



National Audit Office

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**Ministry of Defence**

# Delivering the defence estate

## **Appendix Three**

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In November 2016, the NAO reported on the Ministry of Defence's progress aligning its estate with defined military need and available resources.<sup>1</sup> To support comparisons with other departments, this document sets out those findings organised against the six areas that the NAO has previously identified can be used to assess the effectiveness of departments' management of their estate:<sup>2</sup>

- 1 **Vision and strategic planning.** Departments need to set out their goal for what they want their estate to be, preferably with a plan for how this will facilitate wider reform.
- 2 **Collating and sharing information.** Departments need good information on their estates to support them achieving the estate they need.
- 3 **Addressing financial barriers.** Sufficient historic and current investment in infrastructure. Departments must address perverse incentives that drive short-term decisions at the expense of long-term value for money.
- 4 **Maintaining financial discipline.** Compliance with national property controls and government targets.
- 5 **Working together and aligning interests.** Clear understanding on roles and responsibilities. Alignment of stakeholder interests in order to execute decisions quickly and effectively. Seeking to use best practice.
- 6 **Skills, expertise and governance.** Departments need suitably skilled and capable staff, overseen by a robust governance structure, to manage their estate and deploy resources to where they are most needed.

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

2 Comptroller and Auditor General, *Improving the efficiency of central government office property*, Session 2010-2012, HC 1826, National Audit Office, March 2012. We have modified the framework set out in this report to enable analysis at a departmental level. The framework is applicable to different types of estate.

## 1 Vision and strategic planning

The Department has now set out a plan that supports the delivery of military capability and makes a significant contribution to government targets. After many years of limited progress in determining the size and shape of the estate it requires, in 2016 the Department set out a vision for its estate in 2040 that supports military capability, while meeting government targets. The Footprint Strategy sets out innovative plans for making a significant contribution to the Department's targets to reduce the size of its estate by 30%, release land for new housing and secure disposal receipts for reinvesting in the estate. The Footprint Strategy built on the Army Basing Plan, announced in 2013 which set out a future basing strategy for the Army, including bringing back troops from Germany.

The risks to military capability from the estate will continue unless further actions are taken to address the shortfall in funding to sustain the estate. Due to the scale and complexity of the challenges facing the Department, it was never the Department's intention that these would be fully addressed by the Footprint Strategy. The Department is aware that even after successful implementation of the Footprint Strategy, current assumed budgets will only allow for a partial reversal of the decline of its remaining estate, so there will be continuing risks to its ability to support military capability. It is considering further proposals for reducing the cost of its estate and achieving a better balance between the estate, personnel and equipment it needs to deliver military capability. However, it has not yet set out a strategy for achieving an optimised estate that can be sustained at acceptable risk within planned funding levels.

## 2 Collating and sharing information

The Department has collated the data it needed to inform the Footprint Strategy. In our 2010 report, we found that the Department did not have good data to inform decision-making about its estate.<sup>3</sup> This included information about: operational importance; how heavily a site is used; potential receipts; running costs; and condition. The Department has since focused on collecting information about the sites that fall within the Footprint Strategy. These represent 85% of the 'addressable' running costs and 82% of the built estate by size.<sup>4</sup> For these sites the Department now has a relatively complete picture of the information it needs to inform its decisions.

Defence Infrastructure Organisation (DIO) does have some data on the 1,048 sites not covered by the Footprint Strategy, but it is patchy. This means that DIO and the Commands do not have the data they need to make cost-effective decisions about the entire estate, including addressing the gap in maintenance funding.

3 Comptroller and Auditor General, *A defence estate of the right size to meet operational needs*, Session 2010-11, HC 70, National Audit Office, July 2010.

4 The Department spends around £1.9 billion a year on its built estate, of which it considers £1.35 billion could be reduced. The remainder is committed in the long term through private finance initiative deals.

### **3 Addressing financial barriers**

The Department faces a huge challenge in maintaining its estate. Because of long-standing pressure on its budget, the Department has carried out only essential maintenance on its estate since 2009. It only acts where the health and safety of those using the estate is at risk. As a result, there has been a steady decline in the condition of the estate. Increasingly, assets have needed to be replaced rather than repaired. In the longer term, this is more costly. The Department now faces estimated costs of £15 billion of future 'life cycle replacement' investments, based on the size and condition of its existing estate, over the next 30 years.

The constraints on funding for its estate are leading the Department to make decisions that are poor value for money in the longer term. Demand for funding significantly outstrips available budgets. To manage the estate within its budget, the Department has made decisions that subsequently offer poor value for money in the longer term, including the 1996 decision to sell and lease back the majority of Service Family Accommodation, which is now a significant challenge. The Department has adopted a portfolio approach of prioritised estate projects to try and achieve stability and certainty in what projects will go ahead and focus its investment more effectively, similar to the approach taken to managing projects buying and supporting military equipment. However, the lack of contingency funds to meet unexpected costs and lack of certainty about future budgets undermine the Department's programme to invest in its estate.

### **4 Maintaining financial discipline**

In our 2016 report we do not assess compliance with national property controls and this is not within scope.<sup>5</sup> We do, however, assess whether the Department's plans for its estate are sufficient to meet government targets.

The Department has been set targets to reduce its built estate by 30% by 2040, and release land for building 55,000 homes by 2020. As part of its spending review settlement, it must also generate capital receipts of £1 billion between 2016-17 and 2020-21. The Department thinks that these are ambitious targets, given that much of the estate is in use. It estimates that implementing the Footprint Strategy will enable it to reduce the built estate by 25%. It is supplementing this with work on estate that lies outside the Footprint Strategy so it can meet the 30% reduction target by 2040. It also estimates that the Footprint Strategy will contribute between 12,000 and 15,000 units towards the housing target and contribute £1.1 billion of capital receipts up to 2040. The remainder of the land required to meet the housing target will be met through ongoing estate optimisation work; transfers to the Homes and Communities Agency; release of homes owned by Annington Homes; and new build service family accommodation.

<sup>5</sup> Comptroller and Auditor General, *Delivering the defence estate*, Session 2016-17, HC 782, National Audit Office, November 2016.

## **5 Working together and aligning interests**

In developing its Footprint Strategy, the Department has had to consider how to achieve target reductions in its estate, while meeting future military needs set out in Future Force 2020 and Joint Force 2025.<sup>6,7</sup> It has also had to take into account government targets to release land suitable for building homes, and future changes to the model for accommodation for military personnel. Although these requirements are aligned at the 'UK defence estate' level, there is often conflict between them when making decisions about individual sites. For example, a site considered surplus to military needs may not be suitable for housing.

In designing the location, size and structure of its future estate, the Department has had to ensure that it supports future military capability requirements, while challenging the Commands to use space as cost-effectively as possible. To do this, it drew up a list of principles, which included consolidating the estate around 'centres of gravity', and sharing locations and facilities across Commands, units and, if appropriate, other government departments. Using these principles and detailed discussions with the Commands the Department developed its plans using an iterative process.

## **6 Skills, expertise and governance**

The Department does not yet have a model for managing the estate effectively. In 2011, the Department undertook large scale change of how the estate was managed. It believed that both creating DIO to centrally manage the estate and prioritising the Commands' estate needs would improve its management and enable it to cut costs. In 2014, it made further changes by contracting with the strategic business partner to manage DIO and upskill staff. However, this model has not worked. Roles and responsibilities are unclear, governance arrangements are confused and DIO still does not have the skills and capabilities it requires. The Department is undertaking a fundamental review of how its estate is managed and the current role of the private sector. Further change, coupled with poor staff morale within DIO, may lead to delays rationalising the estate and could compound the risks to military capability from infrastructure.

6 Planned size, shape and structure of the Armed Forces to meet planning assumptions on how the military will be deployed from 2020.

7 Revised plans from 2025, building on Future Force 2020.

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