidates for disposal. The Department collects condition data for the 60 per cent of the estate that is managed mainly by its regional maintenance contractors, and for its accommodation, but not for the rest of its estate.

The Department's process for categorising sites is rightly driven by operational requirements, but it does not give sufficient weight to other factors outlined above.

9 The Department does not have any high level metrics it can use to assess how efficiently the estate is being used. In the absence of alternative measures, while we would not necessarily expect a strong correlation between personnel and land, comparing the 4.3 per cent reduction in the size of the Department's built estate with the greater 13.4 per cent fall in the number of personnel based in the UK over the same period raises a question whether there are further opportunities for estate rationalisation. In view of the Strategic Defence and Security Review and changes arising from a re-configuration of the Armed Forces this emphasises the need for the Department to have metrics to determine whether it is making good use of all of the estate and to minimise the capital tied up in the estate.

10 As part of the forthcoming Strategic Defence and Security Review, the Department is considering whether its model of estate management remains appropriate. Whichever organisational structure the Department chooses for managing its estate, the arrangements need to address:

- the lack of a clear translation of its strategic goal into quantifiable targets;
- limited central challenge of the translation of operational requirements into estate needs; and
- the lack of sound information to support rationalisation decisions and assess competing demands across Budget Holders.

The arrangements also need to align with wider developments in government estate management, which emphasise the need for departments to have a strategic view of their estate, understand their estate costs and ensure that resources and space are well used across government.

Conclusion on value for money

11 The defence estate exists to enable the Armed Forces to deliver operational capability. The Department has significantly strengthened its estate planning and achieved considerable disposal receipts. The changes made to date are not, however, sufficient to rigorously drive value for money. The Department has not matched its focus on operational needs with sufficient attention to efficient use of its estate assets and cost reduction. In the United Kingdom, the Department has reduced the number of civilian and military personnel three times faster than it has reduced the built estate and in the absence of other suitable metrics to assess estate efficiency it raises a clear question about whether the built estate can be significantly further reduced in size. The lack of clear rationalisation objectives, inadequate mechanisms, and insufficient central data mean that the Department is not well placed to systematically align its estate to changing operational requirements in combination with structured cost reduction. In the context of the Strategic Defence and Security Review the Department needs to consider what minimum estate will be required to meet the future needs of the reshaped Armed Forces. This requires a much more rigorous appraisal of operational needs, and associated estate costs and utilisation. The Department collectively needs a change in mindset so it gives due emphasis to reducing costs as well as meeting operational requirements.

Recommendations

12 To put the Department in a good position to both align the estate with operational requirements and drive value for money, we make the following recommendations:

- a** **There is a lack of data available centrally to make properly informed decisions about structured cost reduction and the scope for more radical estate rationalisation. The Department's categorisation of sites is based primarily on operational need, and this is insufficient to support both the alignment of the estate with changing operational requirements and structured cost reduction.** The Department should:
- immediately broadly categorise estate sites by operational importance, utilisation, cost to maintain, condition, and potential value, in order to align better the estate with operational needs, and to identify sites and parcels of the land with potential for disposal or re-use across the public sector;
 - review its process of defining estate requirements so that these are prioritised on the basis of operational need and the associated estate costs, supported by a more robust system for categorising estate sites;

- as it develops its balanced scorecard, expand its focus to cover the key categories of information it needs to support its estate decisions. We expect that this should include information on site function, utilisation, condition, potential market value and running costs;
 - use the data collected to challenge customers' estate requirements; and
 - analyse estate performance over time to ensure that it is making good use of the estate and driving down costs, while meeting operational needs.
- b The Department has a strategic aim to rationalise its estate so it is of the right size, but it has not articulated this in terms of high level targets taking account of both the value of the assets and operational need.** The Department should articulate what the right size of the estate is and how much this would cost, and also support the strategy with appropriate targets that allow progress on rationalising its estate to be measured, alongside other targets for example relating to quality. Targets need to balance the imperative to drive down costs with meeting operational requirements, as determined in the Strategic Defence and Security Review.
- c Data and systems are not in themselves enough to secure structured cost reductions.** The Department should, in developing its model for managing its estate, put in place levers and mechanisms that encourage all parts of the Department and the Services to drive through structured cost reduction aggressively.