



**MINISTRY OF DEFENCE**  
**Managing the Defence Estate**

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 25 Session 2005-2006 | 25 May 2005

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LONDON: The Stationery Office  
£8.25

Ordered by the  
House of Commons  
to be printed on 23 May 2005

This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

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**6 April 2005**

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## EXECUTIVE SUMMARY



**1** The Ministry of Defence (the Department) has a worldwide estate valued at £15.3 billion and is one of the largest landowners in the United Kingdom with an estate of 240,000 hectares. The estate is split between ‘built’ (80,000 hectares) and ‘rural’ (160,000 hectares). The built estate consists of a wide range of facilities including barracks, depots, aircraft hangars and naval bases. The rural estate comprises training areas and ranges on relatively undeveloped rural land that is often of particular environmental significance. For example, the Department has direct managerial responsibility for nearly 200 sites of special scientific interest. In addition, the Department has responsibility for over 1,600 listed buildings and monuments. Annual expenditure on the estate is some £1.3 billion. The majority of the defence estate is managed by the Defence Estates agency.

**2** The Department is accountable for the management of its estate through a number of vehicles. The Department publishes an annual Stewardship Report detailing progress against its goals and objectives. It also now reports biennially to the Committee of Public Accounts on the

progress of all important estate activity, including major projects and rationalisation. This is the first time that the Department has reported in this way and its report replaces a previous annual report to the Committee on the top 20 estate projects.

**3** The challenges that the Department is facing in managing its estate are growing and, in particular, operational needs are becoming more demanding. Future management and configuration of the estate is a key element of the Department’s change programme; there are plans for estate rationalisation, more effective arrangements for maintaining the estate and building new accommodation. The defence estate had suffered a deterioration in its quality; a result not only of previous limits on funding, but also the use of traditional methods of managing and procuring estate services. For example, the multiplicity of maintenance contracts managed by various budget holders had meant that significant funds devoted to maintenance were going on administration. Poor information about the estate had also meant that investment decisions were not always soundly based.

**1** Defence estate facts and distribution of significant facilities

The defence estate is widely scattered over the United Kingdom and contains a wide range of facilities

Over 450 sites including 3 naval bases, 213 barracks and camps and 64 major and minor airfields.

Over 53,000 families’ quarters in the UK and over 18,000 families’ quarters overseas.

Many of the sites are widely dispersed and relatively small; some 80 per cent of the Department’s manned sites in Great Britain were occupied by fewer than 500 full-time staff.

The largest proportion of statutorily protected buildings held by the Government (52 per cent of all government heritage sites).



188 Sites/Areas of Special Scientific Interest in the UK covering over half the Defence rural estate, the largest such estate in Government hands and most varied in terms of habitats and species.

Salisbury Plain Training Area extends to some 38,000 hectares and is farmed by 43 Tenant Farmers. In addition to sustaining military training, intensive and extensive agriculture and 138 individual species of nationally important flora and fauna, Salisbury Plain also accommodates a number of independent recreational users.

Source: Defence Estates

**4** Against this background the Department has made good progress in developing a strategy to meet the challenges it is facing. The twin threads of its strategy - "In Trust and On Trust" - are to have an estate of the right size and, secondly, of the right quality to support the delivery of defence capability. To deliver an estate of the right size, the Department has embarked on a major programme of estate rationalisation. And to deliver the right quality, the Department has introduced new ways of managing its estate.

**5** Estate rationalisation is always difficult but is particularly so in defence given the complexity and changing nature of operational requirements. The Department is making progress and has conducted a series of estate reviews to determine its current holdings and to establish the potential for future development or rationalisation of sites. It has appointed the Chief Executive of Defence Estates to act as the Senior Responsible Owner for estate rationalisation. Current estimates are that disposal of property surplus to operational requirements could realise some £730 million over the next three years. However, the Department continues to work to achieve a coherent funded programme to underpin its rationalisation requirements. The Department has commissioned business cases examining options for the rationalisation of those parts of the estate which offer the greatest potential for value for money. The Department has identified some £90 million within the current planning period to fund proposals for the rationalisation and collocation of single Service headquarters and other collocations. Other important rationalisations such as defence airfields and super garrisons will be considered in 2006-07. This work has not prevented the disposal of surplus sites, with receipts of some £1.2 billion from April 1999.

**6** Good progress has been made towards delivering a better quality estate. The Department is rolling out new management and contracting arrangements which are already delivering benefits such as improved customer satisfaction. 'Project Alexander' led to a revamped Defence Estates with responsibility for the efficient and cost effective management of the estate as a corporate whole and for the procurement of all estate services. Users of the estate such as the Army are designated as customers and are responsible for planning and funding future estate requirements.

**7** These arrangements have widespread support in the Department. However, there is more to be done to consolidate the necessary cultural change. Indeed, the Department has identified this as a key risk which, if not addressed, could lead to a failure to realise both value for money efficiencies and improvements in the estate. The need for cultural and behavioural change applies across the board to personnel in Defence Estates; in the internal Customer Estate Organisations and the users of the estate who should now focus on their requirements in output terms; and in industry where firms need to continue to form long-term relationships and achieve continuous improvement as part of a supply chain. The Department has a number of risk mitigation measures to address this including communications, training and greater engagement between Defence Estates, customers and industry.

**8** The Department has also embarked on a series of ambitious projects to improve the quality and efficiency of the estate. These are shown in **Figure 2**.

**9** Whilst this represents a substantial investment in the estate from which significant benefits should be achieved, the level of funding the Department was able to make available after judging other priorities, has led to the adoption of sub-optimal solutions on two out of three current Regional Prime Contracts. It is also hampering the programming of other work by Defence Estates, for example, the delivery of single living accommodation and the upgrade of defence housing.

**10** The challenge for the Department is now to ensure that the strategy is fully implemented, risks managed and the full benefits realised. There is no current mechanism in place to ensure that the benefits from these new management and contracting arrangements are fully delivered. Defence Estates has made great strides in its efforts to develop good performance and risk management across the defence estate, underpinned by a new value for money model to measure the benefits of prime contracts. However, there is not yet enough robust baseline performance data against which to assess improvements.

## 2 Major ongoing estate projects

The Department has embarked on a series of demanding estate projects.

Project	Date of contracts (actual or estimated)	Type of contract	Purpose
Regional Prime Contracts	March 2003 March 2004 March 2005 September 2005 October 2005	Prime Contract	Five contracts delivering maintenance and minor construction work in the UK - should result in 30 per cent better value for money in terms of quality and efficiency improvements by 2009-10, for example through the introduction of fully integrated supply chains.
Project Aquatrine	May 2003 November 2004 December 2004	Private Finance Initiative	Three contracts transferring the responsibility for the maintenance and operation of water and sewage works to industry, who are best placed to manage the risk.
Single Living Accommodation Modernisation	December 2002	Prime Contract	To upgrade or replace some single living accommodation across the defence estate as part of a major investment programme.
Allenby Connaught	July 2005	Private Finance Initiative	To provide living and working accommodation for 18,000 personnel.
Colchester	February 2004	Private Finance Initiative	To provide living and working accommodation for 3,500 personnel.
Vanguard	March 2003	Public Private Partnership	To manage the Army training estate.
Housing Prime Contract	August 2005	Prime Contract	To manage Service Family Accommodation in England and Wales.
MoDEL	July 2006	Prime Plus	To consolidate some facilities within Greater London.

Source: Ministry of Defence.



## RECOMMENDATIONS

**11** Overall, our study found that the Department has made considerable progress towards delivering a better estate to support the delivery of defence capability with the introduction of new management and contracting practices. Managing a very large estate, with such a range of operational requirements, is a complex task and the Department needs to maintain a continued focus on estate rationalisation if it is to achieve an estate of the right size. In realising its strategy of delivering an estate of the right quality and size, the Department faces two major risks – funding and embedding the cultural change necessary to make the new processes work. There is, therefore, more to do to ensure that the full benefits of the changes are realised. Our main recommendations are that the Department should:

- build upon the Defence Non-equipment Investment Plan to draw together a longer-term coherent funded programme for the rationalisation and development of the estate and an indicative timetable to enable this to happen;
- continue to press forward with measures to deliver culture change across all areas engaged in estate business, ensuring that management at all levels and practitioners, including the “customers” of the estate and industry, are working in accordance with the new arrangements for estate management;
- develop a department-wide plan for the realisation of benefits (both financial and operational) from the new contracting and management arrangements, and from estate rationalisation;



- ensure that a consistent performance and risk management regime is adopted across the defence estate, including areas outside Defence Estates' functional responsibility, such as, a possible fully serviced infrastructure and the training estate, to ensure that the Department has a complete overview of the management of the defence estate; and
- as part of its next planning cycle, examine whether additional funding can be found from within existing resources, when judged against other conflicting defence priorities, to fund the Regional Prime Contracts so that the full benefits can be realised.

## PART ONE

The Department faces many challenges in managing the estate but has made good progress in developing a strategy to meet those challenges



**1.1** The Department faces many challenges, both in its frontline operations and in its administration. In response, the Department has put in place a strategy for the defence estate. Defence Estates been given an expanded role, not only to act as a specialist adviser but also as the supplier of estate services. It has responsibility for the delivery of the Department's estate strategy and, using new contracting arrangements, to deliver estate requirements as set by its customers within the Department. The first part of this report considers the context within which the defence estate in the United Kingdom is being managed.

## The challenges in managing the defence estate are growing

**1.2** The Department owns and manages extensive land and buildings in the United Kingdom and overseas. The defence estate is valued at some £15.3 billion and annual expenditure totals some £1.3 billion. The built estate covers 80,000 hectares and includes three naval bases, over 200 barracks and camps, 33 major airfields and some 54,000 family quarters. The rural estate covers 160,000 hectares and mainly consists of training areas. The Department is responsible for 622 listed buildings, 983 scheduled monuments and nearly 200 Sites of Special Scientific Interest. Overseas, the Department has garrisons in Germany, Cyprus, Falkland Islands and Gibraltar and major training facilities in Canada, Cyprus, Germany, Norway, Poland and Kenya. It also has a further 18,000 family quarters. More detail on the defence estate is provided in [Appendix 2](#). Given its size and diversity, its history and use, the management of the defence estate represents an enormous challenge. The Department needs to manage this challenge with a fixed budget. The priority of the estate has to be considered alongside other demands for resources, and even where value for money is demonstrated, affordability may remain a constraint.

**1.3** In December 2003, the Government issued a Defence White Paper 'Delivering Security in a Changing World'<sup>1</sup> containing an evaluation of the UK's strategic defence priorities. The White Paper set out an analysis of the future security environment and the capabilities required to meet potential threats. It pointed to the many developments since the Strategic Defence Review in 1998: starker and more unpredictable threats from international terrorism; the proliferation of weapons of mass destruction and weak and failing states; changes to the shape of international collaboration; and more numerous and diverse crises. This also impacts on how over 200,000 men and women of the armed forces work, train and are accommodated.

**1.4** Recruitment and retention of Service personnel is an issue, with both competition in the labour market and the unique pressures put on Service personnel and their families, which the management and quality of the estate can affect. The Department has invested significant funding and embarked on better contracting arrangements to improve the condition of the estate. The Department has also agreed an efficiency programme of which rationalisation and better use of the estate and better procurement processes form key elements. Wider environmental and social factors also impact on the management of the estate.

## Operational needs are becoming more demanding

**1.5** Following up the White Paper, the Department issued a Defence Command Paper<sup>2</sup> in July 2004. It identified the future need for flexible and adaptable armed forces which are properly supported to carry out the most likely expeditionary operations. It went on to set out the force structure changes and organisation and efficiency programmes necessary to meet future requirements. Future management and configuration of the defence estate is a key element of this change programme, with plans for estate modernisation through rationalisation, more effective contractual arrangements to raise its condition, and through building new accommodation for Service personnel. The aim is to rationalise the defence estate onto fewer and larger sites over the next twenty years.

1 Delivering Security in a Changing World, Cm 6041 dated December 2003.

2 Delivering Security in a Changing World: Future Capabilities, Cm 6269, published July 2004.

## The Department faces personnel recruitment and retention challenges

**1.6** The Command Paper assumed the need to ensure that the organisation of the Armed Forces reflects the reasonable aspirations of Service personnel in the 21st Century in terms, for example, of greater geographic stability in their home lives. The Defence White Paper ‘Supporting Essay on People’<sup>3</sup> went into more detail setting out a number of the key personnel challenges. For example, the population of the UK is ageing; the number of 16-25 year olds that the Services especially need to recruit is set to tail off after peaking in 2009. A service career poses unique challenges, notably the requirement to be mobile and spend considerable time away from families, balanced by unique opportunities. Individuals’ expectations are changing and many seek greater choice as to how they are accommodated; spouses want to pursue their own careers; Service personnel want continuity of education and healthcare for their families.

## The estate was deteriorating to an extent that cannot be addressed by traditional funding and procurement methods

**1.7** The Department recognises that the estate has suffered from a legacy of under investment. The Department has concluded that this situation has arisen not only because of limited budgets but also because of the reliance on traditional procurement methods. Previously, procurement was undertaken in many parts of the Department and was hampered by having a multitude of contracts, contractors and client-customer interfaces, imprecise allocation of risk, and vulnerability to fraud and malpractice.

## The Department is committed to a new target for efficiency improvements

**1.8** As part of the Spending Review 2004 settlement, arising from the Gershon review, the Department is committed to achieving efficiency improvements amounting to at least 2.5 per cent of the total defence budget. A key component of the efficiency programme is defence estate modernisation through rationalisation, the merger of Defence Estates with the Defence Housing Executive, more effective contractual arrangements, and through building new accommodation for Service personnel to assist staff retention.

## Environmental and social factors are of increasing importance

**1.9** More individuals and organisations are taking an interest in the defence estate and the way it is used. The Department has to take account of a diverse and changing agenda in the fields of planning, environmental sustainability, rural issues and transport. This applies at the international level as well as across national, regional and local administrations. Whilst these factors constrain Departmental estate management, it has still been able to act in a very positive way towards conserving the environment.

## The Department has a strategy and measures to implement the strategy

### The Department’s strategy was published in 2000

**1.10** The vision set out in the strategy for the defence estate<sup>4</sup>, first published in 2000, is “To have an estate of the right size and quality to support the delivery of defence capability, that is managed and developed effectively in line with acknowledged best practice, and is sensitive to social and environmental considerations”. It is the Department’s intention to revisit the strategy every five years. A review is underway aimed at producing a refreshed strategy for publication in 2005.

### The Department produces reports on progress with implementing the strategy

**1.11** The Department publishes an annual Stewardship Report detailing progress against the strategy’s goals. The management of the estate is overseen by an internal committee of senior stakeholders within the Department, called the Defence Estate Committee, who receive regular reports on progress.

3 Delivering Security in a Changing World: Supporting Essays, Cm 6041-11, published December 2003.

4 In Trust and On Trust – The Strategy for the Defence Estate, published June 2000.

## The Department now reports biennially to the Committee of Public Accounts on estate management

**1.12** The Department now reports biennially to the Committee of Public Accounts on progress with all important estate activity including the major projects and estates rationalisation. This Report to the Committee replaces previous annual reports on the top 20 estate projects.

**1.13** The previous Report, the Defence New Works Statement, had been provided since 1984, when it replaced an earlier statement. The Statement's usefulness had declined since it only reported on capital projects procured traditionally and, therefore, did not include private finance initiative projects or those for facilities such as the water and waste water management project, Aquatrine. Changes to methods of procurement and management of the estate have resulted in larger and longer-term contracts. In 2003 the Department, after discussion with the National Audit Office, approached the Committee of Public Accounts with a proposed new format for the Report and reduced frequency. The Committee, in February 2004, approved both the proposed new Report and a biennial submission.

**1.14** The new Report is an improvement to the previous one in that, in addition to the cost and timescales of all major construction and facilities projects, it reports on the Department's progress in rationalising its estate. Specifically, it encompasses performance on the following estate activity:

- major estate procurement projects, either in the UK or overseas, for expenditure in excess of £50 million;
- maintenance and upgrade of the estate to the desired standard by the introduction of Regional Prime Contracts;
- upgrading of accommodation for service personnel, both service families and single living accommodation;
- Public Private Partnerships/Private Finance Initiatives for contracts in excess of £100 million;
- major Infrastructure projects (expenditure in excess of £50 million); and
- rationalisation of the defence estate.

The Report provides a more accountable and transparent overview of estate management in the Department.

## The Department's strategy is supported by a programme of rationalisation and restructured management of the estate

**1.15** Drawing on the vision for the defence estate, to deliver an estate "of the right size", the Department has embarked on a major programme of estate rationalisation. To deliver an estate "of the right quality", the Department has introduced a new structure for managing the estate together with new methods of procurement. These two key elements of the strategy are considered further, in turn, in the following sections of this report.

## PART TWO

Estate rationalisation is complex given operational requirements but the Department is making some progress



**2.1** Rationalising estate holdings is very rarely easy: it is especially difficult in the defence estate given the need to support a wide range of operational capabilities and the size and complexity of that estate. The Department has established a process for identifying the Department's estate needs and is now looking to develop a coherent approach. The Department continues to take rationalisation forward, although the identification of the necessary funding, when judged against conflicting priorities, remains a risk. The Department has identified some funding for estate rationalisation as part of the current planning round. This Part of the report considers the Department's progress towards rationalising the defence estate.

## The Department has established a process for identifying its estate requirement

The Department established a review of its estate five years ago

**2.2** In March 1999, the Committee of Public Accounts noted in their report on 'Ministry of Defence: Identifying and Selling Surplus Property'<sup>5</sup> that the Department had not assessed its estate requirements based on operational needs. It considered that without such an assessment the Department did not have a firm basis for investment and rationalisation decisions. The Committee recommended that the Department should take urgent action to strengthen its strategic planning for the estate as a whole, decide the optimum sized estate, and devise a clear plan for achieving it.

**2.3** In 2000, the Department began a "Core Sites" review to identify and categorise the bulk of its existing estate, including both the built and rural estate. In October 2003, the Defence Estate Committee approved the categorisation of sites into those with a long-term future and the potential for further development such as Portsmouth, Salisbury Plain Training Area and Catterick; those essential for delivering defence outputs but without the potential for further development such as communications and training sites and others. The Committee identified a number of other sites with the potential for rationalisation. This identification of the sites available enabled an element of the estate to be rationalised but consideration of operational and other needs for the estate was required to make further progress.

## The Department set up reviews of estate requirements

**2.4** Following consultation with those senior staff with budgetary responsibilities, the Defence Estate Committee commissioned reviews of those sites where rationalisation offered the greatest potential for value for money, especially in terms of scale and timing of likely benefits, and ease of implementation. These reviews focused on the operational requirements and the estate needs arising from planned future force developments. The Department appointed the Chief Executive of Defence Estates as the Senior Responsible Owner for estate rationalisation to take forward these reviews with relevant departmental staff.

**2.5** These reviews included options to draw together elements of the Defence Logistics Organisation into the South West; collocation of single Service headquarters; rationalisation of Army units, of the Chief of Defence Intelligence's estate and of the Royal Marines estate, the defence airfields, and the Defence Training Estate. Defence Estates has helped the respective teams take work forward using common techniques to ensure comparability between the options. These reviews covered a sizeable portion of the available estate and addressed those areas where greatest benefit could be delivered.

## A number of current programmes include an estate rationalisation component

**2.6** The Defence Training Review, which examined all individual training and education, both Service and civilian, was published in March 2001. The review, confirming much that had already been recognised by the single Service training agencies, concluded that the training base was too large and unaffordable in the longer-term. The quality of some of the training infrastructure, in particular domestic facilities, was sub-standard and estate utilisation was inefficient.

5 'Ministry of Defence: Identifying and Selling Surplus Property' (HC 104 1998-99).

**2.7** The review came up with a number of proposals for rationalisation of the delivery of individual training, concluding that there were a number of common single Service specialist training activities which could be conducted jointly in Defence schools. The Department selected six areas of specialist trade training which offered greatest scope for rationalisation, given the volumes of students and the scope for synergies. The Department is currently pursuing this rationalisation programme through a Public Private Partnership on the basis of two packages of work covering the six areas identified. The Department is currently under negotiation with shortlisted bidders. Meanwhile, the Department has centralised the management arrangements for Service-wide training on a functional basis.

**2.8** In London, the Main Building Refurbishment programme was completed to time, cost and quality, allowing the release of a number of central London buildings. Another project deals with further rationalisation of the wider London estate and is covered in more detail in Part 3.

**2.9** The provision and consolidation of barracks and other facilities at Colchester and in the Aldershot and Salisbury Plain areas is being delivered through, respectively, Colchester Garrison and Allenby/Connaught Private Finance Initiative projects. These projects have provided for the relocation of some smaller units and released surplus land for disposal, and are covered in more detail in Part 3.

**2.10** Following a Strategic Review of RAF Brize Norton, Lyneham and St Mawgan, the closure of RAF Lyneham and consolidation of the Air Transport and Air-to-Air refuelling fleets at RAF Brize Norton were announced 4 July 2003.

**This work has not precluded significant disposal receipts being generated**

**2.11** Over £1 billion of disposals has been achieved between 1999-2000 and 2003-2004. Examples of the disposals that have taken place since 1999-2000 are shown in **Figure 3**.

<b>3 Examples of disposals</b>		
The Department has disposed of many major sites already.		
<b>Financial year</b>	<b>Disposal receipts (£ million)</b>	<b>Examples of major sites sold</b>
1999-2000	301	RAF Stanmore Park; Duke of York's headquarters, Chelsea; and RAF Quedgeley.
2000-01	225	Royal Army Medical College, Millbank; former RAF Kemble; Queen Elizabeth Park Barracks, Guildford.
2001-02	185	Burscough Depot; RAF Locking; Aston Down.
2002-03	279	RAF Burtonwood; Arras Lines Catterick; Pease Hill Development Site, Scotland.
2003-04	207	Staff College, Bracknell; RAF St Athan (part).
<b>Total</b>	<b>1,197</b>	
<i>Source: Defence Estates</i>		

**Continued focus on estate rationalisation is needed if the Department is to meet its disposal targets**

**2.12** The Royal Navy has made progress in determining its estate requirements and has concentrated its activities around the three bases at Portsmouth, Plymouth and on the Clyde, which form part of the Defence Logistics Organisation. The bases on the Clyde and at Plymouth are generally well developed; within Portsmouth, further rationalisation is possible. The Royal Air Force led defence airfields review is recommending the retention of the three Royal Naval Air Stations at Culdrose, Prestwick and Yeovilton (see below). A separate review is looking at the basing of the Royal Marines.

**2.13** The Royal Air Force led a review into all defence airfields. The resulting report sets out the long-term operational requirement and recommends the ‘maximum impact’ option of the closure of many of the smaller airfields over the next 15 years (an airfield is defined as an area of land with a runway capable of supporting military aircraft operations). The bulk of these closures could come in the first three years. Further work needs to be done to validate the savings that might accrue from this rationalisation and to ensure that the up-front costs are affordable against other departmental priorities. The Department, however, recognises that airfield rationalisation is an important part of ensuring that the right sized estate is achieved. The risk of adopting one of the lesser options is a continuing legacy of an unaffordable estate in maintenance terms and a growing requirement for capital investment.

**2.14** Determining the Army requirement is more difficult as the future army structure is evolving, and the future of forces in Germany and Northern Ireland is uncertain. The July 2004 Command Paper ‘Delivering Security in a Changing World – Future Capabilities’<sup>6</sup> stated that a major restructuring of the Army is planned to better enable brigade level operations. The Defence Secretary announced details of these changes on 16 December 2004. In addition, the practice of arms plotting – moving infantry battalions and their families between roles and geographical locations every few years - will be phased out. This has implications for the size and locations of future garrisons. “The Strategy for the Army Estate” recommended consolidation into “super” garrison sites.

**2.15** In addition to the Army’s new structure there will be changes in the number and type of equipment it operates; and this has ramifications for the facilities to support that equipment. For instance, there is a planned reduction in the number of Challenger armoured squadrons.

**2.16** Uncertainty over the future of some sites has led to works and maintenance being delayed, postponed or cancelled to avoid nugatory expenditure. Such management action is understandable and has led to adjustments to the Regional Prime Contracts’ planned expenditure on maintenance. In the longer term, this action could result in additional costs on those parts of the estate subsequently retained. Single Living Accommodation Modernisation projects have been reprogrammed to avoid building at sites with uncertain futures whilst ensuring maximisation of delivery of new bedspaces within the current funded programme. For instance, projects at RAF Wittering, Royal Marines Norton Manor, Bickleigh and Chivenor were put on hold due to uncertainties over their future use. Projects at Dalton, Invicta and the Duke of Gloucester Barracks were cancelled. It was sensible to proceed on this basis and the SLAM project was able to ensure that alternative high priority schemes were brought forward. However, greater certainty would allow for more efficient scheduling of work.

**Tight deadlines were set for submission of business cases, which, after scrutiny by Defence Estate Committee, form the basis of a plan for rationalisation**

**2.17** Full business cases, resulting from the rationalisation reviews, were submitted to the Defence Estate Committee on 3 December 2004, in time to inform planning for 2005-06. Whilst these business cases have been developed separately, Defence Estates Committee took an active role in ensuring coherence. Proposals for additional funding for these cases have been considered by the Defence Management Board. The Board endorsed funding covering the options for rationalisation and collocation of single Service headquarters and supporting staff; collocation of parts of the Defence Logistics Organisation in the South West and rationalisation of the Chief of Defence Intelligence’s estate. Proposals on defence airfields, the Royal Marines estate, super garrisons and the defence training estate have been deferred until 2006-07 to allow for further work to validate costs and savings. These options are subject to agreement by Ministers and consultation with staff and unions. Other projects with an estate rationalisation component continue to be developed separately in consultation with Defence Estates.

6 ‘Delivering Security in a Changing World – Future Capabilities’, Cm 6269, published July 2004

## There is further scope for rationalisation

**2.18** The Department identified a number of sites from across the defence estate where there was the potential for disposal of surplus land and buildings and which warranted further investigation. Having been prioritised on the basis of timing of benefits and ease of implementation, a number of these sites have been included within the rationalisation reviews and are the subject of the business cases, as mentioned above, for example the defence airfields review. However, there is scope for further rationalisation at a number of sites, identified as being potentially surplus, which the Department will examine in due course.

## Funding is a major risk to the delivery of estate rationalisation

Agreement has yet to be reached on how estate rationalisation will be funded

**2.19** The 2004 Spending Review increased both the size and scope of the Defence Modernisation Fund (amounting to £1 billion over the three years to 2007-08) to include rationalisation of the defence estate. The additional funding for the estate component is to be generated from disposals, possibly up to some £330 million, if current targets for disposal are achieved. To date the use of any receipts over and above the planned disposal income has had to take account of defence priorities and has mostly been used for purposes other than re-investment in the estate.

**2.20** If the Department is to maximise benefits from estate rationalisation, as required in its Efficiency Plan, significant pump-priming will be needed. As part of the current planning round, funding of some £90 million has been agreed for the collocations options discussed at paragraph 2.17. The Department has determined that where a persuasive business case for an estate rationalisation can be made, funding will be made available for pump-priming. Necessarily, within a fixed budget, funding for the estate has to compete with other defence objectives and hard choices have to be made. The risk is, therefore, that the Department will have to proceed on the basis of what is affordable within existing budgets, rather than the solution which offers optimum operational benefits.

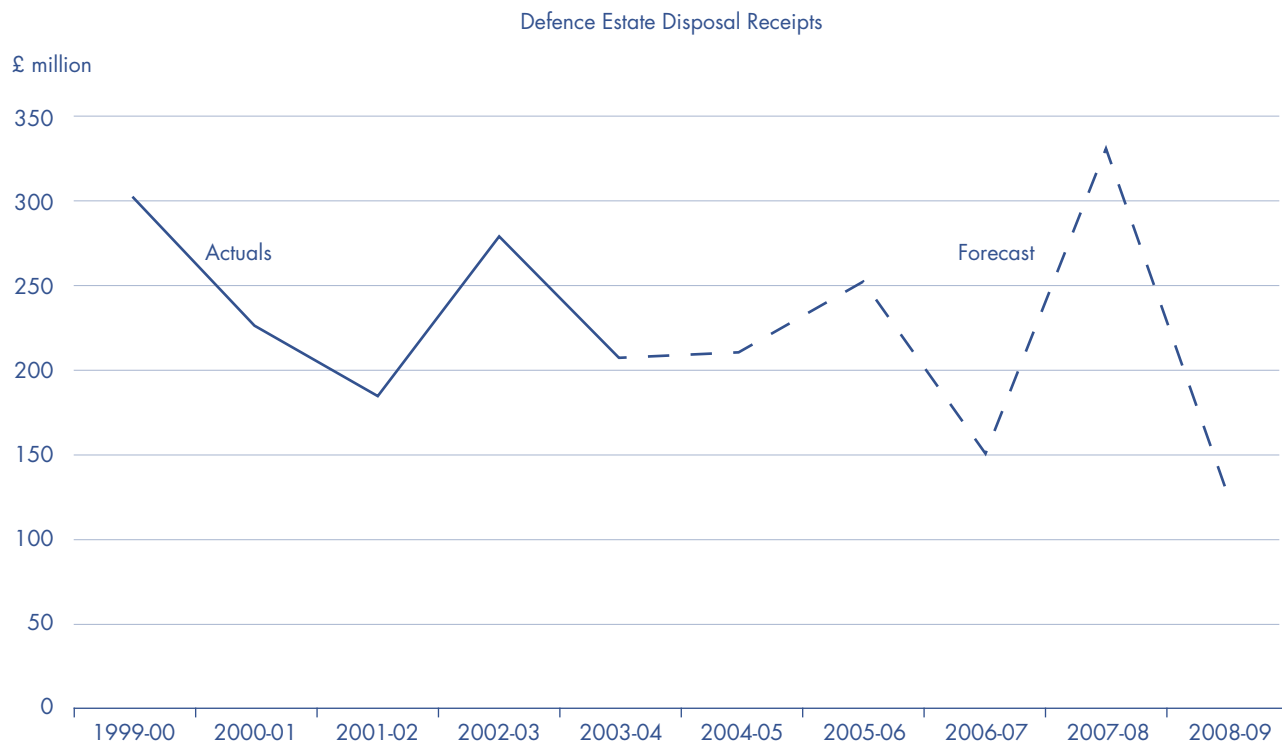
**2.21** Estate rationalisation can be expensive with an extended period before savings from projects match up-front investment. Allocation of such significant investment will always be challenging. One obvious source of such funding would be receipts from the sale of surplus estate. The Department has increased its disposal target to £732 million of receipts over the three years 2005-06 to 2007-08 in the current planning round to offset against planned expenditure on the estate and elsewhere. Historically, the Department has managed a successful disposal programme to offset some of the costs of the estate and this will need to be maintained if it is to improve the estate, [see Figure 4](#).

**2.22** Defence Estates is exploring the scope for innovative funding arrangements, such as sale and leaseback and renting rather than buying, to help make rationalisation affordable. Another approach is that adopted with Project MoDEL where the construction side of the project is expected to be funded from the value of the sites that are to be released. It is also expected that the contractor will provide bridging finance to meet the costs of the development before the funds from the value of the land can be accessed.

**2.23** In November 2004, Defence Estates signed a joint working agreement with English Partnerships with the objective of maximising the potential of surplus defence property to help deliver the Sustainable Communities Plan. English Partnerships will play a more significant role in analysing surplus assets and recommending disposal strategies. This could range from English Partnerships simply purchasing sites for development, through to a more complex approach where the agencies collaborate on design and planning to create a master plan for the future delivery of a site. English Partnerships is the government's national regeneration agency and its aim is to deliver high quality, sustainable growth in England.

## 4 Disposal receipts

The Department is currently forecasting continuing receipts from disposals.



Source: Defence Estates

## PART THREE

Good progress has been made towards delivering a better quality estate but the Department now needs to ensure that risks are managed and the full benefits realised



**3.1** The Department is rolling out new management and contracting arrangements which should deliver significant benefits. These arrangements have widespread support. Culture change remains a risk and uncertainties over both programmes and funding are potentially hampering delivery. The Department has developed systems for performance and risk management but both are still maturing. However, there is no current mechanism to ensure that the full benefits of the new arrangements are delivered department-wide. This final part of the report considers the extent to which the Department has put in place the means of delivering a better quality estate.

## A new structure for the management of the estate combined with new contracting arrangements is being rolled out and is already delivering benefits

The new structure for the management of the defence estate is nearing completion

**3.2** The Department conducted a thorough and well resourced study into the best way to realise the Defence Estate Strategy ‘In Trust and on Trust’ and to deliver new, improved procurement methods, such as prime contracting. Drawing widely on experience and best practice in the Department and elsewhere, the study analysed the strengths and weakness of the old arrangements and considered a number of options for the future. The study found that traditional ways of procuring and managing the estate had been inefficient; for example, the multiplicity of

maintenance contracts managed by various budget holders had meant that significant funds devoted to maintenance were going on administration. It also found that poor information about the estate had meant that investment decisions were not always soundly based.

**3.3** The Department proposed a changed organisational structure in 2001, the key characteristics of which are summarised at **Figure 5**. The project was called Project Alexander. Under the new arrangements, Defence Estates is responsible for managing the defence estate including the letting of all new construction and maintenance contracts. These arrangements which have been endorsed by the Defence Management Board have widespread support in the Department.

### 5 Project Alexander proposals for new arrangements

- Prime contracting as the principal driver of the need for change
- Clearly defined customer-supplier relationships
- Responsibility of the customer in planning and funding estate requirements
- A new cross-Departmental delivery organisation
- A central role for a new senior-level Defence Estate Committee

*Source: Ministry of Defence.*

**3.4** The implementation of the new arrangements has gone well, to time, and on budget. Six new Customer Estate Organisations are now in place to serve the Royal Navy, Army, Royal Air Force, Defence Logistics Organisation, the Centre and Permanent Joint Headquarters. The Customer Estate Organisations are responsible for establishing the future estate requirements of the frontline users; for liaison with Defence Estates; and for monitoring the delivery of the required outputs.

**3.5** Project Alexander principles have now been extended to the Garrisons in Cyprus, Gibraltar and the Falklands. The intention is to roll out the new ways of working to Germany and to consider doing so for the remaining deferred areas, such as Reserve Forces and Cadets, during the course of 2005. Separate management arrangements are in place or are being developed for those Private Finance Initiative projects outside of Defence Estates' functional control, for the estate occupied by US forces and, notably, for the majority of the training estate. The Department has also been cited as an example of good practice in the procurement of construction projects in the National Audit Office Report 'Improving Public Services through Better Construction' published in March 2005.

**New contractual arrangements are being rolled out**

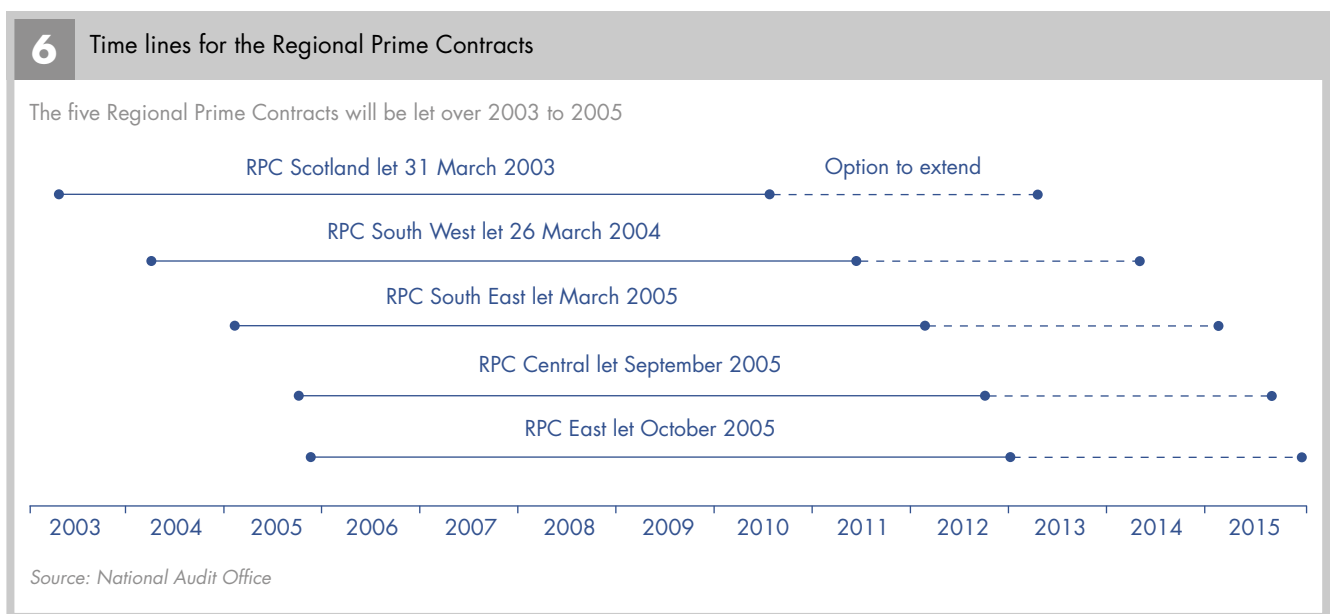
**3.6** The Department spends some £1.3 billion a year on its estate of which more than half is on general maintenance and refurbishment. The Department uses a range of procurement methods including Prime Contracting, Private Finance Initiative/Public Private

Partnership and conventional contracts. Previously, estate procurement lacked a single-point of responsibility and was hampered by the huge number of client-customer interfaces, imprecise allocation of risk, and vulnerability to fraud and malpractice. A history of problems with the former system, including poorly directed funding, inconsistencies between the approaches adopted by parts of the Department and varying standards, had led to the poor quality of the estate.

**3.7** The Department is seeking to involve industry in a much broader and collaborative way through the Public Private Partnership initiatives, "Smart Construction" initiatives, and by applying the principles of Prime Contracting. The objective of Prime Contracting is to achieve better long-term value for money through improved Supply Chain Management, incentivised payment mechanisms, continuous improvement, economies of scale, and partnering. Requirements are drawn up in output terms to stimulate industry to come up with innovative solutions and to enable risk to be clearly allocated to where it can best be managed.

**Regional Prime Contracts**

**3.8** The Department is to contract for the bulk of its maintenance and minor new works in the UK through the award of five Regional Prime Contracts by the end of 2005, except where this work is covered by an existing Private Finance Initiative deal. Each of the contracts will run for seven years initially with an option to extend the period to ten years subject to satisfactory performance (Figure 6).



**3.9** Appointed prime contractors will have overall single point responsibility for the management and delivery of a project, or provision of an integrated estate service including some new assets (those up to a pre-agreed value and type) and maintenance of the existing infrastructure. The prime contractor will also co-ordinate and integrate the activities of his pre-appointed supply chain to meet the service delivery specification, efficiently, economically, innovatively and on time, with a recognition of the military and other needs of the Department. The Regional Prime Contract Scotland, for example, will provide for capital works and property maintenance services respectively at 17 Establishments, covering 174 secondary sites with a total of 9,250 buildings or facilities. This contract also has, exceptionally, a large construction project on the Clyde costing over £100 million to provide 1,700 single living accommodation units together with associated infrastructure, catering and recreational facilities.

**3.10** Defence Estates aspires to deliver 30 per cent through-life value for money efficiencies, in terms of quality improvements, for the same or less resource input through the five Regional Prime Contracts by 2009-10. Defence Estates has an interim target of 3 per cent in 2005-06 and will be measuring progress through its value for money model.

### Project Aquatrine

**3.11** Project Aquatrine will transfer the responsibility for the maintenance and operation of the Department's sewage works, water processing plants and water mains, sewers and drains that are outside buildings, removal of surface water and water supply for fire fighting use in order to place the responsibility of managing those risks with those best placed to do so. The Project will be delivered through three separate contracts which are being negotiated separately (**Figure 7**).

### Single Living Accommodation Modernisation Project

**3.12** At the Defence Estate Conference, on the 14 March 2001, the Secretary of State for Defence announced an additional £1 billion of new funding over the next 10 years for raising the standard of single living accommodation. This requirement is being delivered in part by the Single Living Accommodation Modernisation Project, or Project SLAM. It was expected that this project alone would deliver around 10,000 bed-spaces in the first five year phase with a similar number in the second five year phase.

**3.13** The prime contract is based on an initial five-year programme of work in Great Britain (Phase 1), following which the Department has an option to extend by a further five years, subject to the satisfactory performance of the contractor, and the achievement of cost and time requirements. The aim is to upgrade, progressively, by 2013, the worst Single Living Accommodation to the physical condition deemed appropriate to provide Servicemen and women with the quality of living accommodation they deserve. In 2001, over three-quarters of single living accommodation was below the required standard. Indeed, four per cent was so poor that personnel were only charged for utilities. The contract was awarded on 18 December 2002 to DEBUT services, a Birmingham based consortium led by Bovis Lend Lease and Babcock Support Services. As at 31 December 2004, 1,189 bed spaces had been completed; 3,910 were under construction and another 2,376 in design and development.

## 7 Project Aquatrine

Aquatrine will be let in three packages as part of one coherent package.

### Package A

On 20 May 2003, the Department announced that Yorkshire-based consortium BREY Utilities, comprising Yorkshire Water, Earth Tech Engineering Ltd and KBR (Kellogg Brown & Root) had been awarded the first Project Aquatrine contract for 'Package A' (covering the Midlands, Wales and South West England). The contract went live on 1 December 2003.

### Package B

Package B (Scotland), the second of three contracts was awarded to Thames Water Nevis Ltd, a wholly owned subsidiary of Thames Water whose major partner will be Scottish Water. The contract was signed in September 2004 and will commence services in March 2005.

### Package C

On 11 November 2003, the Department announced that the C2C Consortium comprising Severn Trent Water Services plc and Costain Engineering and Construction Ltd, had been awarded the Preferred Bidder status for Package C (North and East of England), the third Contract to be awarded. The contract was signed in October 2004 with the package go-live due March 2005.

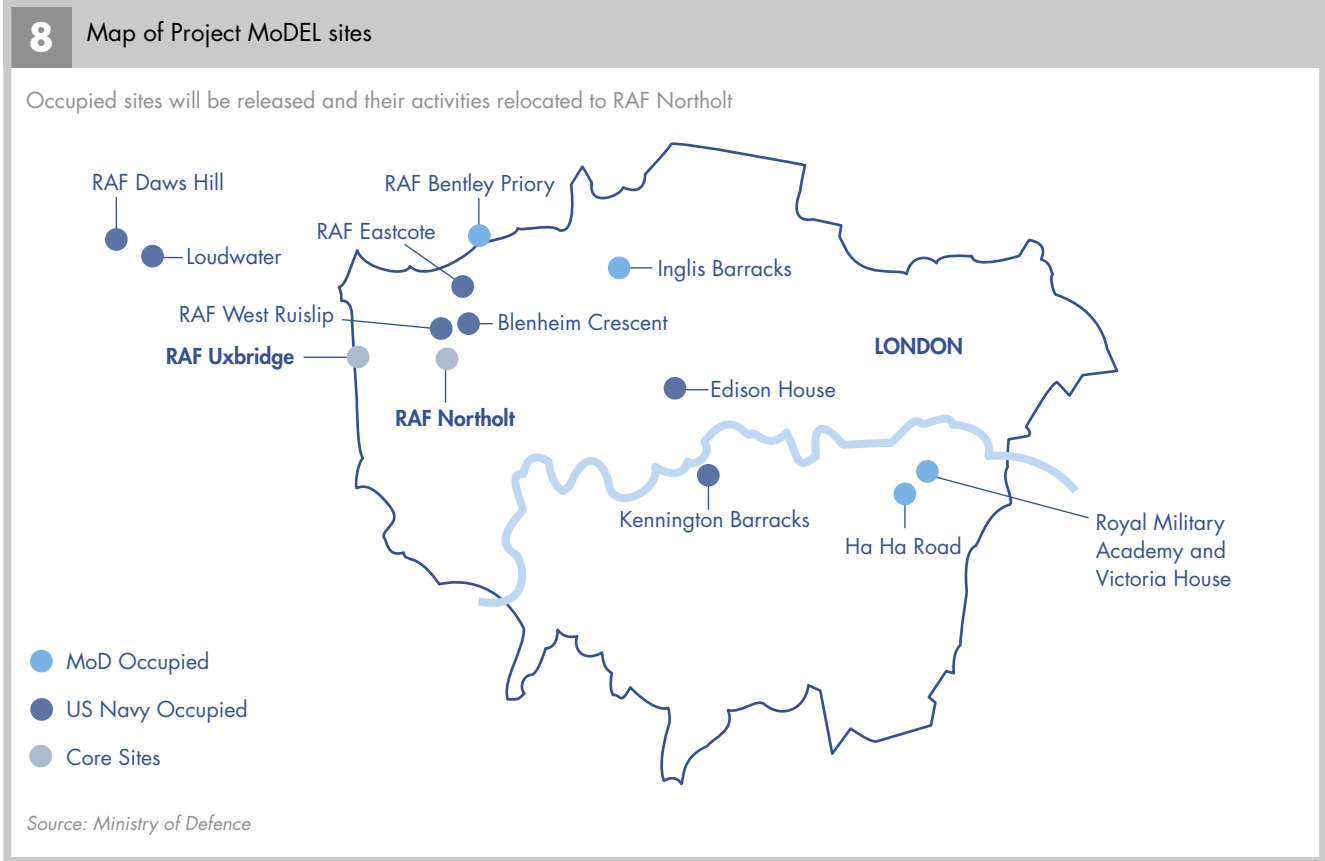
*Source: Ministry of Defence*

### Ministry of Defence Estate in London – Project MoDEL

**3.14** The Department has had a number of projects within London. It has completed the redevelopment of the Main Building in Whitehall as a private finance initiative project to time, cost and quality. The latest and most extensive project is Project MoDEL. Under Project MoDEL, the Department intends to consolidate the facilities it occupies within Greater London onto fit-for-purpose, core sites; thereby reducing running costs, improving efficiency and consolidating resources. Specifically, the project will develop RAF Northolt as a core site with improved accommodation and facilities with an additional 1,000 staff relocating from Inglis Barracks, Mill Hill, RAF Bentley Priory and RAF Uxbridge. It may also involve a consolidation of United States Visiting Forces at RAF Uxbridge. **Figure 8** shows the sites involved in this project. The Department plan to let the contract in July 2006.

**3.15** In October 2002, the Department had intended to develop the Royal Artillery Barracks, Woolwich as a core site. However, after the Lyons Review of 2003 and consequent reviews by the Secretary of State, this development was excluded from Project MoDEL. Future options for the relocation of London units are being considered. An aim of the project team is to ensure all project objectives complement the Lyons Review.

**3.16** To optimise the benefits of the Project, Defence Estates is reviewing the concept of prime contracting and has developed Prime Plus Contracting. This would allow the development of new and refurbished buildings to be funded through the expected disposal proceeds of the released sites. The contractor would expect to manage the delivery of the entire programme.



### Benefits of using the prime plus contracting form of procurement

**3.17** The expected benefits of using the prime plus contracting procurement are:

- maximising value for money through a single contractual relationship, with both the contractor's and departmental interests aligned;
- accelerated delivery of the project using a single initial procurement, with subsequent contracts being awarded through the existing contract;
- increased affordability as the Prime Plus Contract is a mechanism for attracting competitive private finance to achieve cash neutrality for the Department;
- reduction in the Department's exposure to risk and enhanced value by producing a single integrated programme, which will facilitate a unified approach to optimising churn and planning; and
- maximum flexibility for the Department to meet future needs without penalty, because the Prime Plus Contract can accommodate change to a greater degree than previous methods of procurement.

The picture is complex with some significant legacy estates projects remaining outside of the new management and contractual regime

**3.18** The arrangements for the management and delivery of the defence estate remain complex (**Figure 9 overleaf**). Some of the major projects, which fall outside the management of Defence Estates and are not included in the regional prime contracts, are discussed below.

**3.19** The Allenby/Connaught Private Finance Initiative project is designed to meet long-term requirements for living and working accommodation for some 18,000 military and civilian personnel, including support services, within the Salisbury Plain and Aldershot areas. The requirement is based on the demand arising from Army restructuring following the 1998 Strategic Defence Review. The term of the contract is likely to be for between 25-35 years and its value, based on a 30 year duration, will be approximately £1 billion capital expenditure and a total through life value of over £5 billion. This contract remains under Army budgetary and management control with active support from Defence Estates.

**3.20** Also under Army budgetary and management control, the Colchester Garrison Private Finance Initiative project will provide for fully supported, high quality and modern living and working accommodation for approximately 3,500 military personnel. It will also provide training, recreation, education and welfare facilities. The cost over 35 years is approximately £2.2 billion.

**3.21** Main Building Redevelopment Private Finance Initiative Project to redevelop the Department's Main Building, including temporary decant to other London buildings and ongoing upkeep of Main Building and Old War Office remains under the budgetary and management control of the Central part of the Department.

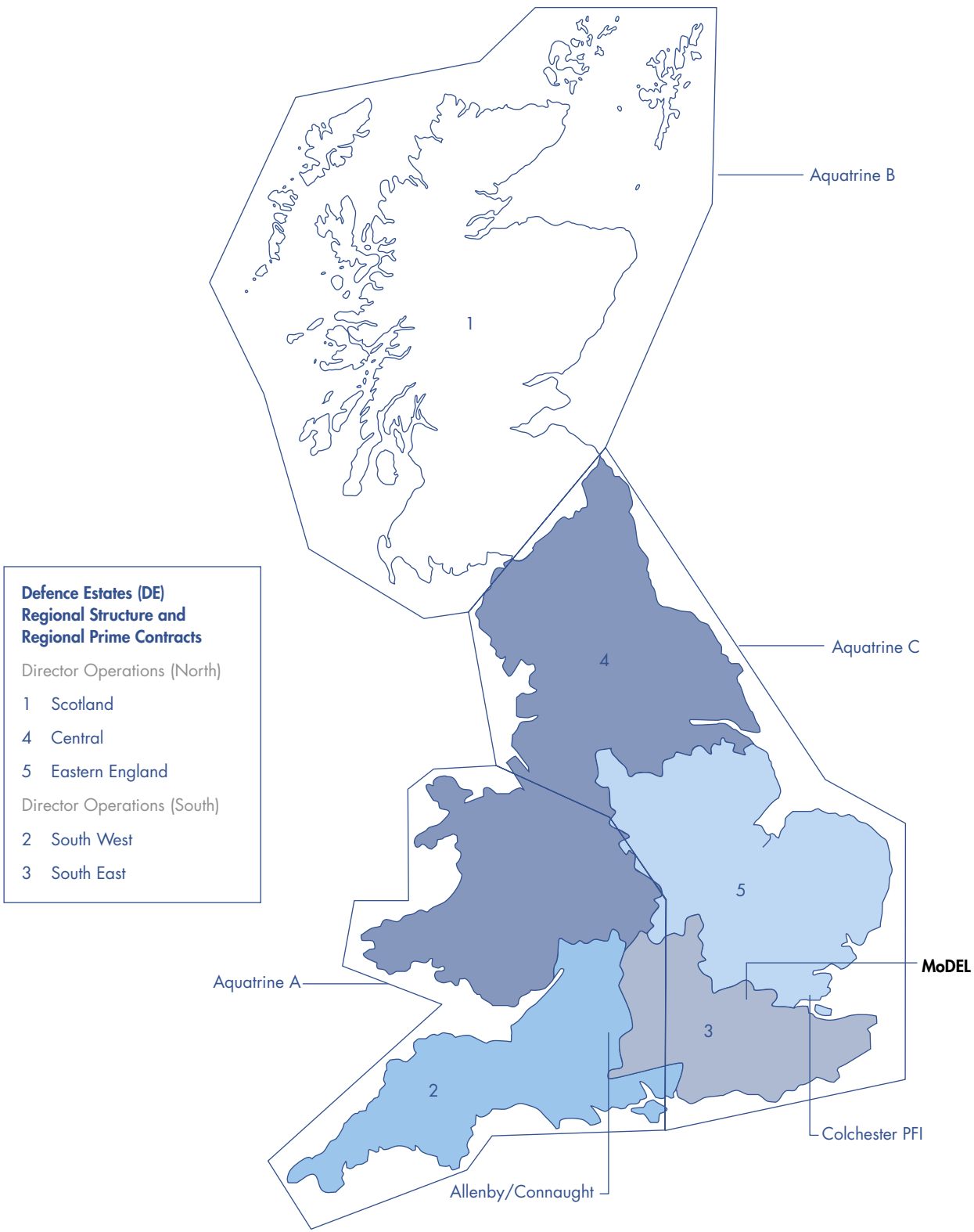
**3.22** The contract let in March 2003 to Landmarc Support Services, under Project Vanguard, for the management of the Army Training Estate remains under Army budgetary and management control. As part of the Defence Training Estate Rationalisation Study a new management model has been developed and a new organisation has been proposed for management of the Defence Training Estate as a whole with a new demand-side team based in Land Command and a separate supplier.

## Cultural change is a significant risk to implementation which the Department has recognised

Culture change is key to success

**3.23** The greatest initial challenge was to convince both users and industry that the proposed changes would actually happen. Following this, the culture and behaviour of Defence Estates staff, Customer Estate Organisations and indeed the wider defence community, needs to change more generally to adapt to the new roles if full benefits are to be delivered. This culture change is needed as much in industry as in the Department with new contracting arrangements requiring longer-term collaborative relationships and continuous improvement.

9 UK map showing complexity and diversity of the defence estate



Source: National Audit Office

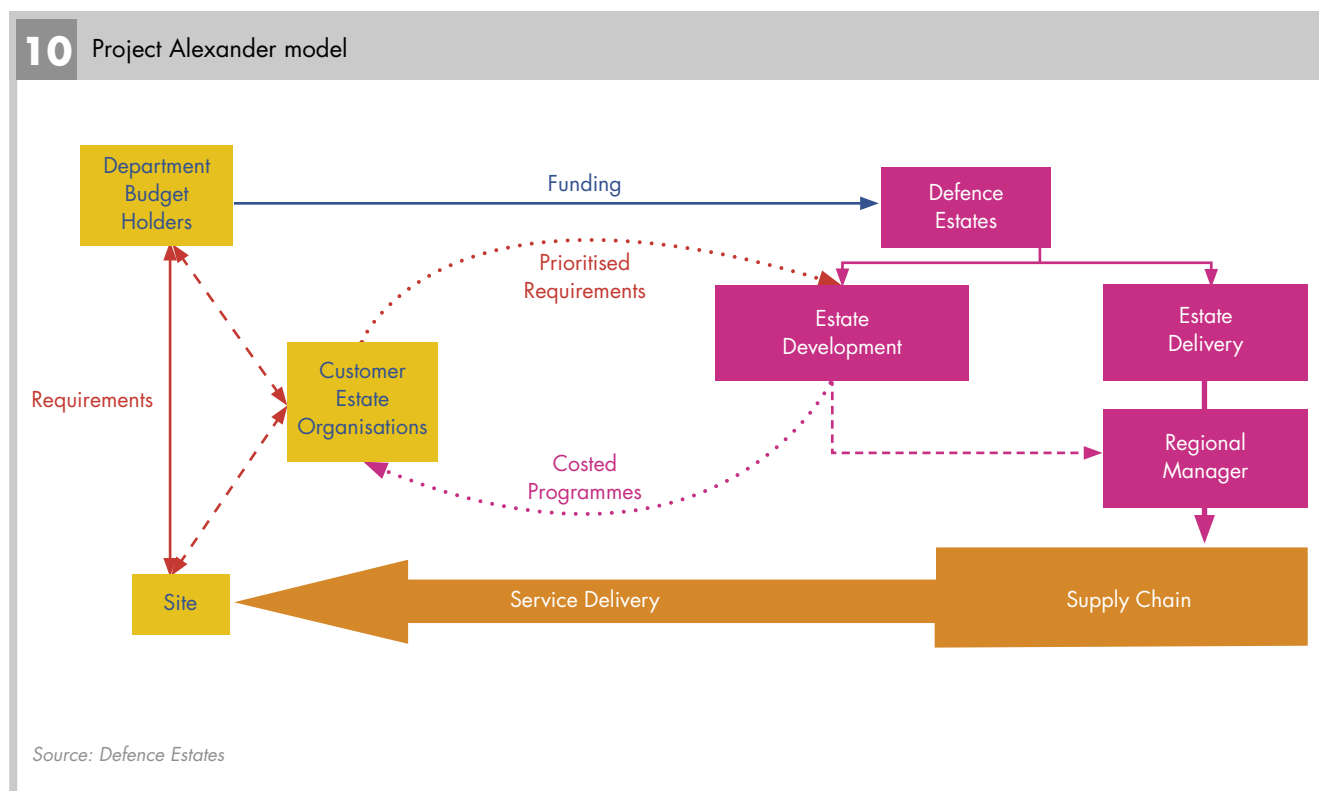
Progress is being made but there is more to do

**3.24** Through the widening of the role of Defence Estates as the new delivery organisation and the establishment of the new Customer Estate Organisations (representing the ultimate users of the estate), implementation of Project Alexander has achieved a better division of roles and responsibilities between customers and supplier. The management model for the defence estate is shown in **Figure 10: Project Alexander model** below.

**3.25** With the move of Defence Estates from being a specialist adviser to also being responsible for delivery of estate requirements it is becoming more customer focused with a project management approach to business. Customer Estate Organisations need to continue to focus on defining their requirements in outputs terms more than the solutions and inputs required to meet those. This shift in focus to outputs and whether or not they are being achieved also applies to the users of the estate and those in their management and budgetary hierarchies. Contractors also need to adopt behaviours more suited to establishing long-term relationships as part of an established supply chain, and achieving improvements in quality and reductions in cost, rather than servicing individual contracts.

**3.26** Implementation of the new arrangements has been accompanied by a Communication Strategy and training. At an early stage, Defence Estates put in place a package of 'Get you In' training aimed at Defence Estates staff, contractors and customers to meet the needs of the roll out of both Project Alexander and Regional Prime Contracting. Plans are now being put in place to deliver a training package for the 'steady state'.

**3.27** Evidence suggests that the culture shift required to fulfil new roles and responsibilities is not complete. There have been widely acknowledged transition issues in both Regional Prime Contracts with some internal customers being reluctant to allow Defence Estates to manage the contractual arrangements and confine their role to specifying their requirements. With the active engagement of all staff involved, on-site relationships are maturing as progress on delivery is made. Adherence to the old ways of working is indicated by the fact that risks to projects now being managed by Defence Estates are still being reported by other parts of the organisation.



**3.28** In interviewing staff at the customer organisations and in Defence Estates, the following reasons were given as to why the necessary cultural change is not complete:

- a lack of confidence amongst internal customers in the ability of Defence Estates to shift from being a policy adviser to that of service provider under the new ways of working;
- an initial lack of understanding and acceptance of new ways of working by some customers.

**3.29** Defence Estates has recognised the risk that this significant change in working practice and approach will not be embedded sufficiently. A lack of trust by all parties in each other would lead to failure to realise the value for money efficiencies and improvements in the estate would not materialise. This risk forms part of their risk management plan and there are mitigation plans in place including greater engagement between Defence Estates, customer and industry and more robust Customer Supplier Agreements.

## Uncertainty over both programmes and funding is hampering delivery

For Regional Prime Contracts lack of funding has led to a failure to achieve optimum value for money and will lead to a lack of consistency across the estate

**3.30** The introduction of the five Regional Prime Contracts, with requirements defined in output terms, was intended to provide a consistent approach to maintenance across the defence estate. However, due to balancing conflicting defence priorities the level of funding was insufficient and Regional Prime Contract Scotland was based on an input specification; Regional Prime Contract South West is based on an output specification, except for eight sites; and Regional Prime Contract South East will be based on a different output specification to Regional Prime Contract South West in terms of target condition. Therefore, there will be inconsistent standards for maintenance across the estate although an accepted minimum standard exists on all key parts of the estate.

**3.31** Input specifications are more prescriptive and provide less opportunity for innovative solutions by the contractor. They also result in more risk being retained by the Department. With an output specification it is up to the contractor to suggest how the targets might be met and, in doing so, come forward with more efficient and effective solutions. Contracts expressed in input terms require greater administrative effort, which will impact on

efficiency benefits. For instance, Regional Prime Contract South West team reported disproportionate effort being required for the eight sites with limited funding. With an output specification, the Department need only check that the required targets are being met rather than monitor contractor activity in detail.

**3.32** The five Regional Prime Contract contracts are worth some £3 billion over seven years. The Department has made available additional funding of £389 million over the life of the five contracts over and above that previously planned for the estate. The funding now available is thought to be sufficient to prevent any further deterioration of the estate. Defence Estates estimates that a further £100 million over seven years, 3 per cent of the contract value, would be enough to fund full output specification across all contracts although it recognises that this would be at the expense of other defence outputs. In the South West, customer budget holders came forward with more funds (£10.5 million against a shortfall of £43 million over seven years) after the contract was let; if this had been available earlier then the contract might not have moved away from output specifications for as many sites.

The Regional Prime Contracts core works are not occurring because of a lack of a programme

**3.33** It was intended that Regional Prime Contracts would include capital works projects up to £10 million but due to changing defence priorities, not all planned works are progressing. When tendering for the Regional Prime Contracts, bidders were asked to cost a number of demonstration projects. In Scotland, there were 13 potential core works projects of which only two were let at contract award whilst a further three have been subsequently let. As a consequence, Regional Prime Contractors will be less able to deliver efficiencies that should arise from a long-term programme of work through innovation and learning. Industry consider that supply chains put in place to meet requirements for core works are being disrupted and it will be difficult for them to be re-established.

Momentum on providing better quality living accommodation must be maintained

**3.34** In 2001 the Secretary of State for Defence announced an additional £1 billion of new funding over 10 years for raising the standard of single living accommodation, to be delivered through the Single Living Accommodation Modernisation Project (Project SLAM) and a number of parallel projects. Project SLAM expects to provide around 10,000 bed spaces over its first five year phase with a similar number in the second phase.

**3.35** The prime contract for the first five year programme was awarded in December 2002. The estimated value of this first phase of work was £738 million. Only £463 million funding was initially available and this was subsequently reduced to £433 million. The Department has subsequently re-injected £20 million as part of its latest planning round. Whilst still a substantial programme, the rise in the unit cost of bed spaces has meant that the number of bed spaces to be provided by 2008 has reduced to some 9,000. Additional funded projects injected into the SLAM programme are currently anticipated to increase delivery by 800 bed spaces.

**3.36** Certainty of programme funding allows the contractor to plan and carry out his work efficiently and effectively, optimising the use of resources and minimising the impact on personnel. Apart from Project SLAM, there are twelve other projects worth a total of some £500 million which will provide a number of facilities on site including 5,200 single bedspaces. These projects, which started prior to Project SLAM, are funded separately.

### Defence Estates needs to ensure that it retains the flexibility to adapt to changing priorities

**3.37** The Department provides four year funding to allow Defence Estates to programme its work, although Defence Estates will need to respond to changing defence priorities. In response, Defence Estates has established a joint programme which enables it to see where funds can be moved between projects although this does not help with long-term programming. Central finance staff in the Department have developed a financial planning tool in order to balance spending on major non equipment projects across the Department. These projects are mainly estate and information technology projects. This tool has been used in the current planning round.

### There is no current mechanism to ensure delivery of the benefits

There is not enough robust baseline performance data available against which to assess improvements

**3.38** The Department had sufficient data to enable it to enter into the Regional Prime Contracts. As part of these contracts, the Contractors are or will be responsible for gathering data on the condition of the estate and on their performance. This data will be owned by Defence Estates and will be used to establish the baseline condition of the estate.

**3.39** Under the old system there was no consistent way of gathering performance information. Legacy systems for assessing the condition of the estate are neither objective in their assessment, nor do they provide sufficient granularity of information to identify incremental improvement towards the required targets. Current information is therefore geared to the old ways of working, reporting performance using input measures. A particular impact of this is that there is no baseline data available against which to assess improvements in service delivery, for example, in terms of quality of work and response times. Defence Estates has now agreed a consistent asset condition measurement which will apply across all the Regional Prime Contracts.

### Efforts are being made to develop performance measurements across the defence estate

**3.40** A new methodology is now in development to provide an effective and objective means of grading asset condition, to enable the demonstration of improvements in asset condition and the targeting of improvements to appropriate assets. This is to be accompanied by Integrated Estate Management Plans for each site to inform planning. A new performance measurement system – for measuring and managing estate performance under the new ways of working - is under development and will be trialled at six sites from January to March 2005. This value for money model was developed with the Building Research Establishment and there is scope for it to be applied to measuring performance across estate investment projects across Government.

**3.41** Performance management with respect to the defence estate is reported by Defence Estates to the Defence Management Board through the Defence Balanced Scorecard but does not include those areas, such as the legacy Private Finance Initiative projects, that remain outside of Defence Estates' functional responsibility.

### Benefits have not yet been fully realised

**3.42** Improved oversight of the estate requirement, and greater clarity of roles, has been achieved through creation of the Customer Estate Organisations and the enhanced role of Defence Estates in programming and delivery of estate solutions. This should lead to greater coherence and reduce duplication in the management of the estate across the three Services.

**3.43** 'Steady state' in the management of the estate is expected to be reached by 2007 after the Regional Prime Contracts are fully established; these have the potential to deliver continuous improvements over the life of the contracts. Economies of scale will not be achieved until Regional Prime Contracts have all been let and forecast staff reductions achieved. It is too early to judge whether or not the benefits of a more flexible, fit for purpose estate delivering better value for money will be delivered as this is dependent on implementation of the new ways of working and on estate rationalisation, and on the provision of sufficient funding.

### There is no plan for the achievement of benefits

**3.44** Much is expected of the new ways of working, for example, new management and contracting arrangements are expected to deliver economies of scale including reductions in personnel, greater coherence and reduced duplication leading to the delivery of a flexible, fit for purpose estate. As part of its centrally agreed efficiency plan, the Department has a target to release cashable efficiencies from centralising the estates management function with net staff savings. A range of benefits have also been identified from other estate initiatives such as stand-alone private finance initiative deals and the Single Living Accommodation Modernisation project. These include wider benefits for personnel and to operational effectiveness such as improved retention, unit cohesion and ethos.

**3.45** The performance measurement and management regime being developed by Defence Estates will support the management of the estate and provide some measure of improvement. However, separate arrangements are needed to ensure that the full range of identified benefits are delivered and measured throughout the Department. The Chief Executive of Defence Estates is Senior Responsible Owner for the estate change programme but he has no line management responsibility for functions outside Defence Estates. Thus, responsibility for the delivery of benefits is dispersed and has not yet been fully defined. For example, there needs to be a plan which identifies and places targets on those responsible for reducing personnel outside Defence Estates and for achieving the operational benefits.

## Risk management is still maturing and is not presented as a coherent whole to the Defence Management Board

**3.46** Defence Estates risk strategy, summarised at **Figure 11**, appeared for the first time in its 2004 Corporate Plan. This strategy is focused on performance by Defence Estates.

**3.47** Risk management within the Department as a whole is also developing with a new Business Management System, the appointment of Process Owners with responsibility for managing risk across their area of business as well as Senior Responsible Owners taking responsibility for specific change programmes.

**3.48** Estate risks are reported to the Defence Management Board by Defence Estates. However, there is evidence that the management of risk with respect to the estate remains disjointed with customers reporting risks to estate inputs and risks to Regional Prime Contracts and Single Living Accommodation Modernisation. Individual estate projects being managed elsewhere in the Department, including Private Finance Initiative projects, have their own risk strategies which are not always linked into the Defence Balanced Scorecard. The Department established the Defence Estates Committee to ensure that estates risk is managed across the Department.

## The Department has more to do to ensure that quality improvements are delivered

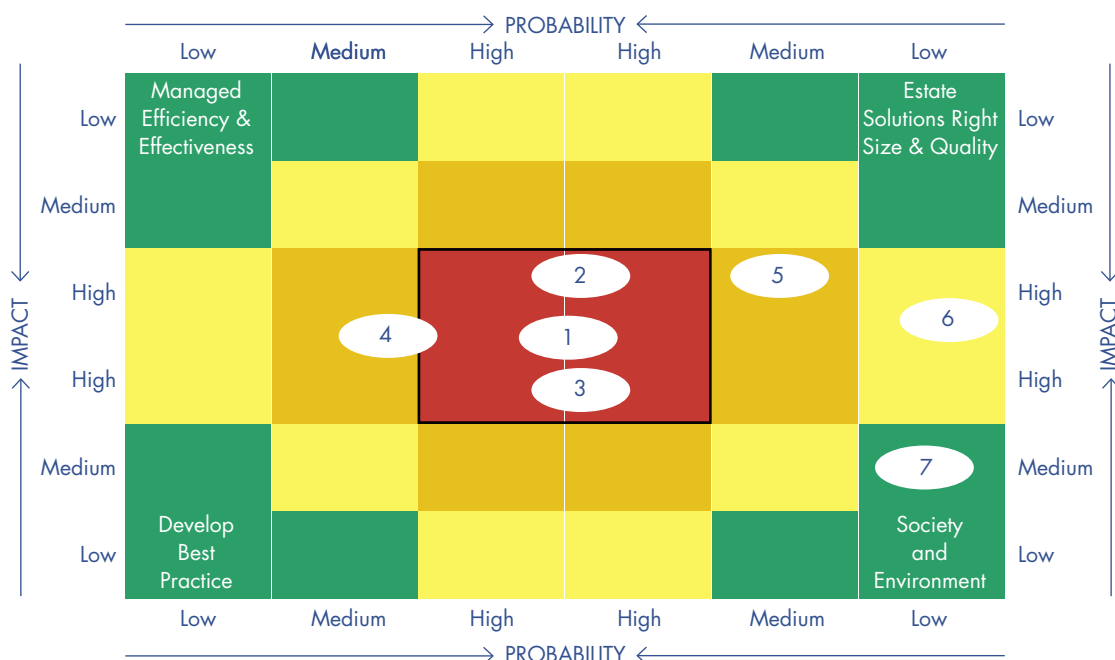
Implementation of estate initiatives is hampered by some skills shortages, particularly in key functions such as Project Management

**3.49** The Department has identified the skills it requires for the management of the estate and the new Regional Prime Contracts. Staffing Plans identify particular shortages in Facilities or Maintenance Managers and Project Managers. Detailed analysis of staffing is carried out at the local level. Better central coordination is dependent on the development of the Department's new Human Resource Management System. Both external recruitment and employment of consultants is being used to address skill shortages including manpower substitution.

## 11 Defence Estates Risk Matrix

### Risk Management within Defence Estates

The identified risks are mapped against the perspectives of the Balanced Scorecard as shown below. The risks will be reviewed regularly and mitigation plans begin to take effect.



#### Risk

- 1 Ministry of Defence budget holders fail to fully fund key estate improvements to provide an estate of the right quality.
- 2 Rationalisation proposals are not endorsed and funding for estate rationalisation is not made available to provide an estate of the right size.
- 3 Failure of Defence Estates, customers and industry to embrace new processes and cultural change.
- 4 Failure to demonstrate the efficiencies to be gained from the changes in the approach to how the estate is managed.
- 5 Construction Industry fails to deliver outputs to time, quality and cost.
- 6 Failure to develop a coherent approved purple estate programme in line with the overall Estate Strategy.
- 7 Loss of confidence in the Estate Strategy by Statutory Bodies and Non-Governmental Organisations.

#### Impact

- H - Delays to Prime Contracting roll-out. Delay in realising improved VFM. Injections of cash are less efficient, loss of economies of scale, no medium or long-term planning can take place.
- H - Defence Estates fails to deliver desired receipts in longer-term. Sub-optimal estate with higher running costs. Investment in estate works uncoordinated.
- H - Delays to improvement in estate, change initiatives fail to take hold and embed. Failure to realise the value for money efficiencies from new ways of working. Inefficiency creeps into estate processes. Defence Estates fails to take customers and industry along strategic path.
- H - Loss of confidence and credibility in the estate change initiatives. Reticence from customers and Ministry of Defence to provide support for further change. New processes are not fully adopted, inefficiencies accumulate and traditional culture prevails.
- H - Anticipated value for money enhancements arising from Prime Contracting not achieved. Dysfunctional collaborative relationships or poor selection of prime contractor. Industry unable to suppress fraud and malpractice.
- H - Deterioration of estate, incoherent investment, inefficient use of estate funds and missed rationalisation opportunities.
- M - Departmental plans for development and use of estate frustrated by external lobby groups. Potential delays as planning processes are challenged, together with restrictions on use of estate.

Source: Defence Estates

The Department is working to put in place the right Information Technology systems to support the new ways of working

**3.50** Estate Information Systems workarounds have been identified and put in place. The Department is undertaking an incremental development of a more permanent solution over the period 2004-05 to 2006-07.

The new Defence Estates Regional Structure has not yet had the opportunity to impact on business improvement

**3.51** The Department considered that the regional structure of Defence Estates was too flat and the span of control too wide for effective control and management of change. Also there was some duplication and inconsistencies of approach. Defence Estates has since been reorganised and its Operations Directorate is now headed by a senior civil servant with three directors: Director UK North, Director UK South and Director International. Individuals have been appointed to these posts but detailed structures beneath are still being worked out.

Having a number of estate-related projects managed by different parts of the Department may dilute opportunity for improvement

**3.52** In accordance with Departmental policy, Defence Estates is taking on some legacy projects such as the Corsham Development Project. There may be benefits in Defence Estates taking responsibility for all existing estate projects to make best use of focused expertise and to learn from experience. This could widen the delivery of benefits from the new management and contracting practices. Benefits could also accrue through putting all new Private Finance Initiatives with Defence Estates to pool and take advantage of the limited expertise in this area within the Department. Separately, the Department has set up a new unit, headed by a secondee from Partnerships UK, to look critically at Private Finance Initiative solutions.

# APPENDIX 1

## Study Methodology

### Scope of this study

**1** In undertaking this examination we were seeking to identify the progress the Department had made in developing an estate strategy to meet the challenges it faces, in rationalising the defence estate, and in delivering a better quality estate.

### Methodology

**2** We undertook an issue analysis examining:

- whether the Department had successfully implemented Project Alexander;
- what progress had been made in developing a strategy and plan for rationalising the estate: and
- whether the Department's new procurements methodology was leading to a better quality estate.

**3** We collected the evidence in support of our findings under each of these issues from the information contained in the Department's records, including minutes of meetings and contract documents. We held discussions with: staff at Defence Estates, including its Chief Executive and the Divisional heads; the Top Level Budget Holders' Estate Organisations: the Regional Prime Contract teams for Scotland and the South West; the Regional Prime Contractor's representatives for the two contracts: the Project Leaders for the Allenby/Connaught and Colchester Garrison Projects: and the Army Training Estate.

**4** We assessed the developing system for performance measurement and risk management. We examined plans and developing business cases for rationalisation. We also examined the new report that is being prepared by Defence Estates for submission to the Committee for Public Accounts.

## APPENDIX 2

### The Defence Estate

#### Estate Facts and Figures

##### United Kingdom (240,000 hectares)

###### The Built Estate (80,000 hectares)

- 3 naval bases
- 213 barracks and camps
- 33 major airfields
- 31 minor airfields
- 47 research and development installations
- 140 storage and supply depots
- 17 major communication facilities
- 53,666 families' quarters
- 688 statutorily protected buildings (*including 551 listed buildings and 137 scheduled monuments (buildings)*)
- 147 town centre careers information offices

###### Reserve Forces and Cadets

- 13 Reserve Forces and Cadet Association headquarters
- 2,050 Territorial Army and Cadet facilities
- 600 Royal Auxiliary Air Force and Air Cadet facilities
- 17 Royal Naval Reserve/Royal Marine Reserve facilities

###### The Rural Estate (160,000 hectares)

- 21 major armed forces training areas
- 39 minor armed forces training areas
- 36 separate small arms ranges
- 7 major test and evaluation ranges
- 7 aerial bombing ranges
- 196 sites of special interest (*where the Department has direct management responsibility*)
- 598 scheduled monuments

United Kingdom Significant MOD Facilities



Source: Defence Estates

### Overseas Permanent MOD Facilities



- |                    |                    |                |              |
|--------------------|--------------------|----------------|--------------|
| 1 Cyprus           | 5 Ascension Island | 9 Canada       | 13 Norway    |
| 2 Germany          | 6 Belgium          | 10 Kenya       | 14 Poland    |
| 3 Gibraltar        | 7 Belize           | 11 Nepal       | 15 Singapore |
| 4 Falkland Islands | 8 Brunei           | 12 Netherlands | 16 USA       |

#### Overseas

- Garrisons in Germany, Cyprus, Falkland Islands and Gibraltar
- 18,102 Service family homes
- Major training facilities in Canada, Cyprus, Germany, Norway, Poland and Kenya
- Other facilities in Ascension Island, Belize, Brunei, Nepal, Singapore and USA
- Temporary estate (supporting peacekeeping and other operations) in the Gulf, Bosnia and Kosovo

Source: Defence Estates