



National Audit Office

MINISTRY OF DEFENCE
Managing the Defence Estate:
Quality and Sustainability

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SUMMARY

1 The Ministry of Defence (the Department) places great importance on the efficient and effective management of its extensive estate, as it is crucial to the delivery of operational capability and the welfare and morale of Service personnel. Its vision for the estate is:

'To have an estate of the right size and quality to support the delivery of defence capability, that is managed and developed effectively and efficiently in line with acknowledged best practice and is sensitive to social and environmental considerations'.

2 The Department has a worldwide estate valued at some £18 billion and is the second largest landowner in the United Kingdom with an estate of 240,000 hectares. The built estate (80,000 hectares) includes offices, living accommodation, aircraft hangars and naval bases. The rural estate (160,000 hectares) comprises mainly training areas and ranges on undeveloped rural land which is often of particular environmental significance. We estimate that the total annual operating cost of the estate was some £3.3 billion in 2005-06.

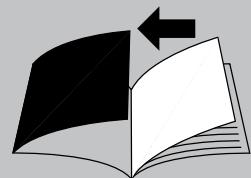
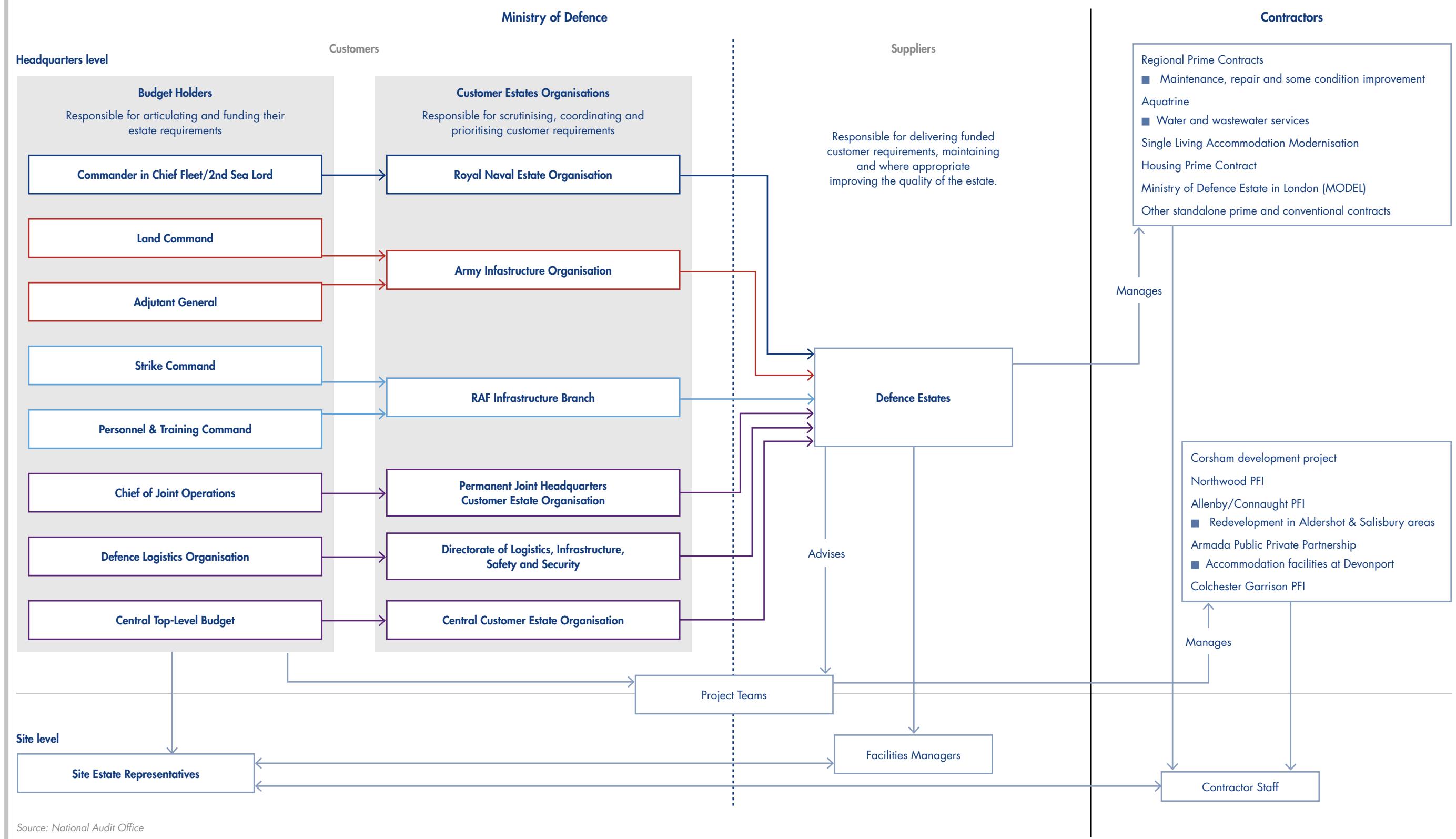


Figure 1 overleaf

1 Roles and responsibilities in managing the Defence Estate



3 This Report follows on from an earlier one published in 2005.¹ The 2005 report looked at the changes the Department was making to reverse the deterioration in the quality of the estate; it also reported on progress with estate rationalisation. Given the significance of the proposed changes, this Report focuses on the progress being made to achieve an estate of the right quality. It does not deal with the overseas defence estate for which different arrangements exist.

4 Over the last five years, the Department has reorganised the provision of estate management. The occupiers of the estate, who had run it, (principally the three Services) became internal customers, represented by Customer Estate Organisations, determining their requirements and securing funding for them from the centre of the Department. Defence Estates was created as the supplier organisation tasked with meeting their requirements. The establishment of Defence Estates was a very positive step compared with past practice and has paved the way for future improvements to estate quality.

5 A central part of the changes was the introduction of new contractual arrangements to improve the delivery of estate services. These included Regional Prime Contracts to maintain and improve the estate; Private Finance Initiative (PFI) contracts to operate and maintain water services; functional prime contracts to deliver similar types of building across the estate, such as single living accommodation, and stand alone prime or PFI contracts delivering estate requirements as part of a wider package of work. **Figure 1** illustrates the roles and responsibilities for managing the defence estate within the customer organisations, Defence Estates and contractors.

6 The Department has developed two good systems for measuring the quality of its estate – the Estate Planning Tool and the Estate Performance Measurement System (incorporating Integrated Estate Management Plans).² The timetable for implementing them is challenging and the Integrated Estate Management Plans require considerable work to realise the full potential benefits, particularly to ensure that requirements contained within the plans reflect relative priorities across the defence estate as well as the needs of single sites and Services.

7 Another initiative, the Non-Equipment Investment Plan is a positive development enabling the Department to take a more strategic view. The plan mainly includes expenditure on significant investment projects over



£50 million. Significant levels of expenditure on the defence estate are delegated to individual budget holders. While the total cost of the estate can be derived from the Departmental accounts, at the Departmental level resources are allocated either to specific projects in the Non-Equipment Investment Plan or to Defence Estates and the resources allocated by other budgets holders reflect their own programming judgements.

8 The Regional Prime Contracts are improving the way the estate is maintained but it is too early for this to have had an impact on the overall quality of the estate. Internal customers are pleased with the delivery of reactive and planned maintenance; health and safety issues have been identified and are being addressed; and progress is being made towards measuring the baseline quality of the estate.

9 However, the Department has many, often conflicting, demands on its resources and has faced affordability constraints across the Defence budget in 2006-07. In the context of savings measures across the Department, Defence Estates has, therefore, had to find savings of £13.5 million (4.5 per cent) in the funding of Regional Prime Contracts largely through deferrals in planned maintenance and repair. The Department judged that these savings had less impact overall than savings that might have been made elsewhere but recognises that, in general, cuts in planned maintenance put at risk improvements to the quality of the estate and may harm contractors' confidence in the Department's plans. They may also lead to increased costs for the work, given disruptions to contractors' plans and further deterioration to the buildings concerned. However, the Department considers that more broadly there are benefits in permitting delegated budget holders flexibility to allocate resources in response to local priorities.

¹ Report by the Comptroller and Auditor General, *Ministry of Defence: Managing the Defence Estate* (HC 25, Session 2005-06).

² The Estate Planning Tool will hold data on every built asset in the Department. Assessments of the constituent parts of buildings - roofs, walls, heating systems – will be aggregated to reach a view of their overall condition. The tool will also contain information taken from Integrated Estate Management Plans, on the target condition and long-term plans for assets. It will be possible to combine data on individual assets to provide a picture of the quality of the defence estate at site, regional and national level. Data held in the Estate Planning Tool will also form part of the Estate Performance Measurement System, which will give a holistic picture of the performance of the estate. In addition to information on the physical condition of the estate, the system will report on project delivery, customer satisfaction, health and safety and sustainability.

10 Despite such budgetary pressures, other budget holders have injected additional expenditure of £45 million to fund specific low value projects, such as fire safety systems, sports facilities and upgrades to toilet and shower facilities. Some of this work is to support urgent operational requirements but much of it is routine and foreseeable. Some difficulties resulted from overly complex processes in Defence Estates and insufficient flexibility in the system. The Department recognises that this money was injected in an uncoordinated way, which did not exploit opportunities for bringing together similar projects into a cohesive programme.

11 The Department has invested considerable resources to improve the quality of Single Living Accommodation and Service Family Accommodation. Some £1.3 billion has been or is planned to be invested in Single Living Accommodation through the Single Living Accommodation Modernisation programme and other accommodation projects. The Defence Training Review will also deliver some 5,000 upgraded bedspaces in Phase 1. Assuming no deterioration of the existing stock, by the end of 2012-13 the number of bedspaces at the required standard will have risen to around 75,000. Given the predicted fall in requirement, this leaves a shortfall of around 35,000 bedspaces which are not at the required standard.

12 Over 4,300 Service Family Accommodation houses were upgraded to the highest standard over the two years 2004-05 to 2005-06, against a target of 1,100, and a further 1,200 upgrades are planned to have been completed by the end of 2006-07, with some 900 a year thereafter. Nearly 28,000 houses, 60 per cent of Service Family Accommodation in Great Britain, is now at the standard set by the Department leaving some 19,000 houses to be upgraded. A prime contract has been let for the maintenance of Service Family Accommodation in England and Wales. The contractor provides all aspects of property maintenance. There have been some early problems with quality of service which are being addressed.

13 The Department's key contractual mechanisms for managing accommodation are sufficiently flexible to allow it to upgrade further bedspaces and family accommodation whenever funding can be made available.

14 Environmental and other sustainability issues have come much more to the fore in recent years. The Department has an environmentally significant rural estate with many important habitats and species, for example, half of it falls into 175 Sites of Special Scientific Interest. The Department has done much to improve the sustainability of its management of the estate. It is well-regarded for its delivery of environmental benefits, especially wildlife conservation, and over three-quarters of its Sites of Special Scientific Interest are reaching the target state. The Department has much further to go to achieve its target of 90 per cent of its new buildings being rated highly for sustainability. The Department needs to do more to ensure that it is meeting the pan-governmental and internal targets it has signed up to. These include targets to reduce carbon emissions, to increase the proportion of its energy that comes from renewable sources, and to use timber from sustainable sources.

Overall Value for Money

15 The cost-effectiveness of investment in the defence estate cannot be determined until the Department has completed its work to establish the baseline quality of the estate and to measure changes in performance and quality over time. In addition, the full cost of the estate is not collated and changes in Departmental structure and in the way that costs are identified make trend analysis over time difficult. Information on other estate-related expenditure is available through the Departmental Resource Accounting system. The Department judges that separating out the cost of the estate from other parts of expenditure on the Armed Forces is not necessary to inform the value for money and cost benefit decisions that it has to make. Costs that are readily available are those borne by Defence Estates, where the Agency's sole responsibility is for the estate, and expenditure on major capital and PFI projects.

16 The new arrangements to manage the defence estate have improved delivery of estate services. It is too early to determine whether this improvement will result in a better quality estate. Such improvement is dependent on continued good performance by Defence Estates and contractors which requires commitment, supplier innovation and client leadership. All this could be at risk if adherence to the current strategy is not maintained. Sufficient stability of funding is necessary to preserve contractor confidence and maximise through-life efficiency.

Recommendations

Recommendation 1

The Department should remain committed to its aim of achieving an estate of the right quality and improving through-life efficiency, and should, therefore, adhere to its current estate strategy.

Recommendation 2

The Department has recently confirmed its strategic vision for the defence estate, reorganised the provision of estate management and put new long-term contractual arrangements in place. The Department should seek as far as possible to avoid making short-term cuts which risk damaging long-term value for money and may mean that the long-term vision and objectives are not achieved.

Recommendation 3

Having designed systems to provide maintenance in a way that maximises efficiencies through better programming, the Department should as far as possible exploit the full benefits of these systems by reducing the volume of minor short-notice projects and by better prioritisation of all works in line with its estate strategy.

With the exception of urgent operational requirements, the Department should give priority to work necessary to meet the terms of the contracts, to maintain and where necessary improve the quality of the estate.

The majority of injected work should in principle be planned, prioritised and funded at least one year in advance. Work of similar nature should, where possible, be coordinated by customers, Defence Estates and contractors working together to achieve efficiency benefits from the use of established supply chains and bulk purchase.

Recommendation 4

The Department recognises that letting the five Regional Prime Contracts on different bases has not maximised coherence in some areas, such as scope and required condition improvements. When tendering for replacement contracts, the Department should harmonise the new arrangements as far as possible, in particular, in the use of performance measurement and work processing systems and should incentivise the contractors to improve energy efficiency and sustainability.

Recommendation 5

The Department should continue to develop a fuller understanding of the costs related to its estate. These costs should include the full cost of ownership and estate valuations in sufficient granularity to facilitate it in making decisions on estate performance, planning and disposals.

Recommendation 6

The Department should finalise the rollout of the Estate Planning Tool and Estate Performance Measurement System and should adopt those measures needed for immediate improvement listed in Appendix 9. Once the implementation is complete, the Department should consider the additional measures laid out in the Appendix to improve the system further.

Recommendation 7

Using the information that will be provided by new management systems, the Department should model its future estate needs to enable better planning. With robust underpinning management information and systems, the Department should be able to adapt this model to reflect changing Defence priorities from year to year.

The Department should complete its work to establish the current condition of the estate. It should then determine the quality of the estate required in the future and the trajectory to meet that requirement. This work should be completed in time to inform decisions about possible extensions to Regional Prime Contracts.

The Department should model the costs and benefits of alternative options, such as replacement versus refurbishment, the impact of decisions such as routine maintenance versus new investment, and the level of investment versus the rate of decline in quality.

Recommendation 8

The Department has improved its planning process through the Non-Equipment Investment Plan and the Estate Performance Measurement System (including Integrated Estate Management Plans), but needs to improve its processes still further to ensure that the decisions it makes using them are robust.

Given the long-term nature of investment required in the estate, the Department should continue its work to identify planned expenditure over a 10 to 20-year period to ensure that the programme is affordable and delivers the required benefits in terms of both quality improvement and financial savings.

To enhance its ability to determine and prioritise expenditure on the estate the Department should improve its visibility of estate-related expenditure in the Short-Term and Equipment Plans and consider this expenditure alongside the Non-Equipment Investment Plan.

The Department at all levels, including Defence Estates, Customer Estate Organisations, budget holders and their staff, should work more closely together to produce robust Integrated Estate Management Plans. The Department should ensure that there is a process in place to challenge and prioritise customer requirements using these plans. In addition, there are a number of interrelated measures at Appendix 9.

Recommendation 9

The Department should clarify and communicate the division of roles and responsibilities between internal customers and suppliers and external contractors to prevent duplication and ensure that responsibility rests where it can best be managed.

The Department should review Customer Supplier Agreements between Defence Estates and the Customer Estate Organisations. These should set out the specific requirements and targets, tailored for each customer.

The Department should determine the requirement for and role of Site Estate Representatives and Facilities Managers and consider scope for rationalisation of posts. There should, however, be clear lines of responsibility drawn between such roles and the Customer Estate Organisation and Defence Estates to ensure consistency of delivery and purpose.

The Department should address the duplication of roles and responsibilities that it has identified at headquarters and site levels. This work should aim to achieve transfers and reductions in overall staff levels commensurate with the responsibilities that have transferred from customers, both to Defence Estates and to the private sector.

Recommendation 10

The Department should develop an action plan to address skills shortages.

The Department should continue its work to establish the numbers and skill levels of its estate staff, particularly in key disciplines such as quantity surveyors, safe systems of work staff and facilities managers.

The Department should develop an action plan to address skills shortages which may include changes in recruitment strategy, redistribution of staff and contracting for specific professionals.

Recommendation 11

The Department should further improve its approach to sustainability, in particular by identifying areas to further delegate responsibility for the measures required both to meet its statutory obligations and to achieve targets for sustainable development. Where performance data against targets is poor the Department should collect reliable, consistent and comprehensive management data, setting a baseline and measuring subsequent improvements in performance.

The Department should delegate responsibility for delivering improvements to where they can best be managed. This is likely to be through a combination of incentives and targets for contractors and targets for the users of the estate, as well as for Defence Estates.

The Department should learn lessons from good and bad practices in managing its estate sustainably. It should also improve the speed with which it adopts and replicates initiatives across the estate where these are shown to be effective in pilots, for example by expediting the wider implementation of the project to reduce carbon emissions and utility bills at RAF Kinloss.