



National Audit Office

Ministry of Defence

Delivering the defence estate

Appendix Four

NOVEMBER 2016

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1 This document sets out our review of the disposals by the Ministry of Defence (the Department) of four selected estate sites, which we have used to inform the conclusions reached within our report on *Delivering the defence estate*¹. We selected these case studies to illustrate the range of issues the Department faces when disposing of its estate and to cover the various stages of disposal.

2 The facts contained within this Appendix have been agreed with the Department.

3 Our case studies:

- Ashchurch (disposal being considered).
- Old War Office (disposal complete).
- Lodge Hill (to be disposed, disposal ongoing).
- Waterbeach Barracks (to be disposed, disposal ongoing).

4 The Defence Infrastructure Organisation, a part of the Department, is responsible for managing the defence estate, including identifying sites for disposal and managing the disposal process. The Front Line Commands (the Commands) are the main users of the defence estate, using the defence estate to provide military capabilities.²

¹ Comptroller and Auditor General, *Delivering the defence estate*, Session 2016-17, HC 782, National Audit Office, November 2016.

² Army, Navy, Air and Joint Forces Command.

Ashchurch

Introduction to case study	<p>Ministry of Defence Ashchurch, Gloucestershire, is the Department's main vehicle support and storage site for all types of military vehicles. The site provides two main capabilities:</p> <ul style="list-style-type: none"> ● Vehicle storage in temperature-controlled environments to prevent their condition deteriorating. ● Vehicle inspections, test, repairs and overhauls. <p>The Army does not currently have a capability to enable it to keep vehicles at very high levels of readiness for deployment. The Defence Infrastructure Organisation (DIO) is investigating disposal of the Ashchurch site and re-providing, at a different site in closer proximity to Salisbury Plain, both the current capabilities provided by Ashchurch and a capability to support a new vehicle high readiness capability. At the time of our audit options include full and partial disposal.</p>
Justification for case study	<p>Ashchurch has been on the Department's disposal register since 2011 and is one of the longest running estate disposals still progressing. Delays have occurred because the forecast cost of re-providing the capability currently provided by Ashchurch when the site is disposed, and meeting Army's specifications for any new site, was not affordable at the time of our audit.</p>
The issues that the Department has to consider in coming to a decision	<p>DIO is seeking to balance the capability to be provided by any new site with the requirements of the Army. The DIO and Army have agreed some compromises, reducing forecast costs and affordability constraints and streamlining the process to check vehicles. This may increase the risk of faults on vehicles not being identified before they are deployed on operations.</p> <p>There are a limited number of sites meeting the Army's geographical requirements that can accommodate the capabilities currently provided by Ashchurch. Initial sites identified by DIO as suitable were eliminated as other government objectives were prioritised on these sites. This has delayed disposal and increased the costs associated with the disposal because each site was subject to detailed work by DIO.</p>
Contribution to the Department target to secure £1 billion receipts from land disposals by 2021	<p>The Department has estimated that receipts from selling the full Ashchurch site could reach £68 million. This assumes planning permission is secured prior to sale. The Department has also explored options for the partial or phased disposal which would alter the expected receipt.</p> <p>A final decision on the Ashchurch site had not been made by the time of our review and the exact contribution to this target is not yet known.</p>
Contribution to the Department's target to release land to support 55,000 new homes by 2020	<p>In 2013, the Department identified that the full site could support up to 2,100 new homes. However, as release would need to be phased, the Department is assuming that land for around 500 homes could be secured during this parliament.</p>
Contribution to reducing the running cost of the estate	<p>DIO has not assessed the running cost savings that could be achieved by disposing of the Ashchurch site.</p>
Costs of providing the capability offered by the site elsewhere	<p>DIO's initial estimate of the costs of re-providing the capability offered by Ashchurch at another site on a like-for-like basis, and a new vehicle high readiness capability, was £650 million.</p> <p>After detailed analysis and compromises being reached on the capability to be provided, DIO has reduced its estimate to £330 million. At the time of our review DIO's analysis was ongoing to bring the estimated cost within available budget.</p> <p>To inform its estimate of re-provisioning costs, DIO has undertaken a number of detailed assessment studies and option appraisals over the previous five years.</p>
Key risks to disposing of site	<ol style="list-style-type: none"> 1 DIO and the Army are still to decide how to progress the disposal and at the time of our review there was uncertainty as to whether all or part of the site will be disposed of. 2 There is a lack of sites large enough that can accommodate both the capabilities currently offered by Ashchurch and the capabilities to keep vehicles at very high levels of readiness for deployment. 3 At the time of our review, the estimated cost of providing the capability currently provided by the Ashchurch site elsewhere is unaffordable within existing budgets. 4 DIO does not secure planning approval from the local authority for the Ashchurch site to be redeveloped, reducing the chances of a successful sale.
Current position	<p>The Department expects to take a decision on how to progress the disposal of the Ashchurch site by the end of 2016.</p>
Key benefits from disposal	<p>The disposal is not the primary driver for the programme to optimise its vehicle storage and support facilities and determine the future of the Ashchurch site. The key benefit is the delivery of new capabilities so that vehicles can be kept at very high levels of readiness for deployment, which the Department is currently lacking.</p>

Old War Office

Introduction to case study	<p>In August 2013, after a review of its central London estate the Department identified that the Old War Office building on Whitehall was surplus to its requirements.</p> <p>In March 2016, the Department sold the building on a long lease arrangement to the Hinduja Group in partnership with OHL Developments for £357 million.</p> <p>At the time of our review, plans included the building being restored and redeveloped as a luxury hotel and residential apartments.</p> <p>The civil servants working in the building have been moved to the Ministry of Defence's HQ in Whitehall.</p>
Justification for case study	<p>Reflecting its location on Whitehall, the sale was complicated by the security and heritage requirements of various government agencies.</p> <p>The proceeds from the sale accounted for the majority of the Department's asset disposal receipts in 2015-16.</p>
The issues that the Department had to consider in coming to a decision	<p>The building covers the equivalent of 580,000 sq. ft. and is grade II listed. Its layout is mostly small rooms that have not been modernised in a number of years.</p> <p>The Metropolitan Police and the Security Services placed a number of requirements on both how the building could be used in the future and the design of building features, including windows. DIO was required to balance these requirements with maximising sale proceeds from an open market bidding process.</p> <p>DIO agreed to dispose the building on a long lease, with a clause that would allow the Department to seek legal remedy through the Courts, including the potential for return of the building to the Department in the event that the purchasers do not act in accordance with the contract and security measures agreed before sale.</p> <p>Sale of the building attracted some opposition in the House of Lords.</p>
Contribution to the Department target to secure £1 billion receipts from land disposals by 2021	<p>The sale contributed £357 million towards the target. However, HM Treasury retained £157 million of the proceeds, with the Department keeping £200 million.</p>
Contribution to the Department's target to release land to support 55,000 new homes by 2020	<p>The Department estimates that the disposal will contribute 100 housing units against the target. At the time of our review the purchasers plan to develop the building into a luxury hotel, serviced apartments and apartments.</p>
Contribution to reducing the running cost of the estate	<p>The building was operated under a Private Finance Initiative arrangement. The Department estimated that between £8 million and £10 million of costs will be saved by vacating the Old War Office. Exiting the PFI did not incur any penalty or additional costs.</p> <p>DIO believed that the condition of the building was leading to relatively high running costs, particularly utilities.</p>
Costs of providing the capability offered by the site elsewhere	<p>DIO has not tracked the costs of moving the staff and equipment from the Old War Office to the Department's HQ in Whitehall.</p> <p>To accommodate those staff moving across, the Department undertook a reorganisation of its HQ.</p>
Key risks to disposing of site	<ol style="list-style-type: none"> 1 Securing bids that complied with the strict security criteria of the Metropolitan Police and the Security Services. 2 Providing potential bidders with sufficient confidence that the site could be used for a range of purposes.
Current position	<p>The sale of the Old War Office was completed in March 2016. The Department can seek to repossess the building through the Courts if the purchasers do not act in accordance with the contract and security measures agreed before sale.</p> <p>The movement of civil servants and equipment to the Department's HQ was completed in December 2015.</p>
Key benefits from disposal	<p>By disposing of the building the Department secured significant disposal receipts, which it can reinvest in its estate, and reduce its running costs. The disposals also secured indirect benefits by increasing the occupancy, and therefore efficiency, of its HQ building.</p>

Lodge Hill

Introduction to case study	<p>The Lodge Hill training area in Kent was used for training by the Royal School of Military Engineers and included training area, accommodation and military storage, and some areas were farmed by a tenant.</p> <p>In 2008, the site was declared surplus to requirements and remaining functions were gradually transferred to nearby Chatham Barracks. The overall condition of the built assets has deteriorated since 2009 when the Department decided to stop maintaining the site. Most buildings have been demolished.</p>
Justification for case study	<p>Although the site was declared surplus in 2008, the Department has not yet disposed of the site. A number of complications to the disposal process have arisen due to the complexity of the site, including environmental constraints imposed since the site was declared surplus.</p>
The issues that the Department has to consider in coming to a decision	<p>The area surrounding Lodge Hill is a Site of Special Scientific Interest (SSSI) owing to the presence of rare grasslands and nightingale birds. In 2013, the SSSI was extended to include the Lodge Hill site due to a significant presence of breeding nightingales. The Department unsuccessfully contested this extension. DIO developed a revised planning application in February 2014 with its then private sector partner, which included creating a suitable alternative habitat for the nightingales to be moved to. The local authority approved this revised plan in September 2014.</p> <p>Due to the issues and the scale of development, in February 2015 the revised planning application was subsequently 'called-in' for a planning inquiry by the Department for Communities and Local Government. The Department is required to reassess the ecological impacts and these studies will need to be timed according to the nightingale nesting seasons. It is therefore unlikely that the planning inquiry will be completed before June 2017.</p>
Contribution to the Department target to secure £1 billion receipts from land disposals by 2021	<p>The Department expects to make around £100 million of profit from the site, after development costs over a number of years.</p> <p>A final decision on the Lodge Hill site had not been made by the time of our review and the exact contribution to this target is not yet known.</p>
Contribution to the Department's target to release land to support 55,000 new homes by 2020	<p>The 254 hectare site is proposed for development. The Department expects that full disposal of the site could support 5,000 new homes, subject to planning approval. The redevelopment plans include three primary schools, a secondary school, medical facilities and leisure and retail space, which are estimated to provide up to 5,000 jobs. The number of new homes that will score against the Department's target will not be known until the current public inquiry is complete, planning permission granted and the sale of the site complete.</p> <p>Due to planning complexity it was agreed that the site should transfer to the Homes and Communities Agency (HCA) to pursue disposal.</p>
Contribution to reducing the running cost of the estate	<p>The Department no longer occupies the site and it estimates that running costs are minimal. However, DIO currently has a security contract for perimeter maintenance of the site, costing a total of £500,000 per annum.</p>
Costs of providing the capability offered by the site elsewhere	<p>DIO has not tracked the costs associated with moving staff and equipment from Lodge Hill to Chatham Barracks because this was part of a wider programme to centralise training of military engineers, and the Lodge Hill elements happened on an ad hoc basis over a series of years.</p>
Key risks to disposing of site	<ol style="list-style-type: none"> 1 Securing approval for the revised planning application. Some local stakeholders are opposed to the Department's plans. Any changes to the planning application as a result of the planning inquiry could add further time and cost to the disposal process. 2 The Department plans to secure a new private sector partner to manage the disposal and put in place enabling infrastructure (utilities, transport links, etc.) to support future development of the site. DIO anticipates securing a new partner will be challenging. The previous private sector partner withdrew due to the time taken to progress the disposal. Without a private sector partner, the Department does not have sufficient resources to develop the site to maximise its attractiveness for sale, either in parcels or in its entirety.
Current position	<p>Due to the planning complexity of the site, at the time of our review the Department planned to transfer the freehold of the site to the HCA for disposal.</p> <p>Under the proposed transfer agreement, the HCA would use its land development expertise and resources to successfully dispose of the site. In return the Department would share disposal receipts with the HCA on a 80:20 basis (Department: HCA).</p>
Key benefits from disposal	<p>By disposing of this site the Department expects to receive significant disposal proceeds and a contribution to meeting its target to release land to support new housing.</p>

Waterbeach Barracks

Introduction to case study	<p>The Waterbeach Barracks site is a 290.5 hectare former WWII RAF station situated in Cambridgeshire. It comprises an airfield with one remaining paved runway and accommodation for service personnel and their families.</p> <p>The site became vacant when an engineering unit moved to Kinloss Barracks.</p> <p>South Cambridgeshire District Council's Local Plan assumes the site, together with adjoining farmland to the north and east, which is owned by a local consortium, will become a new settlement to support approximately 6,500 new homes. The Department is selling the Waterbeach land independently, but is working in conjunction with the local consortium to package the two land sales together.</p>
Justification for case study	<p>Disposal of the Waterbeach site is the largest single contributor to the Government Housing Strategy, with potential to support 6,500 new homes.</p> <p>A ministerial statement declared the site would be vacated by 2014-15, but opposition to various elements of the local authority's plan have significantly delayed this.</p> <p>The Department has used a private sector agent to manage the disposal to maximise returns and mitigate the complications in dealing with multiple stakeholders on adjoining land, the local authority, and local opposition to the creation of a new settlement. The private sector agent is required to secure planning permission for the site before disposal.</p>
The issues that the Department has to consider in coming to a decision	<p>The key issue the Department faced was how to progress with disposal of the land. The two options were:</p> <ul style="list-style-type: none"> ● Combining with a consortium of local landowners to dispose of a larger site; or ● Engaging a private sector partner who would manage the disposal and assume responsibilities for engagement with the multiple stakeholders. <p>On the basis of an options appraisal completed by a commercial property adviser, the Department selected the second option as it was assessed to offer a better financial return and was lower risk.</p>
Contribution to the Department target to secure £1 billion receipts from land disposals by 2021	<p>Due to the size of the site DIO expects its agent will dispose of the site in parcels of land. It estimates that disposal of the site will secure approximately £87 million of sale proceeds over the period 2020 to 2037 (in 2016 prices).</p> <p>A final decision on the disposal of the site had not been made by the time of our review and the exact contribution to this target is not yet known.</p>
Contribution to the Department's target to release land to support 55,000 new homes by 2020	<p>DIO has estimated that the site will support 6,500 new homes. A final decision on the disposal of the site had not been made by the time of our review and the exact contribution to this target is not yet known.</p>
Contribution to reducing the running cost of the estate	<p>DIO has not assessed the running cost savings that could be achieved by disposal of the Waterbeach site.</p>
Costs of providing the capability offered by the site elsewhere	<p>The Department is unable to provide information regarding the cost of moving personnel from the Waterbeach site to Kinloss Barracks.</p>
Key risks to disposing of site	<p>1 The local authority's plan is amended or rejected, requiring the Department's outline plans for the site to be changed.</p>
Current position	<p>The Department is awaiting the outcome of the local planning inquiry. It expected the first disposal of land on the site to occur in late 2017.</p>
Key benefits from disposal	<p>The Department estimates that disposal of the site will support 6,500 homes, forming the basis for the creation of a new settlement.</p> <hr/>

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