Twentieth Report of Session 2021-22

Optimising the defence estate

Ministry of Defence

Introduction from the Committee

The Ministry of Defence (the Department) has access to one of the largest estates in the country. The estate covers 1.5% of the UK landmass, and is valued at £36 billion. The Department recognises that its estate is too large and that its scale, nature and location have not evolved enough to meet the Armed Forces' current and future needs. The Department's vision is to develop an estate that is affordable and optimised to support Defence capabilities, outputs and communities. It is disposing of sites it no longer needs and is accountable for a 2015 Spending Review commitment to reduce the size of its built estate by 30% by 2040–41. It is also seeking to reduce future running costs. It spent £4.6 billion on its estate in 2019–20, 12% of the overall defence budget.

In 2016, the Department set up a 25-year investment strategy known as the Defence Estate Optimisation (DEO) Portfolio. The DEO Portfolio is the Department's main estate transformation programme, which aims to achieve a smaller, more efficient estate. It consists of a series of building projects to rehouse personnel and equipment, moving units to new locations and disposing of vacated sites. In 2016, the Department expected that the DEO Portfolio would reduce the size of the built estate by 25%, and that other sales would reduce it by a further 5%. The Portfolio team works with the Top-Level Budgets (TLBs) which are responsible for managing and rationalising their own estate. The Defence Infrastructure Organisation (DIO) provides TLBs with advice and support on estate management, including disposals.

Based on a report by the National Audit Office, the Committee took evidence on 28 June 2021 from the Ministry of Defence. The Committee published its report on 12 October 2021. This is the government's response to the Committee's report.

Relevant reports

- NAO report: Optimising the Defence Estate– Session 2021-22 (HC 293)
- PAC report: Optimising the Defence Estate – Session 2021-22 (HC 179)

Government response to the Committee

1: PAC conclusion: We are very concerned that the Department does not have a coherent strategy to deliver the necessary reform of its whole estate and to manage all related estate initiatives.

1: PAC recommendation: By 31 December 2021, the Department should publish a revised estate strategy with milestones which reflects the decisions made in the Integrated Review. When published, the Department should write to the Committee to explain how it will manage the interdependencies between estate initiatives; its plans for rationalising the overseas, training and reserve estates; and the resources it will commit to delivering the strategy.

1.1 The government agrees with the Committee's recommendation.

Target implementation date: Winter 2021/2022

1.2 The Ministry of Defence (the department) has already committed to releasing the Strategy for Defence Infrastructure (SDI) before the end of 2021. The Strategy's vision is for a safe estate, fit for purpose to deliver military capability and support Defence people and aligns with the ambition set out in the 2020 Spending Review (SR) and 2021 Integrated Review (IR) and Command Paper. The department is investing £9.3 billion over the next ten years, which includes £4.3 billion for the Defence Estate Optimisation (DEO) portfolio and £5 billion on further modernisation of the estate. The department spends approximately £4.5 billion, annually on meeting routine running costs (£2.3 billion), conducting minor upgrade tasks (£560 million) and delivering more substantive repairs (£1.7 billion).

1.3 The DEO portfolio is now fully funded for the first time and is being adjusted to align with the direction set out in the 2021 IR for the future of the armed forces. The work to update the plan is expected to be completed by Spring 2022, the results of which will be shared with the Committee.

1.4 The infrastructure operating model provides the mechanism to manage the interdependencies between estate initiatives. The management of the DEO portfolio under a single Senior Responsible Owner (SRO) provides the necessary governance, oversight, and financial and delivery planning processes to manage the interdependencies with other estate initiatives. The department is already undertaking a review of the Reserves Forces Estate. The findings will be shared with Parliament in due course.

2: PAC conclusion: The Department has no meaningful targets or high-level performance framework to incentivise it to develop an affordable estate that better supports defence needs.

2: PAC recommendation: By 31 December 2021, the Department should reset its estate optimisation targets, developing specific shorter-term deliverables, including reductions in the size of estate; sale proceeds; and savings in estate running costs.

2.1 The government agrees with the Committee's recommendation.

Target implementation date: Spring 2022

2.2 The department has a clear plan for modernising its capabilities and reducing the size of the estate to meet Defence's requirements, aligning with the 2021 Integrated Review (IR) and publication of the Command Paper. The department now has clarity on its near-term priorities and is committed to delivering the military requirement as efficiently as possible.

2.3 The department confirmed with Defence Ministers that the 2015 target to reduce the built estate by 30% is no longer appropriate and will no longer be pursued. The original target, which had been set out in the 2015 Strategic Defence and Security Review, was a top-down target assumption and was not based on detailed plans. Following the 2020 SR, 2021 IR and the publication of the Defence Command Paper, the department has a clear plan for modernising its capabilities and reducing the size of the estate of the next few years.

2.4 The DEO Portfolio will align its targets and benefits with the outcome of the 2021 IR. The department is working on delivering a refreshed DEO portfolio plan to reflect a post-IR capability laydown. Given the work involves refreshing the plan and re-costing implications of project changes and benefits, it is expected to be completed and formally endorsed within the department by Spring 2022.

3: PAC conclusion: The Department has made slow progress in reducing the size of its estate.

3: PAC recommendation: By the end of this Parliament, the Department must be able to demonstrate that it has built on recent developments to deliver planned site disposals. Each June, it should provide the Committee with an update on its progress, reporting against its revised performance framework. It should also identify and apply good practice from across the public and private sectors to ensure it is achieving timely disposals which maximise returns.

3.1 The government agrees with the Committee's recommendation.

Target implementation date: Summer 2022

3.2 The department will provide a report to the Committee immediately following the Ministers' endorsement and subsequent update to Parliament.

3.3 The department has disposed of over 200 surplus sites since 2015 in line with expectations to the value of over £1 billion. The department has also been optimising its use of the current estate to ensure it is appropriately located, resilient and sustainable to provide better value for money.

3.4 Following the 2020 SR, DEO is now fully funded following a gap left by withdrawal of Private Finance funding. It will meet new capability demands and be an important but not exclusive part of optimising the estate. The DEO portfolio SRO has worked closely with the Infrastructure and Projects Authority and engaged with a client-side partner to provide private sector and industry knowledge for maximising returns. The SRO has also engaged with relevant cross-Whitehall stakeholders, such as the Cabinet Office and the Department for Levelling Up, Housing and Communities.

4: PAC conclusion: The Department's ability to make informed decisions on estate management and on which sites to sell remains constrained because it still lacks good management information on its estate, despite this Committee highlighting the problem in 2010.

4: PAC recommendation: The Department should explore how to accelerate the development of its asset management system—due in 2025—and embed this in its management of the estate. It should include an update on its progress when it writes to the Committee to explain its new estate strategy.

4.1 The government agrees with the Committee's recommendation.

Target implementation date: Winter 2021/2022

4.2 The department will provide an update on progress against delivery of its asset management system in Winter 2021/2022.

4.3 The department is committed to accelerating development where possible and is currently on track to have an asset management system with a maturity level 3 'competence' (ISO 55001) by the end of 2025. The department has worked extensively with industry, benchmarking the development and implementation of an asset management system of a similar scale to the department. This work supports the target implementation date.

4.4 The department manages its assets under a variety of Hard Facilities Management contracts which provide some asset management information. This position will improve further as the department draws more data from its contractors through the asset management programme and could have the potential to shorten the projected timescales for completion.

5: PAC conclusion: The Department's forecast savings from its DEO Portfolio by 2040 have already fallen from £2.4 billion to £0.65 billion, and there is a very real risk they will melt away completely.

5: PAC recommendation: The Department should collect better data on the actual cost of preparing sites for disposal and the building works on sites receiving relocated personnel and equipment, including the cost of meeting sustainability commitments. It should use these data to re-assess the forecast savings from the disposal programme and include this in its annual update to the Committee.

5.1 The government agrees with the Committee's recommendation.

Target implementation date: Summer 2022

5.2 As with any large portfolio it was initially planned to use the best knowledge and assumptions available at the time. Several factors influenced the reduction in net savings these included 9 significant site retentions (7 in DEO and 2 across the wider estate) which were needed to support military capability and were then not available for disposal. This has reduced the level of savings delivered when compared to the original estimates. As the portfolio estimates mature, the department expects to make net savings of £0.65 billion through DEO disposals over the next 25 years. Gross savings are £2.7 billion in running costs and £2.3 billion of savings expected as a result of reductions in future maintenance and life-cycle replacement costs.

5.3 A new Delivery, Commercial and Procurement strategy will be implemented in Summer 2022 which will deliver key benefits from early engagement with industry using a two-stage procurement mechanism through the design and build phases in line with industry best practice. This strategy will provide the department greater confidence and accuracy in project costings due to the completion of detailed designs and site master plans.

5.4 The department will also work with industry partners and utilise reference class data to ensure the cost of site preparation to support disposals is understood, matured, and factored into project planning and estimating. Progress on this will be provided in the annual update to the Committee.

6: PAC conclusion: The Department has still not tackled the long-known problems with the poor quality of its estate, which continue to harm the well-being of service personnel.

6: PAC recommendation: The Department must demonstrate to the Committee in its annual update how its commitment of appropriate resources to tackling the problems which affect the lived experience of its personnel have had an effect, to the extent that we start to see improvements in the relevant scores in the annual armed forces continuous attitude survey.

6.1 The government agrees with the Committee's recommendation.

Target implementation date: Summer 2022

6.2 The department is refreshing building design standards to ensure that it only constructs accommodation and offices that meet the expectations of Defence personnel both now and in the future. The department plans to invest circa £1.5 billion (excluding DEO) in improving Single Living Accommodation (SLA) over the next decade.

6.3 In addition, in the last five years, the Department has invested more than £650 million in improvements to Service Family Accommodation (SFA). Over 97% of UK SFA meets or exceeds the Decent Homes Standard with no properties allocated below that standard.

6.4 Over the past two years the department's Defence Infrastructure Organisation and Industry Partner, Amey, have worked collaboratively to improve accommodation delivery, with a clear focus on improving key performance indicators in maintenance and move-in preparation. As a result, the experience of service families has steadily improved. The latest survey data of August 2021 has shown that 61% of Armed Forces Continuous Attitude Survey (AFCAS) respondents were satisfied with their homes, with 63% citing defence accommodation as providing value for money.

6.5 Both SFA and SLA will improve further under the new Future Defence Infrastructure Services contracts and the implementation of the new SLA minimum standards creating the opportunity to move away from a 'fix on fail' approach to preventative maintenance. The department expects the impact of its increased investment in the improvement and modernisation of SFA to be reflected in future improvements in customer satisfaction levels.