The HERO review: harnessing efficiencies, rethinking outcomes: the future of the defence estate

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Acknowledgements

The review team would like to thank Morgan Sindall Group plc for commissioning this independent academic study into the future of the defence estate. They would also like to thank the large number of serving officials (from the Ministry of Defence, the Treasury, the National Audit Office, the Department For Business, Innovation and Skills, and the armed forces) for being so generous with their time. The team is also indebted to a number of retired experts on the defence estate who contacted us and provided insights into the history of the estate and how it has come to be managed in the way it is today, and the large number of stakeholders who contributed to this study. All errors are the responsibility of the review team.

The HERO Review Team

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DISCLAIMER: The analysis expressed within this report is entirely that of the HERO Review team of the Centre for Defence Studies, King’s College London, which carried out the inquiry, based on a survey of the extant literature and from interviews conducted with Government officials and wider stakeholders. The contents do not reflect the official position of the Ministry of Defence, or any other Government department, agency or commercial organisation.
In commissioning this study by Dr. John Gearson, Director of the Defence Studies Centre and his team at King’s College London, we saw this as a means of making both a positive contribution to the debate whilst giving something back to a Department that has been a very significant source of work for the construction industry for many decades. We also saw it as a means of delivering tangible and reciprocal benefits within the scope and spirit of the Military Covenant, and in so doing moving closer to meeting the obligation owed by the Nation to its servicemen and women.

It is readily accepted that the work undertaken by King’s College London and Morgan Sindall Group plc does not provide a panacea. It is also acknowledged that the thoughts and ideas advanced here are not fully costed and analytically evaluated, but they are nevertheless well positioned to stimulate a broader dialogue at the behest of the Ministry of Defence. In offering these thoughts we prefer the more contemporary view that the absence of a perfect solution no longer justifies doing nothing.

This work is an open invitation to politicians and civil servants, as well as those engaged in industry, commerce and other professions, to engage in a “conversation” aimed at improving the resilience, flexibility and economic efficiency of the Ministry of Defence whilst acknowledging at the same time that the United Kingdom has to face up to harsh economic realities with difficult choices to be made.

Those engaged in the world of academia and business cannot unilaterally solve such complex problems, but they can occasionally act as a catalyst for constructive and innovative dialogue and that, in a nutshell, is the primary objective of this paper.

Our un-reserved thanks are extended to Dr. Gearson and his team at King’s College London for the insight, enthusiasm and application they brought to this study.

Paul Whitmore
Commercial Director
Morgan Sindall Group plc
Preface

Armies have traditionally needed to provide barracks for their soldiers; modern volunteer forces depend upon the provision of decent homes and caring communities for service families as well. The military covenant has become the shorthand expression for the implicit contract that the country makes to look after its armed forces and their families in return for the exceptional service they render the nation. Fulfilling the contract in an age of austerity is tough for a government rightly committed to reducing the budget deficit.

Modern armed forces also need headquarters, training colleges and exercise areas, logistic depots and repair facilities and much more besides. The land, buildings and engineering and other facilities supporting the British Armed Forces comprise a set of major national assets that requires careful day to day management, but one that also offers long term opportunities for securing a better return from the capital invested. Defence cannot afford not to explore all the possible avenues to that end, as identified in this report.

As someone who has in the past worked in the MoD on managing the defence programme and had to try to juggle resources and commitments during times of financial pressure, I know how important it is to be able step back and look objectively at how assets are being used and renewed. Finding more imaginative ways of using the defence estate to the full by bringing in expertise from the property and commercial world should be central to the current work of the MoD to implement the outcome of the recent Strategic Defence and Security Review. Being more efficient is not in contradiction with upholding the military compact; on the contrary it is how it can be afforded.

I am glad that the Centre for Defence Studies at King’s College with which I am associated has been able to contribute the HERO Review to assist Morgan Sindall Group plc with their re-examination of these issues for defence estates, and I commend the ideas in it as worthy of further exploration.

Sir David Omand GCB
Visiting Professor of Defence Studies, King’s College London
Deputy Under-Secretary for Defence Policy and Programmes, 1993 - 1996
The announcement in February 2011 of the restructuring of the Defence Estates (DE) into the Defence Infrastructure Organisation (DIO) goes a long way to reorienting the management of the defence estate into a leaner and more commercially nimble organisation. Many of the challenges the DE faced will also be faced by the DIO, and it is those challenges, principally of finance, utilisation and disposal, and the future of single living and service family accommodation, that are dealt with in this report.

The Military Covenant

As an idea, the Military Covenant has gone from the comparative obscurity of a historical convention to a contemporary piece of Army doctrine that is at the heart of Britain’s defence policy and public discourse about it. The members of the armed forces have rarely been held in higher esteem outside of a national crisis, notwithstanding public controversy over the rationale for recent operational deployments. The Covenant has become the prism through which every aspect of military welfare is viewed, including medical treatment, housing and family support, placing pressure on Governments to give service personnel a better deal, or the promise of one. A key recommendation within this report is that better use of the defence estate provides an opportunity for the Government to fulfil some of the expectations that the Covenant raises (both in its historical and post-SDSR form), but also to recast the offer to service personnel and their families in a positive way. The evidence suggests that the support and happiness of service families has a significant impact on the ability of our armed forces to fulfil their mission, and to that end it is incumbent on the British defence establishment to ensure that the reasonable needs and aspirations of service families can be met consistent with operational effectiveness. (See Chapter One)

Finance

The continued funding of the defence estate represents a major challenge in the context of lowering Government expenditure and the need to manage defence resources more effectively, itself a key requirement of the coalition Government’s Strategic Defence and Security Review (SDSR). Future ambitions for improved management and operation of resources allocated to the defence estate will need to recognise fully the effects of reduced funding. The significance of this reduced funding will manifest itself on both the operational side of the DE/DIO and on the management and deployment of capital resources for planned and future investment programmes.

Since the 1990’s the use of private finance in public sector procurement has steadily risen, primarily through the use of the Private Finance Initiative (PFI) model. There have been many success stories arising from use of private finance in a range of differing sectors with fixed price contracts, high performance standards and an ongoing commitment to asset management as key tenets. At the same time, there has been critical questioning of whether some PFI projects have achieved true value for money (VfM) as well as satisfying affordability constraints. In the case of the MoD, in particular, there have been questions about flexibility and the ability of some PFI contracts to respond to change over a typical 25/30 year outlook, although the provision of new single living accommodation is generally regarded as a successful use of private finance.

It is unlikely given the current political Government procurement policy that ‘traditional’ PFI deals will form a significant proportion of the financing for DE/DIO capital projects in the future. They are now perceived to be too inflexible over the life of many projects, too burdensome at the tendering stage and in the current climate too problematic to fund via necessarily cautious banking groups. New approaches such as Local Asset Backed Vehicles (LABV) and Local Improvement Finance Trust (LIFT) structures appear to offer the best opportunities for defence estate funding in the medium term. They offer the flexibility and partnership arrangements that the review team believe will be crucial to the future of the defence estate, and the changing operational environment expected in the period up to 2020, the period of the SDSR’s focus. In this context...
HM Treasury’s desire for capital receipts, without inward investment into the DE/DIO, is and has been unhelpful. The Localism Bill, and the political signals surrounding it, opens up some interesting possibilities for the DE/DIO and its private sector partners. A key part of the future mix of defence estate provision will come through these local partnerships. The review team also think that there is scope to bring aspects of the defence estate to market, such as the core infrastructure, via specific funds offered by private finance groups.

The HERO Review argues therefore that the future financing of the defence estate will need to be closely tied up with the Government’s localism agenda. Land-swaps and ‘release to reprovide’ schemes (which closely bind the needs of public authorities and their commercial partners) are innovative ways of providing future funding to the defence estate in an age when large capital expenditures are unlikely to be approved or funded by HM Treasury. Such schemes are also capable of widening the impact of the economic footprint that defence leaves in the UK and moving the defence community nearer to the wider society that they are drawn from. (See Chapter Two)

**Utilisation**

One of the major areas of underdeveloped thinking within the defence community (despite past and current internal reviews by DE) is the utilisation of various parts of the estate. Those who have worked in this area told the team that the major barriers to utilising the defence estate were established Treasury rules (the so-called ‘Green Book’). These rules may well be relaxed – probably by mid-2011 – which would dramatically change this picture and free up public authorities to make greater use of their assets. Given the scale of the savings the coalition Government needs to make, the better utilisation of the defence estate will in and of itself not contribute a particularly significant amount to that end. What is clear, however, is that there is a political imperative to make these reforms, and to ‘mainstream’ this kind of utilisation and commercialisation within the public services. If fully realised, this transformative political agenda will have a lasting legacy on the defence community (as it will in other policy areas), eroding the conceptual and practical divisions between public and private sectors.

The HERO Review team are not anticipating wholesale reform, freeing up Government departments to become quasi-businesses free to enter new markets – they must still focus on core tasks – but there are some sensible and obvious partnership arrangements that would help reduce the cost of running the defence estate and bring in valuable income. The HERO Review team believe that the new DIO should make the sustainability of the defence estate a priority. Wider utilisation of the estate, including dealing with waste and generating sustainable electricity, could make a strong contribution to the Government’s sustainability and renewable energy targets, whilst making a modest financial contribution to the running costs of the estate. Encouraging local managers to make better economic use of the estate, to mainstream entrepreneurialism and thrift, will ensure the estate is at the forefront of the national effort to do more with less. The HERO Review team agrees with those in MoD who concluded that nothing less than a major cultural shift would be required to achieve this result within the defence sector. (See Chapter Three)

**Facilities management**

Facilities management (FM) is commonly divided into two categories, though many companies provide both services, sometimes simultaneously. ‘Hard FM’ refers to the provision and upkeep of buildings and equipment, Soft FM’ refers to the provision of on-site services such as catering. There is an industry trend towards Total FM (via mergers and acquisitions), that is, a single company providing both hard and soft FM and front of house service as part of a single contract, although this trend does not seem to have been so keenly followed in the defence sector. The current model is mostly one whereby construction firms make a company acquisition of a ‘soft-FM’ provider, to create the in-house capability, or via careful contractual relations.

Some FM contracts retain the same inflexibility that can be observed in traditional PFI deals. Building in flexibility increases the cost of the service being provided many-fold, but it is this kind of flexibility that is required in a defence context that is subject to changing operational needs. The review team found no evidence of the MoD attempting to model the costs of providing these services in-house, where the risk factor could be consumed within departmental budgets: namely extra-services would incur the same risk as the private contractors, but any savings would be kept in-house rather than having been passed on as part of a private contractors risk calculation. A comprehensive critical evaluation of whether the flexibility required by the defence community lends itself to fixed contracts is overdue: defence may be one of the special cases across Government where operational flexibility trumps the need for fixed pricing, but the political necessity currently is for continued outsourcing.

How far the total FM concept should be extended in the defence sector remains unclear, although the review team has its doubts as to the scope for wide application in
defence unless a significant degree of flexibility is capable of being attached to such contracts. The HERO Review has only been able, in the time available, to look at a few examples. To consider the scope for the total FM concept and other important issues for the future, the HERO Review recommends that an independent investigation should be conducted across all the components of the estate from which the ‘right size’ of the defence estate to meet the demands of the SDSR is and what role the private sector should play in managing non-operational parts of the estate, to assist the DE/DIO in its planned shrinkage and in becoming a ‘thin-client’. Only in this way will the MoD be able to confidently assert that it is guiding the defence estate in the right direction to meet the needs of the armed forces, their families and the public purse in delivery support for defence provision in the long rather than the short term. (See Chapter Four)

**Single Living Accommodation (SLA)**

Project SLAM is reported to have delivered good quality SLA across the armed forces and to a standard and level of security that is appreciated by all of those who have used it. Project SLAM has delivered a large improvement to the SLA stock across the defence estate, and seems to be mostly liked by those service men and women who use it, with only minor dissent around comparative rents and housing standards.

The return from Germany of the remaining 20,000 British Army personnel based there announced in the SDSR, will create the need for significant additional SLA facilities, including new build facilities, and thus the issue of cost-savings generated by using different manufacturing techniques and materials will become prominent. In addition, there are some issues around innovation and sustainability in the existing SLAM model, and the DE’s control of the SLAM concept, that may require consideration for the model to be sustainable in the longer term.

The top-end cost of SLAM does appear expensive when compared to other types of SLA, (up to £25,000 a bed-space more expensive on some measures) even after recognition of the security factors built into military SLA which could be partly mitigated by it being located in different places ‘behind the wire’. If the current design parameters were retained, it would make some sense to move the SLAM units closer to the wire so that as the defence estate footprint is further reduced (as everyone expects), the SLAM units could effectively be moved outside the wire and used for other purposes, such as hotels or conference facilities. This would provide the potential for recovering some of the costs of construction in the future. Some cost-savings could also be derived by introducing some flexibility into the Project SLAM model, and by embracing (or going further in the use of) some new technologies, such as portable modular engineering. This would also open up flexibility across the defence estate and the potential for a secondary market. The use of new materials technology could also assist in meeting sustainability targets.

The HERO Review’s research suggests that introducing private money (be it through investment funds or existing private SLA providers) into future SLA requirements might prove problematic unless the DE/DIO fully adopts its thin-client approach and gives over management responsibilities to the private sector. Reducing this management function could also assist the DE/DIO in achieving its institutional rationalisation targets. (See Chapter Five)

**Service Family Accommodation (SFA)**

Service Family Accommodation has been a difficult issue within the defence community since at least the mid-1990s. Controversies have continued about the standard of the accommodation, how it is maintained, its cost, the value for money it has represented on disposal and the desire of the three services to retain control over it, prior to DE assuming control of it.

The problems with family accommodation run wider than crumbling infrastructure; there are the connected issues of service personnel not being on the property ladder (adversely affecting their personal financial planning), of being detached from broader society, and of being distant from mainstream and undisrupted education.

The HERO Review did not find any great appetite amongst the private financiers contacted to place significant investment into new service housing (something that is a common problem in the general economy as well) and most doubted that it would be forthcoming in the short term. There are some land-swap and smart-disposal options (including renting SFA to ex-service personnel) that may help overcome a number of these instinctive barriers however.

The HERO Review recommends that the MoD should take steps now to begin to relieve itself of direct responsibility for the provision service family accommodation. To promote levels of home ownership in the forces to levels more in line with the civilian sector, a military property bond scheme could be established. Such an approach, in which service personnel’s payments
into the scheme were matched by MoD, would, by the end of a 15-year term, provide enough capital to buy a SFA or go a long way towards buying a property on the open market. The HERO Review team believe that MoD should go further and put in place a universal military accommodation allowance (pegged to CPI) that would support the transition from military accommodation to privately owned or rented accommodation. In the short term this would maintain the Government’s support for subsidised military accommodation, whilst giving service personnel unfettered freedom of choice over their accommodation. Such a move would also generate long-term cost savings within the MoD, with the reduction in bureaucratic overheads for managing service family accommodation, in particular. For single living (SLAM) units, the low rent would be replaced by a market rent, but in turn would be offset by the universal allowance. (See Chapter Six)
Key Conclusions and Recommendations

- A better use of the defence estate will provide an opportunity for the Government to fulfil more of the expectations that the military covenant raises and also an opportunity to recast the offer to service personnel and their families in a positive way;

- The Government, through the MoD, needs to do more to provide good quality life-opportunities, through life skills (such as financial awareness and mentoring) and vocational training for service personnel before they leave the armed forces, which (counter intuitively) will improve retention rates and post-service outcomes;

- Mainstreaming commercial awareness and the utilisation of the defence estate will make the estate more commercially nimble;

- Closer integration of defence and civil communities offers the most promising approach, based on the notion of jointly investing and benefiting from the creation of new accommodation, recreation, leisure, education, medical facilities and renewable energy facilities, to be branded under localism and mutualism. This could initially be achieved through utilising the return from Germany and the positive £750m economic footprint it will bring;

- The MoD should plan to use the defence footprint - following the army’s return from Germany - to generate inward investment, and to seek the best local authority partners for meshed community solutions;

- New financing arrangements such as LABV, LIFT and Land Swap should begin to be used instead of PFI arrangements to allow for the introduction of new assets to the defence estate, whilst disposing of excess assets;

- The MoD should proceed with the super garrisons concept for the army;

- The DE/DIO should issue an industry consultation on the SLAM concept, with a view to generating efficiencies through innovation;

- The MoD should encourage the use of contemporary modular features in its SLAM concept, so that the SLAM units can be moved around the country, as operational or commercial needs dictate;

- Future SLAM units should be built closer to ‘the wire’, so that as the wire contracts SLAM units can be used for commercial accommodation or the like;

- The MoD should relinquish its role in providing service family accommodation and instead provide a universal military accommodation allowance (linked to CPI);

- An independent review should be conducted into what the ‘right size’ of the defence estate is and what role the private sector should play in managing non-operational parts of the estate, to assist the DE/DIO in its planned shrinkage and in becoming a ‘thin-client’ and;

- The performance of the DIO should be closely monitored and its further transformation into either a national corporation (with Value for Money considerations at its core), or into a wholly private entity able to better interface with commercial partners, should be actively considered.
Introduction

The Ministry of Defence (MoD) owns around 240,000 hectares, has rights of access to a further 130,000 hectares of land in the United Kingdom and manages a further 200,000 hectares of land overseas, making it one of the country’s largest landowners. The Defence Estate, which is valued at between £20-31 billion depending on the source, is diverse, with some 4,000 sites including airfields, naval bases and barracks. An estimated £2.9 billion per year is spent on running the estate. As a result it is one of the British Government’s largest collection of assets, and a important component of the Ministry of Defence’s asset holdings, which directly impacts on the majority of service personnel and whose effective operation and management has been shown to be important factors in the retention of military personnel, as is described later in this report. Under the austerity measures announced by the coalition Government in 2010, most of the Government’s property holdings are under review by a unit of the Business, Innovations and Skills Department, known as SHAREX, but the Defence Estate was kept as a distinct entity. As is elucidated later in the report, there is some evidence that the Government will incorporate the Defence Estate into the general Government land pool, radically shifting the way that the Defence Estate will be considered as part of the spending review.

As an element of the October 2010, Strategic Defence and Security Review (SDSR) it has received little media attention – which was mostly focussed on the decisions about the Harrier Jump Jets, the future aircraft carriers and the reduction in overall military and civilian manpower levels – despite a pledge to reduce the running costs of the estate by an enormous £350m per year. What the SDSR precisely said about the defence estate was:

[it will include the] rationalisation of the defence estate including the sale of surplus land and buildings and associated running cost reductions and running cost savings across the estate of up to £350 million per year including a revised approach to the way in which we manage and deliver infrastructure services across the estate ...

Our final decisions on the defence estate that we will need in 2020 will be taken on the basis of detailed investment appraisals and wider impact assessments. We plan to be as open as we can be and to take decisions as quickly as possible in order to minimise uncertainty for the communities affected. Our aim will be that our Armed Forces will continue to be based in a way which is sensitive to economic and social pressures and the needs of defence, our people and their families.

Moreover, the defence estate (its size, management and disposal) has received precious little academic attention, not even in the context of the SDSR, which has received a decent amount of commentary, precisely because it falls outside of the more obviously attractive issue areas such as operational art, and equipment. The HERO Review seeks to address the gap that has been left in wider policy and media circles by the failure to give issues around the defence estate their proper attention amongst the wider defence stakeholder community. It is hoped that this review document will be the beginning of a conversation between all those who are involved in or who have an interest in the running of the defence estate.

The defence estate provides an important backdrop to the defence of the realm – it is where the vast majority of service personnel are housed, trained and cared for. It provides the bedrock of support for the armed forces: decisions about British defence are researched, planned and executed from the estate. The defence estate does not just service the military, however, it also provides a valuable source of economic regeneration to the parts of the UK that benefit from a military presence in their area. The planned return of the British military from Germany brings with it a £750m footprint that will be relocated to parts of the mainland UK. Such a footprint could be

1 The MoD owns some 1% of the UK land mass, but less than the Forestry Commission or the National Trust.
2 The MoD categorises some 571 of these 4,000 sites as major – see MoD, Defence Estate Development Plan, (2010)
4 The Government Property Unit of Sharex currently operates a challenge function in respect of proposed disposals from the Defence Estate by the Ministry of Defence, but does not currently have a strategic role in identifying which elements should be considered for disposal.
5 The armed services are planned to shrink by 17,000 personnel by 2015 and by another 3,500 by 2010. The Ministry of Defence’s civilian work force will decline by 25,000 by 2015, Ministry of Defence, Securing Britain in an Age of Uncertainty: The Strategic Defence and Security Review, (The Stationary Office: London, October 2010), p.32.
used strategically to assist in the economic regeneration of the UK. This report examines the effect of the ‘defence footprint’ on UK in terms of it as a public policy driver in maintaining a cross-UK defence presence.

The HERO Review began in October 2010 with a wide remit covering the ‘future of the defence estate’, and its analysis captures much of the breadth and complexity of the original research design. Following initial research, however, and the assessment that there was much about the defence estate, which was settled, the review focussed its energies on four central themes:

- the future employment model of service men and women, via the central theme of the military covenant;
- the financing of the defence estate, and in particular how in future the defence estate might be financed and held;
- FM; and,
- the future of Service Family Accommodation.

In reality many of these themes are linked; the defence estate is after all a complex mix of interdependencies, but each of these themes receives a separate chapter within the HERO Review, as they are mostly usefully discussed in this individual way.

Throughout the investigation the review team kept the following questions at the front of their minds, and whilst they do not form discreet sections in the report they informed the way in which the problems and challenges associated with the defence estate and the Defence Estates organisation (DE), as a managing unit, were thought about:

- Extrinsic value: As citizens, what are our interests in the defence estate? Does it return good value for money for the tax revenues invested in it? To what extent does this investment contribute to effective defence and security?
- Intrinsic values: What “values network” can be identified across the defence estate? These networks will need to be able to derive value to add value. How can DE incentivise these broad stakeholder communities.
- Core Attributes of the defence estate: What is the right size and kind of defence estate, and what special attributes does it have that make it ‘defence’ and not something that could be rented ‘civil’ estate? What is the persistent need in the defence estate?
- Ownership Model: What should the ownership model be? Can a one-size fits all model be applied? Can DE, for example, be run as a National Corporation – a joint venture entity, part-Government, part-commerce/industry/part-Academe that is allowed / encouraged to make money and look after the environment? If so what new services could a national corporation provide that have not been considered thus far? Can we incentivise the management of the DE and all the other stakeholders involved? Part of this debate has been framed after the research phase had finished. The announcement of the creation of a Defence Infrastructure Organisation (DIO), in February 2011, provides the Government’s answers to some of the questions the review explored, but the conclusions that were drawn about the management of the defence estate are still relevant to the establishment of the DIO and the HERO Review has drawn conclusions about it in the report.
- Life Cycles: What aspects of the defence life-cycle does the DE contribute to, and how is that changing with the size of force structure, the nature of conflict, and the increased utilisation of Synthetic Environments? What are the life cycles within the DE?

The HERO Review is based upon over forty interviews with policy-makers drawn from the Ministry of Defence, the Treasury, and the Department Business, Innovation and Skills, as well as serving and retired service personnel. The Review also took evidence from construction companies, architects, financiers, investment managers and providers of FM, whilst being based on a foundation of extant academic and survey literature. The Review makes no claim to be the final word on this issue, nor does it set out to be critical of the Defence Estates or Ministry of Defence – its aim, as a King’s College London research project, was to provide an independent view of the future of the defence estate, acting as critical friends to the defence community, in line with the Centre of Defence Studies’ long history of public policy work in the defence and security realm.
Chapter One: The Military Covenant

Abstract

This following section provides some background to the concept of the military covenant, which is central to the HERO Review’s investigation into the Defence Estate. A key recommendation within this report is that better use of Defence Estate provides an opportunity for the Government to fulfil some of the expectations that the covenant raises (both in its historical and post-SDSR form), but also to recast the offer to service personnel and their families in a positive way. The evidence suggests that the support and happiness of service families has a large impact on the operational effectiveness of our armed forces, and to that end it is incumbent on the British defence community to ensure that the reasonable needs and aspirations of service families can be met in a way that does not degrade operational effectiveness. To that end this section also discusses the economic and social impact of the defence footprint across the UK, and the New Employment Model for service personnel.

The Military Covenant is assumed by many to be a centuries-old pledge made to soldiers, perhaps by the Iron Duke, and thereafter upheld down the generations. In fact while the moral basis of a ‘duty of care’ being owed to service personnel may stretch back many hundreds of years, the Military Covenant as a documented concept has yet to reach its teens. It was only formalised in February 2000 as part of Army Doctrine and despite being widened to include the Royal Air Force and Royal Navy, remains an essentially Army concept, based on custom and convention.7 A tri-lateral understanding between the individual soldier, the Army and the Nation, rather than a legally binding commitment, the Military Covenant is yet to be found on the statute book, despite the Prime Minister’s commitment to formally codifying it in June 2010, and it appears in the draft Armed Forces Bill (2011) as a commitment on the Secretary of State for Defence to provide an annual statement about how the military covenant has been upheld during the previous year.

The covenant was independently reviewed by a team led by Oxford University academic, Hew Strachan, whose paper, ‘The Report of the Task Force on the Military Covenant’ was published in December 20109. The Strachan team made a series of recommendations (that the Government are not obliged to incorporate), which included: the establishment of a through-community voluntary covenant commitment - incorporating efforts from local authorities, and the wider community - Government guidance on how departments of state can contribute to the covenant, further recognition of service, increasing the levels of home ownership and through-service education, coordinating veterans charities, and strengthening the links between the military and the community. Some of these recommendations are echoed in the HERO Review’s parallel research effort, albeit with a different emphasis that this review’s parameters afford the study.

Broadly, the military covenant sets the terms of the deal between the country; those who are prepared to risk their lives on its behalf; and, the institution to which they belong. Soldiers are prepared to make the ultimate sacrifice; in exchange the nation should take care of them and their families, with ‘commensurate terms and conditions of service’9.

Soldiers will be called upon to make personal sacrifices – including the ultimate sacrifice - in the service of the Nation. In putting the needs of the Nation and the Army before their own, they forego some of the rights enjoyed by those outside the Armed Forces.

In return, British soldiers must always be able to expect fair treatment, to be valued and respected as individuals, and that they (and their families) will be sustained and rewarded by commensurate terms and conditions of service.

In the same way the unique nature of military land operations means that the Army differs from all other institutions, and must be sustained and provided for accordingly by the Nation.

This mutual obligation forms the Military Covenant between the Nation, the Army and each individual soldier; an unbreakable common bond of identity, loyalty and responsibility which has sustained the Army throughout its history. It has perhaps its greatest manifestation in the annual commemoration of Armistice Day, when the Nation keeps covenant with those who have made the ultimate sacrifice, giving their lives in action.10

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The HERO Review has sought to mainstream the concept and the new reality of the military covenant through its research. It begins from the premise that the armed forces and their families deserve a good standard of accommodation, befitting their efforts and sacrifices in operations such as Afghanistan and Iraq. The Project team also believe that every pound that is poorly used in the defence estate (be it the procurement, maintenance and disposal of estates assets) is a pound that could have been used to provide better accommodation, or to provide first class equipment to the frontline.

The sense of moral obligation between a society and the war-fighters who defend or advance its interests it is an ancient one, reflected in Plato’s Republic. However, while there has always been a broad acceptance that something should be done for veterans - particularly those disabled by their military service - Government-funded provision for them in the pre-Welfare State era was at best patchy and sporadic. Under an act passed by Elizabeth I’s final Parliament every parish had to contribute towards the upkeep of injured soldiers and sailors, but this fell into abeyance long before the Civil War. Public sympathy has generally ebbed and flowed: as memories of a conflict faded so too did practical support for veterans or their dependants. Both Chelsea’s Royal Hospital founded by Charles I, along with its sister institution down-river in Greenwich, were the architecturally magnificent symbols that something was owed to veterans: perhaps equally symbolically the Royal Hospital almost ran out of money during the building process and was over-subscribed as soon as it opened, similarly, the Royal Hospital in Kilmainham, Dublin, which was a home for retired soldiers that continued in that use for over 250 years. In the 1820s, there were calls in Parliament to cut the pensions of the comparatively few rank and file veterans of the Napoleonic Wars who received them. Indeed, until the Second World War, State-funded war pensions for the disabled, widows and orphans. After the Crimean War and throughout the latter part of the nineteenth century as the Army became identified with Empire, newspapers galvanized the public into donating to the military, via initiatives such as the Zulu Fund and the Royal Patriotic Fund. In 2000, the Military Covenant somewhat idealistically codified this hitherto informal commitment between civil society and the military as ‘a bond of identity, loyalty and responsibility that has sustained the Army throughout its history’. In reality all too often ‘Thank you Mr Atkins’ has swiftly become ‘Tommy go away.’ The team has drawn the lineage for the covenant from this historical legacy, rather than the 2000 codification, which provides only limited scope, and thus can argue that the state of the covenant is a reflection of society’s disposition towards the armed forces.

Although a recent development, Army doctrine itself is regularly updated. The Military Covenant was re-written in 2005, and it seems by then had been largely forgotten by soldiers themselves, particularly when compared to the Values and Standards of the British Army, which set down the institution’s ethos. This was to change after August 2006, with the advent of Sir Richard Dannatt as Chief of the General Staff. With an imminent upsurge in troop numbers in Afghanistan while a continuing counter-insurgency was being fought in Iraq, he was concerned that the Army was ‘running hot’, and in colloquial terms was suffering from ‘overstretch’. In his first wide-ranging interview, he spoke of the Military Covenant and subsequently warned it was ‘out of kilter’ and ‘out of balance’ when describing the plight of his under-resourced and overstretched Army. By 2008, the concept had migrated to civil society and was taken up by the media, Opposition MPs and Forces’ Charities, with the Royal British Legion launching an Honour the Covenant campaign. The Covenant became shorthand for all aspects of the inadequately funded welfare offered to troops fighting on two fronts: it encapsulated everything from compensation paid to the injured, via the lack of body armour to the treatment of bereaved families. Instead of being trilateral, the Covenant was viewed by the media as a bilateral commitment between soldiers and a

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12 ADPS, para 103.
13 Rudyard Kipling, Tommy Atkins.
14 British Military Doctrine was first formalized in 1989 - before then, doctrine, such as it was, was transmitted by a process described by Sheffield as ‘regimental osmosis’ backed up by a few Field Manuals and writing on the military. Gary Sheffield, ‘Doctrine and Command in the British Army: A Historical Overview’, ADP Land Operations, May 2005, p.167.
Government indifferent to their care. Few commentators showed General Dannatt’s tactful restraint: the Covenant was ‘broken almost beyond repair’ according to one academic opinion, although others in academia were more cautious in their approach to the concept. For Christiane Tipping, the Covenant was a ‘portmanteau term’ used to describe every military-related failing including the loss of Nimrod XV230: Anthony Forster focused on the culpability of senior commanders: Helen McCartney said the civil-military relationship was under stress but not breaking, while Paul Cornish and Andrew Dorman implied the Covenant had distracted Ministerial attention from other aspects of defence policy.

Immediately above the signatures of David Cameron and Nick Clegg in their introduction to the recent SDSR was a commitment to the renewal of the Military Covenant. The legal codification of an Armed Forces Covenant has proved to be controversial, with the Armed Forces Bill only offering an annual statement of how the covenant has been implemented, rather than a full legal underpinning. As an idea, the Military Covenant has gone from the comparative obscurity of Army doctrine to the heart of Britain’s defence policy. The war in Iraq divided civil society and support for the Afghanistan intervention is lukewarm at best. In October 2010 one opinion poll found that 60 per cent of those surveyed opposed the war in Afghanistan: However, in his first public speech as Chief of the Defence Staff [CDS] General Sir David Richards said that the Armed Forces were held in higher public esteem than any other profession. The Covenant helped separate the men and women from the mission, firing up the latent goodwill felt by the public towards ‘our boys’.

The subsequent outpouring of support is reflected by charitable giving and the turnout at homecoming parades and the repatriation of the deceased through the Wiltshire village of (soon to be Royal) Wootton Bassett. Armed Forces’ personnel have rarely been held in higher esteem outside of national crisis. The Covenant became the prism through which every aspect of welfare issues was viewed, including medical treatment, housing and family support, successfully pressurizing the Government into giving service personnel a better deal. Military equipment and individual kit has been improved and, according to the current Chief of the Defence Staff, there are no complaints about it. The SDSR talked, however, of money derived from efficiencies in the running of the defence estate and the sale of part of that estate to fund frontline equipment, making the estate and the DE that administers it, areas for potential radical contraction going forward.

The Military Covenant is now embedded in the national DNA: today, the almost 350-year-old Royal Hospital in Chelsea now declares that it is ‘keeping the Nation’s Covenant with our old soldiers’. Although only formalized about a decade ago, the Military Covenant writes a new chapter in the history of British civil-military relations. One way in which the review team has sought to engage with this topic is to look at some of the body of work that currently occupies Lieutenant General Sir Bill Rollo’s personnel policy staff, ‘the New Employment Model’. The officials and officers working on the New Employment Model were brought together in early 2010, and are – in the early part of 2011 – forming up into work streams to tackle the issues attendant in the employment of service personnel and safeguarding their Terms and Conditions of Service (TACOS).

Ahead of these New Employment Model work streams the review team conducted a body of interviews on this subject to be in a position to suggest some areas in which the Ministry of Defence could advance the Military Covenant for today’s armed forces.

Current Initiatives and Challenges:

Resettlement of Wounded, Injured and Sick Armed Forces personnel: Defence Career Partnership (DCP)

The Defence Career Partnership is a new MoD scheme with industry partners, which offers placement opportunities to aid the recovery of wounded, injured and sick armed forces personnel across the UK. The DCP scheme is seen by MoD as having potentially wider application to other service people beyond those wounded, injured or sick to widen the duty of care over all service personnel and to put them in a better position when they leave the armed forces. One priority for the MoD could be to enrol more industry partners into this project, it could effectively do this by widening out the scope of the scheme itself, and it is worthy of note that the 2001 Drucker Foundation Report on the US Army

Footnotes:

18 Sir David Richards, speaking at Policy Exchange, 22nd November 2010
19 Sir David Richards, speaking at Policy Exchange, 22nd November 2010
has won many plaudits within the UK MoD, as have its central assertions about the employability of well trained and skilled military personnel into civilian industries, and for its Partnership for Youth Success (PaYS) scheme which provides industry training for army recruits during their initial training. These initiatives are beginning to be copied in the British context, and the evidence collected by this review suggests there would be much to gain in terms of the employability of ex-service personnel and the retention of skills in the military from extending these initiatives in the UK.

By signing up industry partners to offer work experience, placements, training and employment to eligible Service personnel (where those opportunities exist in their respective organisations), there could be the potential to in effect rework the conditions under which service personnel are employed. The DCP scheme could be extended to make it a through service commitment with industry partners where, for example, an individual completes four years military service, with a guarantee of two years work in industry at the end of their military service, or variants thereof. These figures might be massaged to include additional time guaranteed in industry for those who have spent a certain amount of time in active war-zones, and the option to rejoin the military after spending time in industry. An extension to this proposal might include the reservists, as an additional measure to add flexibility between regular, reserve and civilian employment. A pilot version might focus on those service personnel who have readily transferable skills like logistics experts, vehicle maintenance, air maintenance, draughtsmen, bricklayers, electricians, plumbers, and mechanics) who might receive some appropriate training with industry under an engagement that could include conditions that they would be released for military employment in the event of defined operational defence needs and/or retain a reserve force liability beyond their military service engagement. For the construction industry, for example, such a scheme would be particularly welcomed as it currently suffers from an aging or transient workforce and would benefit from the opportunity to recruit young fit disciplined people accustomed to working in regulated and outdoor environments in small dedicated teams. This would be enhanced were such potential employees to have acquired skill training with industry relevance. Such a scheme might include loan-in/loan-out arrangements to address pay, allowances and pension rights and the requirement for MoD to retain the right to recall someone back into active service in the event of operational need.

There are of course a number of barriers to the successful operation of such a scheme aside from the political or institutional resistance that one might normally expect, but which are surmountable. These include what arrangements might be put in place concerning pay and pensions during industry phases, whether industry placements would take place close to where the individual and any dependents lives, and whether the individual has any choice or control over their industry placement. There is also the issue, which has been successfully overcome at the UK Defence Academy, of how military and civilian qualifications and accreditations tally up with each other.

A Fairer Deal for Service Personnel and their Families

At the heart of the notion of the Military Covenant is the idea of providing a fair deal for those who have served their country with distinction. As a consequence the HERO Review team recommend that there should be a stronger emphasis on providing good quality life-opportunities (in terms of life skills and vocational training) for service personnel before they leave the armed forces, and when they have left armed service. It is important that more attention is paid to providing service personnel with ‘civilian life skills’, for example ensuring personnel learn a trade before they leave the forces, and that a supply chain is established that takes advantage of these skill sets once people have left the armed forces. Personnel should be either educated to, or somehow encouraged to, save a percentage of their wages for after service life, and encouraged to think about self-employment routes or opportunities for after-service life. To this end the Government could consider creating an investment angel fund or network to provide funding to service personnel, with viable business plans, who are leaving the armed forces. The review have heard of a large number of service leavers who have joined the emergency services and think that there should be stronger links to facilitate the move from armed service to civilian emergency service, including some overlap.

The available evidence suggests that the armed forces has a problem with Early Service Leavers, 51% of recruits leave before the four year mark, and 34% leave untrained. The Army has a particular problem with early leavers, accounting for 62% of those who leave early, whilst the Navy (at 20%) and RAF (at 18%) clearly have their numbers more under control. Leavers from whichever service have a disproportionately high

incidence of extended unemployment after they leave the armed forces. There will always be some who find they are not suited to military service, but for others who are well suited to the forces there should be an remuneration escalator that further rewards long service so that at distinct markers there are enhancements either in cash form (although this is currently recognised through the normal route of differential pay rates and resettlement packages) or in the form of contributions to some kind of endowment trust for after-service life. Similarly, the team would encourage the sort of ‘through-Government’ commitment that has been talked about by the current Government in relation to the military covenant to extend to the families and children of those leaving the armed forces, to support their reintegration into mainstream society vocationally and educationally. Interview evidence suggests that the leaving peak – of just under four years – can be partly attributed to the rotation of personnel and the difficulties their partners face in finding employment. Leaving the armed forces was one way that people faced with this domestic problem sought to deal with it.

This kind of ‘change management’ has been underexplored in official circles, but remains an important topic for Armed Forces charities. The management of this change is important in bringing the armed forces closer to the communities they are drawn from and serve. There are a large number of areas in which it might be possible to see the closer integration of defence and civil communities, based on the notion of jointly investing and benefitting from the creation of new accommodation, recreation, leisure, education, medical facilities and renewable energy facilities.

Insofar as a number of these facilities and services might be delivered by private sector suppliers, or in more proactive engagement with local authorities, this may create the opportunity for employment opportunities for service leavers, thus providing a partially assisted route to civil employment. This potential might be considered also in the context of the scope for wider “Defence Communities” with reduced change of location for services families and hence improved family home stability (and ownership levels) and educational and employment continuity.

The Defence Footprint

One of the unintended consequences of the defence estate is the positive effect it can have on local civilian communities. The vast majority of defence activity in the UK occurs in the South of England, yet much of the army’s personnel – for example – are drawn from the North of England and Scotland. The military establishments in Scotland have been described as essential to those local economies (as recent discussions about the Kinloss and Lossiemouth bases have made clear). The positive aspects of this relationship can be seen in the direct and indirect employment opportunities that are created by the armed forces, inward investment by personnel and the MoD, improved local services and transportation links. The defence community has always benefitted from being closely embedded in these communities because of the community cohesion that has been fostered, and because of the additional services provided by local authorities because of the population numbers.

Whilst there are further opportunities for local communities and defence establishments to share more facilities, with appropriate controls, the macro point remains that a constriction of the operational estate into fewer sites will disproportionately hit communities based in Scotland which are almost entirely reliant on their military establishment for their economic survival. Greater emphasis could be placed, in a time of recession, on using the defence estate as a tool for economic regeneration (and even survival) in the most economically disadvantaged parts of the UK. Retaining a strong presence in the North of England and Scotland also has a positive impact on service personnel who are disproportionately drawn from these areas and who are therefore able to benefit from the sorts of support extended families and networks of friends are able to provide.

Conclusion

The Government’s commitment to the Military Covenant and improving the conditions for service personnel is to be welcomed, although it is notable that the Government has not specifically endorsed or supported aspects of the Military Covenant Commission’s work, nor has it chosen – at this stage – to enshrine the covenant in law. The Government’s stated preference to include a provision in the Armed Forces Act for the Secretary of State to provide an annual report on how the covenant has been observed in Government for the previous year. Although this is a weak measure, which avoids the need to work out and establish what factors are to be included in a legally enforceable covenant, it does establish – in the popular media and societal consciousness - a general duty of care by which the Government can be measured and judged. Evidence from serving officers was that there was an expectation that the covenant would be brought into statute in some way. Service charities have also criticised the Government for failing to follow up on what they had indicated would be a legal obligation.26

The review team believe the commitment to military personnel should run on a ‘through-life’ basis from the point of recruitment to the individual’s post-service life. This commitment should include education towards life skills (including financial skills), towards vocational training, and a commitment to buying in services from ex-service personnel in their civilian lives. This commitment to the individual should also apply to their spouse and children who provide so much of the moral support required for a soldier, airman or sailor to discharge their duties effectively.

The Government (and nation) owes servicemen and women a greater duty of care in providing them with the skills and opportunities to reintegrate into civilian life and to do so in a way that will allow them a good quality of life. To this end the HERO Review has proposed various means by which service personnel (and reservists) could be up-skilled during their service to the nation, encouraged out on industry placements, and guaranteed post-service employment in a way that adds flexibility to the division between regular, reserve and civilian life. There should also be additional financial help and mentoring to put service personnel on a sounder financial footing for when they leave the armed forces, including in the ownership of property, which is discussed later in the report.
Chapter Two: Financing the Defence Estate

Abstract

The funding of the defence estate represents a major challenge in the context of lowering Government expenditure and the need to manage resources more effectively, some of the primary drivers behind the SDSR. Future developments in the management and operation of DE resources will need fully to recognise the effects of reduced funding. The significance of the reduced funding will manifest itself on both the operational side of the DE and also on the management and deployment of capital resources for planned and future investment programmes and specifically major capital projects.

With this in mind, the HERO Review team has examined the funding of major capital projects, and also provided an analysis of the major approaches available to the Government in the funding of future Defence Estate capital projects. For the sake of clarity, the review has assessed the funding approaches in the context of private funding and investment and specifically the Private Finance Initiative (PFI), and in turn assessed the potential alternatives that may be available in the foreseeable future.

Since the 1990’s the use of private finance in public sector procurement has steadily risen. There have been many success stories arising from use of private finance in a range of differing sectors with fixed price contracts, high performance standards and an ongoing commitment to asset management as being key tenets. At the same time, there has been an ongoing debate with regards to the achievement of value for money and the satisfaction of affordability constraints and, particularly in MoD, flexibility and the ability to respond to change over a typical 25/30 year PFI contract. Such a debate has come to the fore given the current Government funding constraints, but it is also worth bearing in mind that the PFI was born out of the climate of Government funding constraints in the 1990’s and the desire to increase private sector skills and techniques in the Government sector.

The coalition Government is currently reviewing the use of private finance, in the context of sustained Parliamentary and media criticisms, considering whether or not such finance is affordable in the context of significant Government expenditure reductions. Notwithstanding this, at the same time, other forms of funding and structures are being developed that place emphasis on localism and the interests of multiple stakeholders, but very much involve private finance and private skills and techniques, such as Local Asset Backed Vehicle (LABV) structures, Total Place (active estates management), Community Budgets with a focus on long term efficiency gains and spend to save initiatives. Moving forward, it is likely that the Government will still require private sector involvement but that the form and structure of their involvement will vary from project to project on a case-by-case basis.

The question of finance has dominated the political and media agenda since the banking crisis began in 2008. The British Government’s de-facto nationalisation of the Royal Bank of Scotland, Northern Rock and Lloyds Group, the policy of ‘quantitative easing’ (introducing new money into the economy) and a downturn in the British economy (including a large number of job losses across the private sector) resulting in a reduction in the Government tax take from personal and corporate taxation introduced a structural deficit to the Government’s accounts. This structural deficit and its public policy implications will have a large effect on any future financial decision-making affecting the defence estate.
**Current Observations**

The defence estate as a whole represents a diverse set of real-estate holdings. This diversity does however present both opportunities and challenges to organisations representing the private sector. At the same time, it also represents a challenge in relation to whether the estate is assessed as either a whole, or on a site by site basis and how this feeds into the creation of value for the MoD.

There is also a geographical dimension in relation to the creation of value, in so far as this is driven by land and property values. For example, significant elements of the estate are located in areas reflecting both history and military deployment and so the disposal of elements of the defence estate, say outside of London, is, in the short to medium term, unlikely to yield market value and so is likely to be less attractive to private sector partners. The major banks are currently retaining their land-banks, and the investment market (such as it is) is waiting for the release of these holdings. This twin-dynamic of both banks and investors holding off entering the market, would make it untimely to dispose of large sections of the defence estate. Interview evidence collected by the research team suggests that except for some targeted sites that offer significant disposal value such as in the centre of London, little interest exists for disposals. (An example would be the Hyde Park barracks, which it is understood is currently under discussion for disposal.) In light of this, review team believe that the primary focus of DE and its successor organisation should be on actively and efficiently managing its portfolio of sites and assets rather than simply running a major programme of disposals which, if undertaken in conjunction with the rest of the public sector, has the potential to overload the market with public sector assets.

Such an approach would also be consistent with the requirement to retain ownership and management of certain elements of the defence estate which are, for reasons of national security, less receptive to the involvement of private sector partners, such as Porton Down, Faslane and Aldermaston. In many ways this has already been attempted through the Project MoDel exercise, whereby sites have been sold and others redeveloped within North West London and straight sales to market have been made or may be planned in the South East since 2006, and in the context the Allenby-Connaught accommodation project PFI signed in March 2006 (see further below). Bases such as Lossiemouth may well have little intrinsic monetary value (aside from their economic regenerative contribution to Scotland), and therefore would be better served by a change or adaptation of use, than disposal.

Additionally, it is worth bearing in mind that it may be possible to look at transferring relevant elements of the estate into a property vehicle or fund such that value could be generated and private sector skills and expertise applied in the management of properties. The Review Team concluded that a more realistic prospect for the marketisation of the defence estate was that elements of the estate are transferred into appropriate ‘fund of funds’. Other central Government departments have already participated in comparable arrangements since early 2000, such as the DWP with Trillium, which transferred the management of properties to the private sector partner over a 20-year period. To put this into further relevant context the Single Living Accommodation provision could be moved into large scale funds that hold student accommodation across the UK, and family accommodation could be moved into residential holdings funds, thus injecting private capital into these areas, removing the risk (and the management) from the public sector, but having to share any profits with private investors. Such findings might be politically controversial, as they necessarily transfer public land and assets into offshore financial vehicles, some of which have attracted negative publicity recently. The HERO Review team found strong indications that private sector partners, investors and managers were likely to find these propositions attractive if they were able to manage the properties without excessive Government hindrance.

It was reported to the team that the amount of ‘serious’ investment activity (those with a capitalisation of in excess of £100m) in real estates in the UK was coming almost exclusively from sovereign wealth funds, and not from indigenous UK investors. It was similarly reported that sovereign wealth funds tended to want to invest in London primarily, and were really looking to invest in iconic property holdings - partly a prestige issue, and partly a previous performance issue. The team was told by a number of respondents that it was ‘extremely unlikely’ that such investors would be prepared to look outside of London. If correct this narrows the options for disposal to a few remaining iconic buildings in London, such as the Hyde Park barracks, which the team understands is already earmarked for disposal. The major banking groups have also now reduced the level of their investments to around £40million for any individual investment, meaning that large capital projects consortia are currently the norm.

Finally, aside from the development of what are essentially residential based activities, opportunities for value creation may arise from changing the land use of existing sites to that suitable for energy and infrastructure
uses and the Review Team found a more enthusiastic attitude for the idea of encouraging private money into the defence estate through these means. For example, and this hinges on location, some sites if brown-field in nature could be used to site the next generation of power stations, to site carbon capture facilities, energy from waste technologies, or to onshore process North Sea oil and gas materials. Similarly it is possible to place key infrastructure goods, within infrastructure investment funds, which may similarly provide some external funding for the Exchequer. The potential and role of infrastructure investment funds are discussed later in the utilisation section.

Financing Structures:

Public Private Partnerships (PPP) & Public Finance Initiatives (PFI)

Public Private Partnerships (PPP) which was established by central Government in 1992/1993, represent formal collaborative approaches between public bodies, local authorities or central Government and private sector partners aimed at providing operational services and capital projects. Such partnerships range from FM contracts, such as cleaning and providing canteen food, to those involving more substantial long-term investments. PFI has been widely used across Government departments: health, education and defence have all been substantial users of these financial tools.

Generally speaking, PFI schemes provide a mechanism or framework by which public services can receive the benefits of contractual services provided by a private sector partner, also providing finance, on the basis of a long-term funding contract. To date, the MoD has favoured the use of private finance initiatives and in 2008 it was responsible for 17.6% of Government privately financed contracts; behind only Transport (26.4%) and Health (19.8%), spending over £1bn in that year. The heavy use of PFI financing was consistent with Government policy at that time, and the long-term contract periods and accounting treatment allowed for significant growth in this area. Some of the benefits of these approaches has been the provision of certainty on pricing, (particularly relevant as traditional forms of public sector procurement had notably failed to manage construction works prices), the provision of whole-life costing and asset management, all underpinned by the concept of risk transfer and the management of risk by parties best placed to manage it. Again, as of now, this was with the backdrop of the recession in the 1990’s and Government spending constraints.

There has though been sustained criticism of these financing methods in Parliament and the media, focusing on the overall cost of these contracts, whether risk is actually shifted to the private sector partner, and the individual unit costs of items within PFI contracts. The cumulative effect of these criticisms has been to make the future of PFI very uncertain. The Prime Minister himself has pledged to establish a review of PFI contracts, and interview evidence collected by the team suggests that there is a moratorium on new PFI contracts within Government, which is partly political and partly financially based. The HERO Review team found that with any defence estate project (and the same might be said for any large Government project), the key element to understanding the viability of such a project or the dynamics within it, is its financing. As with traditional exchequer based Government funding, private finance is also subject to the pressures generated by the economic cycle, so at the moment the low-risk models that the banking groups who supply PFI are working to mean that lending rates are running at 2% above inflation (so around 5.5%) whereas during the era of economic plenty (1996-2007) they lent at 0.5% above inflation, which would now be 4%, but typically would have placed financing at 2.5% (which is a historically low figure).

Not only is there a risk based premium on lending currently, the freedom at which banks are lending even at the inflated level has been restricted to around £40 million per individual banking source, which inevitably means financing via a consortium. Private funding of this sort typically forms 90% of the external funding for any PFI project with the contractor (or consortia) providing the 10% in equity funding themselves. It might appear that it is the banks and funding groups who have the most to lose in these arrangements, but it is the contractors that lose their ten percent first, before the bank’s money can be touched, so current risk based financing of 2% above inflation seems prohibitively cautious, making Government projects funded in this way open to the charge of being over-priced. PFI is thought to be moving towards a standardised system of contracts. This derives from cost cutting needs and to make finance less complicated and problematic, since it allows the banking groups to assess the risk of a project in more detail. Such a drop in uncertainty should allow for better financial terms.

27 Although this arguably may conflict with current Treasury rules on the use of Government estates.
28 It should be noted, however, that according to one news report the coalition Government has signed 61 PFIs with a value of £6.9bn since coming into office, of which 40 projects worth £3.74bn will complete in 2011. The review team is not able to corroborate these figures. Channel Four News, Coalition continues with ‘discredited’ PFI scheme, 18 April 2011, http://www.channel4.com/news/coalition-increases-discredited-pfi-schemes, accessed 18 April 2011.
29 National Audit Office, Financing PFI projects in the credit crisis and the Treasury’s response, (27 July 2010).
At the same time, PPP/PFI arrangements have also attracted criticism for being both expensive and lacking in flexibility. The review team found that much of such inflexibility comes in the negotiations (and then delivery) of the financing. Any change to the financing contract (based on individual banks specifications for lending), or the project specification, involves altering the theoretical risks of the project. Consequently banks are resistant to contract re-negotiations and effectively impose transaction cost penalties for doing so (once a financing contract changes it is as if starting again, which incurs heavy legal bills to all parties: the Government and the PSP, the PSP and their banks, the PSP and their various subcontractors), and whilst it is possible for banks to assume more risk they pass on that burden to all the contracting parties. Each of these contract changes requires two sets of lawyers and consultants and in this way PFIs are indeed quite inflexible and expensive to change.

The standard term of a PFI is 25 years, making them unsuitable for projects that are likely to change repeatedly in size and scale over that time period. The review team was told that some projects had attracted financing interest rates of up to 30%, which makes them economically and politically untenable. A curious attitude towards risk can be found in the banks’ attitude towards PFI projects, which is that they should be the lowest form of risk investment for the banks, a ‘sure return’. But this logic also pulls PFI projects down the line of being locked into one particular type of activity, or one particular use for the life of the project, for the reason that changed use alters the risk profile and enters uncertainty (and therefore risk premiums into the financing). For future defence projects that may look at a dual use, or alteration to a civilian use within the life-time of the PFI, a PFI contract is not going to be an economically attractive option, even within some forms of staged PFI deal that allow variations at marked points throughout the contract. In short, for PFIs to be economically attractive the terms have to remain stable throughout the contract. There is one caveat to this, known as the Innisfree windfall. Prior to build completion, risk in PFIs is high, and therefore financing is only available at higher interest rates. PFIs are usually refinanced after a successful build to take advantage of lower interest rates. The difference between the costs of these two loans is what is known as the Innisfree windfall, which was worth hundreds of millions of pounds. It should also be noted that since this windfall, this kind of refinancing has been covered by profit sharing agreements between public bodies and their PSPs.

In relation to cost and value for money, is has been difficult unequivocally to demonstrate whether the partnerships are more expensive or not, irrespective of the number of projects reviewed and the issue of flexibility is directly related to the certainty that the arrangements can bring. The greater the flexibility the less certainty we will have and over a long-term time horizon, it is on balance, in the interests of all participants to have greater certainty on service outcomes and cost.

The MoD presents an interesting dilemma, on the one hand, because of its shifting operational and capability requirements it requires significant flexibility, but on the other hand it has significant equipment and fixed asset requirements that cannot simply be met from annual resources and are suited to bring funded over longer time horizons. Of course, unlike residential accommodation, which may have an alternative use, if so required, military assets and hardware are not easily transferable, or likely to create value if sold, to a private sector partner or third party. The problem of incorporating the ability to change direction in the middle of a substantial capital programme is not unique to PFI (as the recent inability to reverse out of the commitments in the aircraft carrier contracts has shown). However, these challenges are not always insurmountable and it should be possible to engage with private sector partners on a shorter-term basis and/or identify a commercial-risk structure that better satisfies operational requirements on a case by case basis.
MoD Accommodation – Relevant Case Studies

As previously mentioned, the MoD has entered into a number of successful PPP projects involving the private sector. Such projects include:

- Project MoDEL; and
- Allenby – Connaught.

Further details are provided below in relation to the above-mentioned projects.

**Project MoDEL**

- Project MoDEL is a rationalisation of the MoD’s estate in two separate contracts, consolidating the facilities occupied by UK forces on several North West London sites onto a modern, integrated, fit-for-purpose site at RAF Northolt.

- MoDEL will initially invest around £180m in the re-development of RAF Northolt and will also free up some 100 hectares of brownfield land through the disposal of surplus sites in Greater London. This has supported the availability of new homes in the London area.

- For the larger contract VSM Estates Ltd, a consortium of VINCI PLC and St Modwen Properties PLC was awarded the contract to redevelop RAF Northolt and dispose of surplus sites.

- Bovis Lend Lease was awarded the smaller contract, which involves the construction and relocation of the British Forces Post Office (BFPO) operational facility to RAF Northolt from its current home at Inglis Barracks in Mill Hill.

- The MoDEL contract was procured using Prime Plus Contracting (PPC) methodology. Prime Plus Contracting is seen as an innovative means of funding a high profile property project and uses the value of the sites that are to be disposed of to fund construction costs.

*Source: MoD - Defence Estates*

**Allenby – Connaught**

- Project Allenby/Connaught is a 35-year contract (March 2006 – April 2041) for the building, refurbishment, management and operation of living and working accommodation and facilities for 18,700 military and civilian staff at Aldershot and five garrisons on Salisbury Plain.

- Aspire Defence Holdings Ltd is a Special Purpose Vehicle set up specifically for the project and brings together Carillion and Kellogg Brown and Root (KBR) in a consortium. Carillion owns 50%, KBR 45% and HSBC 5%.

- Construction lasting 8 years building 11,500 new en-suite single rooms.

- Valued at £8 billion it is the largest PFI estates project undertaken by the MoD.[30]

- 316 new or refurbished buildings have been handed over to the MoD so far

- Over 5,500 soldiers are now living in the new en-suite accommodation.

- Aspire Defence is delivering on average over one new building every week and will continue to do so for the duration of the eight year construction programme.

- Following the construction phases these buildings are handed over to Aspire Defence Services Ltd (ADSL) for the remainder of the 35 year contract. ADSL maintains and supports them from fitting them out with furniture to carrying out the everyday repairs and supply of utilities.

- 98.4% of the 69,500 annual calls (2009) to the 24/7 help desk were answered within 30 seconds.

- 50% of routine maintenance requests are completed in 10-15 days instead of the contractual 40 days.

*Source: Miscellaneous*

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With the example of these two successful projects it is important to recognise that the MoD has already made substantial efforts to improve its estate and that such projects should provide a solid foundation of experience and learning for the new financial challenges that lie ahead. Of course, any lessons applicable from these projects will need to be recognised and factored into any future arrangements that are put in place.

**Localism, Local Asset Backed Vehicles (LAB-Vs), Land Swaps and NHS LIFT**

The Government has committed to devolving powers to a local level (its Big Society initiative) and engaging with the private and charitable sectors to improve efficiency and quality of services within the context of spending constraints imposed by CSR.

**The Localism Agenda**

Localism, enshrined within the Localism Bill, constitutes a radical shift of power from the centralised state to local communities, it removes Regional Development Agencies as the primary driver for investment in a geographical area, reforms the planning process and creates Local Enterprise Partnerships which can take on a diverse range of roles and are intended to drive local private sector led growth. The review’s interview evidence suggests that the reforms to the planning system are likely to produce some positive results that are responsive to the needs of any given population and it will allow defence contractors to negotiate with individual local authorities, rather than having to navigate a regional hub, with its own agenda. The HERO Review team remains unconvinced: there are myriad examples of where regional development agencies have delivered strong internal investment and employment to their regions. Local Authorities have been profoundly impacted by CSR, they are being tasked with driving 28% savings over the next 4 year period which CSR covers.

More collaborative working with a focus on shared services, flexibility, compromise and innovation is now at the top of the agenda for all public sector bodies.

Local Authorities are becoming far more commercially astute and the Coalition Government is intent on giving them the powers to act independently for local interests. Localism will give Local Authorities the power to do things differently, they will be able to behave more like businesses and generate income – and this is already happening, Kent County Council now sells electricity and legal services to other Councils throughout the country. What is clear is that there are likely to be fewer of the national “one size fits all” spending programmes prevalent during the last decade - everything will need to be considered in the local context on a case by case basis.

A key challenge - but also a potential source of opportunity for the MoD - is how it will engage with Localism and whether this will in turn create a greater potential to engage with local authorities and other important stakeholders in any local area. Where the MoD has large garrisons there is clearly the potential to pool, align and share with these bodies and organisations in appropriate circumstances through a form of localised agreement. The political will in 2011 for partnership arrangements is very strong. The mooted reforms to the public sector, and the re-writing of the Treasury’s ‘Green Book’ of rules dictating what public assets can be used for, means there is now the possibility for all the defence sites which would be difficult to sell – because they remain underdeveloped – to be leveraged in conjunction with local authorities, commercial partners or communities in a ‘big society’ model. This would help the MoD make better use of land than simply disposing of it, as it could reasonably demonstrate that it was being utilised. The British Army’s return from the Rhine (and its £700m footprint) may also improve the MoD’s relative bargaining power with local authorities when it seeks to relocate its returning military. In leveraging its ‘buying power’ it could potentially choose a local authority partner to create a mixed use garrison community with a particular set of emphases (such as combating anti-social behaviour), which would incentivise the mixing of military and civilian communities and reduce the emphasis on assets that are inside or outside ‘the wire’.

There are a number of commercial models and structures; some well established others more recent and untested, which are well suited to fit individual local circumstances and the bespoke needs of individual public sector bodies and organisations. The study has focussed on three of these models, Local Asset Backed Vehicles, Land Swaps and NHS LIFT.

**Local Asset Backed Vehicles (LABV)**

An increasing number of LABVs have been coming to the market. It is seen as an alternative to a traditional disposal for holders of assets who wish to unlock value in their portfolio. This value can then be used to help drive regeneration programmes. Under the structure the local or public authority enters into a 50:50 joint venture arrangement with private sector partners. The joint venture approach does expose the public authority to some risk, but it also requires a level of commitment, which, allied with private sector skills and techniques, has the potential to also provide better value for money through a truly collaborative approach.
At a basic level, the public authority commits public assets, typically land and buildings – into the LABV structures, and the private sector partners provide resources, working and risk capital to develop the assets and share the profit created. In turn, both parties are beneficiaries of the value generated: LABVs can be utilised to develop sites of low cost or profitability, however, to remain attractive to private partners they require high value sites to be included as well. A example of a LABV is that being undertaken by Bournemouth Borough Council and Morgan Sindall which reached financial close in February this year. The scheme is centred on sixteen sites within Bournemouth’s town centre. It is intended that all sixteen sites will be redeveloped between now and 2025, with the possibility of more sites being included at a later stage. The nature of the developments is varied, ranging from private residential, affordable housing, commercial, students’ accommodation, leisure and cinemas.

Another example can be found via the waterfront development in Portsmouth: both schemes used the valuable assets of relatively cash-poor local authorities to harness valuable developments, something that could apply to the defence estate in the post-SDSR future. It may also be important to the MoD that within this model local authorities remain in strategic control of the contract, and therefore over publicly owned assets. The LABV also allows for the development of portfolios of property within a contract (something akin to the balancing off of an investment portfolio), which would allow the MoD to pair up its premium assets with its commercially less attractive holdings. The defence estate with its broad geographical spread is particularly well placed to take advantage of this feature. The key to successful LABV contracts, however, is cooperative working conditions between the public authority and the private contractor, so it would be imperative that in the defence context the MoD ceded some of its control.
to the private sphere. Nevertheless, another key feature of the approach, and this would also be important to the MoD, is that the public authorities retain a level of strategic control over the development company. Requirements change over time and the LABVs strategy can be re-evaluated to meet the changing operational and deployment needs of the partners.

Land Swaps
There is nothing new in land swaps. There have been many examples of this in the UK, and the MoD has been at the forefront of this activity with Project MoDEL. For example, with Project MoDEL land was traded to a private sector partner and circa £180m in new investment was received in the redevelopment of existing retained bases, with the sites no longer required being sold for housing redevelopments in areas where housing shortages are severe. Land swaps can address the problems of lack of funds and a desire to transfer risk: two prescient factors in today’s public sector. Existing examples of this model have had the following features: a local authority with no ready access to capital funds for new build works – their asset value being locked up in the surplus land. A private sector provider stepping in to forward fund a facility, taking on the risk of borrowing development finance and implementing design and build works. The commercial structures including a market tested land value, an overage mechanism on the residential land and an underage mechanism on the development costs.

Local Improvement Finance Trust - LIFT
Local Improvement Finance Trust (LIFT) is a well established procurement structure in the NHS which could be adapted for use in the defence estate. Typically, a PPP joint venture is set up which is jointly owned by the local PCT, Central Government and the Private Sector, but has not yet been established in the defence sector. There are some important differences with most other schemes, the most important being that the shareholders or owners are all stakeholders.
A LIFT company is established with a combination of the interested parties, in this case the local NHS organisation (Primary Care Trust and typically at a 20% level), Partnership UK and the private sector partners (typically at a 80% level) all as shareholders. This joint venture (JV) takes the form of a limited company. Known as the LIFTco, it owns and maintains the buildings it develops and leases the premises to local healthcare providers (like hospitals, GPs, dentists, pharmacies, libraries and so on). Many of the facilities that have been developed are genuine multi agency providing a broad spectrum of services to the public. The LIFT co procures the FM services (including cleaning, security, catering and portering), carries out estate management and rationalisation programmes and can potentially disposal of existing assets that are no longer required. This elimination of interfaces between service providers has generally been both cost and operationally efficient, and it also fits into the DE’s desire to recreate itself as a ‘thin client’ between private sector providers and end-user clients. Residual Vvalue in the assets, which are created means that the funding is cheaper for the client during the contract term (usually 25 years). As these assets tend to factor in future residual values then they can also potentially provide further value once the contracts expire.

Through its shareholding in the LiftCo the public sector shares in the profits from debt refinancing with the private sector. The Strategic Partnering Agreement underpinning the structure can provide well thought out and effective governance structures which have led to genuine multi-agency planning, utilisation and integration of existing estate and developments across communities, something that a good number of the review’s interviewees suggested was needed in the defence estate.

Community Land Trusts

The concept of a Community Land Trust was brought into legal force in the UK by the Housing & Regeneration Act 2008. The basic premise being that:

A Community Land Trust (CLT) is a local community-controlled organisation set up to own and manage land and other assets in perpetuity for the benefit of the community. The assets other than land may be, for example, affordable housing, workspaces, agricultural facilities, commercial outlets, or community facilities.37

CLTs were suggested as a possible model for delivering affordable housing in the previous Government’s Housing Green Paper, Homes for the Future: more affordable, more sustainable (July 2007). The potential benefits of CLTs were also acknowledged by the Government in the report of the Shared Equity Task Force.38 As a model of ownership, the CLT is a model of affordable housing and community development that has slowly spread throughout the United States during the past 40 years. CLTs work by enabling occupiers to pay for the use of buildings and services at prices they can afford, while the value of land, subsidies, planning gain and other equity

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31 Government hopes to benefit from mutualisation, Property Week, 5 Nov 2010
34 http://www.respublica.org.uk/category/keywords/mutualism
37 Housing & Regeneration Act 2008, Part 2, Chapter 1, Clause 79
benefits are permanently locked in, on behalf of them and future occupiers, by the Community Land Trust.

A National Demonstration Programme was run from 2006 until 2008 to develop CLTs as a mechanism through which to develop affordable housing. Specialised funding has since been developed through the CLT Fund run by several charitable and ethical investors and the use of the model has spread to all parts of England and Wales as local communities seek a model which can help them overcome the challenges specific to their local context.39 There is no requirement to register CLTs and so the Government has no readily available figures on how many exist nor how many homes such schemes will provide.40 The CLT might be one route by which service personnel could be encouraged onto the property ladder, but as a practical preference this report recommends an endowment fund that frees service personnel from needing to be tied to one particular property while in service, and allows them to buy on the open market once that have left active service. Unless a cross-service CLT was to be established (which would be difficult given the disposal of family homes in the 1990s out of MoD ownership) personnel would always be tied to one particular property. CLTs remain an interesting proposition in the wider community however.

Conclusion

The current public spending constraints represent a major challenge for the MoD for the foreseeable future and the management and operation of DE/DIO will need to fully recognise and adapt to the new environment in which it finds itself. The significance of the reduced funding will manifest itself on both the operational side of the DE/DIO and also the management and deployment of capital resources for planned and future investment programme.

Although the UK Government is primarily funded by public sector resources, the use of private finance has risen significantly. There have been many success stories arising from use of private finance in a range of differing sectors with fixed price contracts, high performance standards and an ongoing commitment to asset management being key features. At the same time, questions remain with regards to the achievement of VFM and the satisfaction of affordability constraints and such debates have come to the fore in the wake of the CSR. The HERO Review team nevertheless believes that the involvement of the private sector and attendant funding is likely to remain, but that the structures will be dependent upon the values that can be created from existing assets and the management skills required to produce value. A one size fits all procurement model handed down from Central Government will not be appropriate and projects will need to be structured to take account of their individual circumstances on a case by case basis - private finance structure, LABVs, land swaps and strategic partnerships such as NHS LIFT all need to receive serious consideration.

Such structures place an emphasis on localism and the interests of multiple stakeholders and seek to take maximum benefit from private sector skills and know how. As well as generating much needed value, such approaches and structures could also allow for greater flexibility over the medium to long term and might evolve to meet the MoD’s operational and deployment requirements as they change over time. For such arrangements to be successful there needs to be genuine partnership between the MoD and the private sector providers - all the evidence obtained by this review suggests that it is only through genuine partnership and a joint venture approach that these projects succeed.

It is unlikely given the current political climate that ‘traditional’ PFI deals will form a significant quantity of the financing for DE/DIO capital projects going forward. They are too inflexible over the life of many projects, too burdensome at the tendering stage and now problematic to fund via banking groups, which have become prohibitively cautious. LABV and LIFT structures appear to offer the best opportunities for defence estate funding in the medium term. They offer the flexibility and partnership arrangements that the review team believe will be crucial to the future of the estates, and the changing operational environment the armed forces and its personnel will be confronted with until 2020.

LABV, LIFT and Land Swap arrangements might allow for the introduction of new assets to the defence estate, whilst disposing of excess assets, something the DE/DIO is keen to achieve, and something the team believes is necessary for them to do in order to meet the operational flexibility demanded going forward. In this context the Treasury’s desire for capital receipts, without inward investment into the DE, is and has been unhelpful. The Localism Bill, and the political signals surrounding it, opens up some interesting possibilities for the DE/DIO and its private sector partners. A key part of the future mix of defence estate provision will come through these local partnerships. Finally, the review team think that there is scope to marketise aspects of the defence estate, such as the core infrastructure, via specific funds offered by private finance groups.

39 http://www.communitylandtrusts.org.uk/?s=15
40 http://www.publications.parliament.uk/pa/cm201011/cmhansrd/cm100706/text/100706w0001.htm
Chapter Three: The Utilisation and Disposal of Assets

Abstract
Of the areas the HERO Review has touched upon, utilisation remains the one that the research team feels has the most potential to bring a great deal of added value to the Defence Estate. This section explores the various usages for the Defence Estate, including energy generation, waste disposal and dual-usage. The section then goes onto explore the disposal of Defence Estate assets, how lessons have been learned about disposing of assets in a way that adds value to the estates and the MoD.

Utilisation
One of the major areas of underdeveloped thinking within the defence estate community (and the team know that the DE has been working on this subject) is the utilisation of various parts of the estate. Those who have worked in this area told the team that the major barriers to utilising the defence estate were established Treasury rules (the so-called ‘Green Book’)41 which states that the defence estate may only be used for defence purposes, and that if a section of the estate becomes surplus to requirements it must be disposed of, regardless of any potential future use it may have. Furthermore, to avoid being forced to dispose of land, any future use must have already been envisaged. There is also an internal MoD push factor to dispose of excess land, because all land carries a risk factor and therefore potential costs to already tight departmental budgets. Many of those interviewed by the HERO Review team suggested that it was the Treasury’s rules about land-use (as enshrined in the so-called ‘Green Book’) that is the main barrier to the effective rationalisation, utilisation and exploitation of value in the defence estate. However, evidence collected from Treasury officials strongly suggests that these rules may well be relaxed – probably by mid-2011 – which would dramatically change this picture and free up public authorities to make greater use of their assets. Given the scale of the savings the coalition Government needs to make to rectify the estimated £165bn structural deficit, the utilisation of the defence estate will not contribute a particularly significant amount to that end. What is clear, however, is that there is a political imperative to make these reforms, and to ‘mainstream’ this kind of utilisation and commercialisation within the public services. If fully realised, this transformative political agenda will have a lasting legacy on the defence community (as it will in other policy areas), eroding the conceptual and practical divisions between public and private sectors.

The current Treasury rules are in place to protect the misapplication of public money for commercial ends. The rules are also designed to ensure that departments focus on the delivery of public goods, and not – as might be a danger in a less restrictive system – on running publicly funded businesses. While these are understandable objectives, the spirit of the age is precisely about connecting up the public and the private spheres, about reducing costs in the public sphere and making the best use of Government holdings to generate the maximum value for money. Existing Treasury rules are therefore in some ways out of step with the necessities of the current times. Treasury officials pointed towards a shift in the political emphasis in Whitehall, which would permit local authorities to directly liaise with departments of state – in other words it would allow departments such as the MoD greater access to direct negotiations with individual local authorities, a step-change from the Regional Development Agencies that came to dominate the control of inward investment of this kind.

The HERO Review team came across many examples of where – with greater flexibility – elements of the defence estate could be given a measure of commercial use, which would make a small contribution to the running costs of the estate (either through cost savings or income generation) and which could contribute to an environment or sustainability agenda across Government. A specific example comes from the redevelopment of RAF Northolt. The RAF’s proposal – within a defence use context – was to rebuild the runway and thereafter to allow some commercial use from it, including a dedicated hangar for private aircraft, from which some commercial income would have been generated. This could have formed a reasonably standard arrangement across the defence estate, and one that was suggested to the review team – in another context – for sites in the North of Scotland. Treasury restrictions, however, prevented this proposal being brought on stream. There are some inequities within the existing rules however - regimental and mess funds for example can be bolstered by the small scale commercial activity of the NAAFI, and certain very small scale commercial activities on individual defence establishments, budgeted at local level. The review team noted, with some amusement, a breaking news story from India, where the armed services (as the tip of an iceberg) are alleged to have utilised some 8000 acres of land for 97 golf courses and country clubs. The revenue from these

facilities (open to members of the defence community and some non-defence civilians) had allegedly been run through private regimental budgets, away from the prying eyes of the Government’s auditors – not a model that is to be recommended.\(^2\) The review team would though propose an appropriately wider application of the small scale British kind of commercialisation across the defence estate, as a matter of culture, as well as a contribution to the running costs. A positive example of this kind of utilisation can be found in the private defence sector, in Portsmouth, with BAE System’s utilisation of their facilities. In partnership with the defence community, BAE ensures that the dockyards and associated facilities are constantly in use, to maximise the value inherent in the assets. Such practices could usefully be employed – where appropriate – across the entire defence estate.

**Energy Production**

A key area in which utilisation could occur on the defence estate is energy production. Allowing MoD land to be used for energy production would help to meet the Government’s key sustainability targets and reduce the running costs associated with buildings and facilities operated on that land. Energy generation and energy efficiency highlights the problems in the current management of the defence estate and the planning procedures that cover it. Developers interviewed for this project have drawn up plans for programmes, which maximise the energy output of a site with a mix of solar, thermal and wind generation capabilities at a number of stages in the life of a project delivery programme. The key to maximising energy efficiency on a project/military establishment is to adopt staging posts (over a number of years) and to feed the best technology available at the time into the project at each staging post, rather than having a technology requirement that is front loaded at the beginning of a project, and which becomes obsolete by the five or ten year staging post. This kind of blended approach matches up well to the new variants of PFI and alternative funding that are discussed in the funding section of this report, and are obviously not suitable for traditional PFI structures, which would require the technology to be specified at the outset. The HERO Review team did not find the DE particularly responsive to such ideas - wind farms on Scottish estates would be incompatible with the airfields these would inevitably be placed on the team was told. Far from this suggestion, four main types of energy production that may be applicable to the defence estate are listed below.

Given the Treasury’s emphasis on partnerships, it is also significant to note that energy suppliers such as Dalkia and Cofely have drawn up what they describe as ‘district energy projects’, and these would potentially be highly suitable for the MoD, as the defence estate has a number of large sites that could be seen as district sized. Moreover, the SFA – being such a large-scale enterprise – might also be ripe for pioneering the mass-roll out of solar panelling and other localised forms of energy generation. We now present these different types of energy production, in turn.

**Photo Voltaic’s (PV)**

PVs are a simple measure, more commonly known as solar panels, that are simple to install, and simple to operate. They return the investment required in them within eight to ten years. The cost of each roof is in the region of £7000 for a 2.1kWp capacity system. Crucially the PV units do not produce sufficient electricity to be a cheaper alternative to the current cost of buying the electricity from the grid alone. At current prices, which are obviously subject to change, they become economically viable with a subsidy from electricity generators or via Feed In Tariffs “FITs” schemes, where householders are paid for the renewable energy they generate. Solar energy, on a house-size scale, provides a useful supplement to ‘grid’ energy and helps move the housing or business unit towards an energy sustainable position. A lacuna in the 2008 Energy Act is that commercial size PV schemes receive a reduced subsidy – on a sliding scale – as one moves towards 5megawatt sites, which attracts no subsidy. A review being conducted by the Government, at the time of writing, may lead to a reduction in the level of subsidies for commercial scale installations. The political question for the viability of these schemes, going forward, is to what extent the Government (and departments looking to exploit these technologies) value the sustainability agenda over and above the pure economic considerations of renewable versus fossil fuel generated electricity.

**Combined Heat and Power**

Combined Heat and Power (CHP) plants make use of the heat that is generated as a by-product of the generation of energy, to provide heat to facilities on a district wide level. In Scandinavia this has been used to heat local swimming pools, or industrial units, and in the summer to meet some district wide residential heating needs. For CHP plants to be efficient they require a constant off take for a base load of, for example, 35% of the heat they produce.

CHP technology is difficult to retrospectively fit, so CHP units are almost always new facilities. CHP is rarely cost effective at less than one megawatt (whose construction costs are around £1m per megawatt, reducing to £500k per megawatt at over 3 megawatt size). The maintenance of these facilities incurs widely

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\(^2\) ‘Indian Army Land Being Used for Golf Courses’, *Financial Times*, (27 March 2011).
different costs (with a rather high base cost of £6 per mega-watt-hour), depending on the technology deployed in the site. The Government has said that it is keen to support this kind of technology and at the time of writing it is reviewing the Renewable Heat Incentive scheme (RHI), which will judge the subsidies to be offered for each unit of heat produced. An early indication from the Secretary of State for the Environment in March 2011 was that the incentives would be focussed on the residential sector for the first years of the revised scheme and would taper off during the life of the installation.\textsuperscript{43} Industry insiders welcomed these indications as being helpful to the establishment of a widespread scheme. Again, with public authority collaboration being at heart of this Government’s agenda, the time is perhaps ripe for the MoD to lead with local authorities in utilising this sustainable form of energy provision.

\textbf{Ground Source Heat Pumps/Geothermal}

Geothermal is heat that is derived from boreholes that are sunk deep under-ground, and which make use of the latent heat deep beneath the surface. Such technologies and approaches are only applicable for buildings that require large quantities of load grade heat, such as buildings with large atria or those that have large areas of under floor heating. The high cost of the boreholes and associated equipment to exploit the heat limits it appeal to all but larger building projects. Ground source heat pumps can be used on a smaller scale to supplement other forms of heating but in these scenarios are unlikely to be the primary source of heat. As with Combined Heat and Power (CHP) facilities, the Government’s 2011 review into this area may well make investment in this technology more attractive.

\textbf{Anaerobic Digestion}

Anaerobic Digestion (AD) is the production of biogas from biodegradable waste such as household, industrial waste or wastewater sludge. The efficiency of these methods is a function of the material used with higher fat contents being more productive in terms of producing burnable gas. The biogas can be burnt in a generator to produce electricity or further refined to be pumped directly into the gas mains, or used in automotive engines. Each household in the UK is estimated to produce up to 2.5 kg of food waste per week. The minimum plant size can be below 10 tons per annum but to generate real value the economies of scale start to work above 15 tons per annum, with the optimal sizes being in the region of 30 to 40 thousand tons, based on the Government incentives for this kind of energy production which may increase during the review of subsidies currently underway. Thus one could reasonably conclude that the minimum operating size would be in support of a super garrison, and its support network. AD energy production is currently being reviewed and industry expects the subsidies to be increased. The Government is also reviewing the use of sewerage sludge in the same plants as food waste and allowing the output to be used on anything except agriculture land. This is a common practice in continental Europe, although it has been resisted up to now in the UK. In turn this may present opportunities to reduce the cost of infrastructure when AD plants are used in combination with sewerage plants. This is the sort of technology that may only prove practicable if the super garrison concept is fully realised. If this does become the model for the army in the medium term, then this kind of sustainable energy production model should be considered on sustainability grounds alone.

\textbf{Energy from Waste}

This process involves large scale burning of waste products in incinerators (and it is by this name that many local campaigners know this technology and have successfully campaigned to resist its introduction). The large-scale incinerator works of hundreds of thousands of tons of waste have become socially unacceptable and have been resisted strongly wherever they have been mooted. The basic technologies burn waste using the heat created to drive the generators, usually through steam. They will accept all forms of waste or could be used for a sorted faction on a larger scheme where the bio-waste, metals and glass have been removed.

These processes are not popular technologies among civilian (and presumably military communities) and would require a very large establishment to operate using solely its waste, again along the super garrison scale of operation. It is more likely that most establishments would provide part of the waste to a plant that also accepts waste from elsewhere. Some of the interview evidence obtained from the commercial sector suggested that military establishments might be an appropriate place to locate such technologies, although the Review team found no evidence that the defence community would be any more acceptant to it, than civilian communities.

\textbf{Waste Management}

One of the key conclusions and recommendations of this report is that appropriate joint ventures between the MoD and other public authorities, and the MoD and private interests, are essential elements to the development of the DE/DIO in the future, and this is particularly pertinent and true in the case of the utilisation and rationalisation of the defence estate. One of the key areas in which this could occur is waste management, where the sheer size of the defence estate

and the remoteness of parts of the estate could be utilised, without adversely impacting on the core defence role, to take on waste management activities that are necessary but often controversial within many civilian communities. In Portsmouth, the Royal Navy has examined the possibility of utilising a waste energy solution that would allow the site to become partly self-sufficient in meeting its energy needs. There are private sector partners already in circulation to make such schemes a viable option for the MoD, but these need to be sought out and plans developed. It is important to note that waste management schemes are necessarily local: it is not commercially viable for waste to be transported large distances, but it is certainly viable for waste to be factored into local, strategic planning, where the MoD is a significant stakeholder and could demonstrate best practice in sustainability. At this stage it is unlikely that these schemes will generate a noticeable level of income to any public authority running them, but for environmental and sustainability reasons they are potentially important activities for the MoD to be involved in.

Reducing whole life facility costs

The reduction of ‘whole life costs’ (WLC) is already taken into account with the refurbishment of existing defence buildings and the new build facilities across the defence estate. The remaining scope for WLC is in how utilisation can be made across the defence estate in general. There are many way of achieving this, some of which the DE already does. Private sector thinking would most likely lead to a process of combining the functions of several sites into one (potentially problematic because of inter-service rivalry, the security requirement to avoid single points of failure and the differing operational need of the different services),

investing in modern facilities with lower running costs (problematic because of new spending requirements) and trying to utilise commercially driven social housing models to try and reduce the unit cost of new builds.

Disposal

The MoD is obliged, as are all Government departments, to dispose of land that is surplus to requirements (or for which there is not a planned future use). The disposal of MoD land is therefore currently guided by a set of narrow external rules and the strong positive externality of the NAO estimate that for every 1% of the defence estates disposed of £29 million pounds of attendant running costs per year might be achieved.

Although the DE has conducted a review to determine whether parts of the estate are Core, Retained or For Disposal, that review did not take into account ‘cost per head/capitation’, in addition, while DE’s current vision is an ‘estate of the right size’, it (and its successor organisation DIO) has yet to define what this actually is. Under the Department’s 2010 development plan which classified the main 525 sites in the UK, 72% were listed as ‘core’, which represented 95% of the defence estate’s land - only 2% of the land was listed as suitable ‘disposal’. Given this delay in defining what the right size actually is, there should be scope for outsiders to the DE/DIO process to conduct an independent review of what the ‘right size’ should be, including what role the private sector should play in managing non-operational parts of the estate, to assist the DE/DIO in its planned shrinkage and in becoming a ‘thin-client’. Another major driver behind disposal are capital receipts. The classic example of this is the so-called ‘Annington Homes’ deal of 1996, which provided a large capital receipt to the Treasury (although not the MoD), but left an expensive legacy for the MoD, which has yet to be fully met.

In the finance section, land swaps and ‘release to reprovide’ (R2R) schemes were mentioned, with a key example being where London based units (RAF Uxbridge, Mill Hill, Bentley Priory etc) have been/are being relocated to RAF Northolt under Project MoDEL. It may be advantageous in value terms to release sites that are still operational where they have a high private sector value and move operations to other lesser value sites, e.g. an operational site in a high value residential area could be released and the MoD function transferred to a site with no obvious commercial value. This could also have an employment angle where the relocation site is in a deprived area thus spreading the economically regenerative aspect of defence activity. If this sort of activity were to run more widely across the defence estate it would need to be centrally controlled and planned to avoid local opposition from those seeking to make special pleasings as has been the case in several instances, such as Prime Portsmouth. Furthermore, the possibility of releasing historic buildings for conversion to new uses should be considered as they generate higher values and from an MoD viewpoint are inefficient and expensive to operate and occupy when compared to a modern facility; the decision to vacate RAF Scampton was based partly on the development and maintenance of the site proving too expensive given the number of listed buildings.

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44 There are several examples of where the RAF has located an entire capability at a single site that makes it vulnerable to a single point of failure.
45 Core = needed for defence purposes to at least 2030; Retained = needed for defence purposes to at least 2015; For Disposal = no clear current operational purpose identified by parent Budget Holder, and is therefore surplus to defence needs.
47 This could also apply to flag-ship properties in London, like the Hyde Park Barracks
The issue of disposal is often highly contentious and always attracts the strong attention of local communities and politicians with interests in the region. A centralised process in which the rationale for such decisions remains clear and defensible best manages such pressures. A significant issue for the MoD’s entire budget is the 1996 Annington Homes decision that has a very large and un-costed spending requirement approaching in 2015. The Married Quarter Estate (MQE) in England and Wales was sold to Annington (via a Japanese wealth fund) for £1.6 billion. The initial recommendations had been to place the MQE in a not-for-profit trust, but after consultations with the private sector the Government of the day decided to transfer the entire MQE to the private sector. The MoD received a ring-fenced £100 million for repairs to the estate, but has remained under an obligation to keep the entire MQE up to a certain standard, even though they no longer own it, while the Treasury retained the remaining £1.5 billion. The properties were reportedly not properly surveyed prior to the sale, so the MoD had little real sense of the extent of its future maintenance and repair liability, but estimates the HERO Review team obtained placed this in the region of £350 million – which would become due in 2015. This liability was not mentioned in the SDSR as a potential future outlay. The MoD signed a 200-year lease on the properties (paying 42% of market rent under a fully repairing lease on each property, which is reviewed every five years), agreed to pay for voids, while Annington Homes remained free to dispose of declared surplus property.

What Annington received was a wide variety of property – from very valuable Commander in Chief properties (which had been refurbished just prior to sale to Annington), to the very well maintained RAF married quarters houses (which had seen an £84 million investment by the RAF in the mid-1980s to keep them in prime condition for retention purposes), to army married quarters housing, which was less well maintained. It was undoubtedly sensible to bring all married quarters into a unified organisation, if for no other reason than to unify standards across the MQE, although this was strongly resisted by the service chiefs at the time, who were essentially given a choice between losing equipment lines or the MQE. But the MoD, in losing the ownership of these properties, in paying rent on them, and in remaining obliged to repair them, undoubtedly got a very bad deal indeed, whilst the Exchequer took a very short-term capital receipt. It is notable that the Defence Select Committee, the Public Accounts Committee and National Audit Office all criticised the deal and the way the due diligence was undertaken. It has further been asserted that the overall value of the housing stock had been priced at £150m under book price, for the time. The massive house price inflation during the decade thereafter further compounds this as an exemplar of how Treasury desire and MoD needs can be misaligned.

Whilst another Annington Homes type-deal is unlikely, the lessons from this case are clear when it comes to future disposals, namely: the contract price, and the future commitments such deals create. The MoDEL project which relocated MoD elements from Uxbridge and Mill Hill to Northolt was careful to ensure that developers had to put the land to market at best value, with the MoD sharing in the profits, and the developer obliged to prepare the land for the sale. Some lessons have clearly been learned since 1995. The DE/DIO also now has the challenge function of the Government Property Unit to consider in structuring disposals.

**Conclusion**

Utilisation remains the last big area of thinking concerning the defence estate that is under-developed. The main reform that would assist in this area is a change to Treasury rules governing what can be done with Government land. Based on its research, the review team would not suggest a wholesale reform, freeing up Government departments to become quasi-businesses – they must still focus on core tasks – but there are some sensible and obvious partnership arrangements that would help reduce the cost of running the defence estate and bring in valuable income. Interviews conducted right at the end of the review period with Treasury advisors indicated that these reforms would be delivered during 2011, which then switches the emphasis to how the MoD and the wider defence community can create partnerships to deliver these joint infrastructure projects.

Wholesale reform, freeing up Government departments to become quasi-businesses does not, according to the evidence the HERO Review obtained, appear as clear cut, especially as ministries will still need to focus on core tasks. But there do appear to be some sensible and obvious partnership arrangements that would help reduce the cost of running the defence estate and bring in valuable income. Interviews conducted with Treasury advisors right at the end of the HERO Review period indicated that significant reforms would be delivered during 2011 which switches the emphasis to how the MoD and the wider defence community can create partnerships to deliver these joint infrastructure projects.

Key areas of utilisation that could be taken forward by the MoD include power generation and waste management. The RAF’s initiatives to give civilian usage

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48 The MoD has retained ownership of the residential married quarter estate in Scotland.
to some of their airfields are also worth pursuing, but may not prove as important as these two principle foci. In terms of disposal, the review’s research that this is best encapsulated through land-swap and ‘release to reprieve’ schemes. There does not appear to be the market, or the private money to support traditional disposal to the private sector in the short to medium term, and that any disposals outside of the M25 area will not represent value for money on any commonsense understanding of the term. The Government does appear committed to releasing surplus military land to local authorities for new housing schemes however.\footnote{The 2011 budget indicated that the Government would expedite planning decisions for surplus military land and would seek MoD estate disposals valued at up to £350m.}

It is important to note that none of these utilisation measures will transform the finances of the MoD, or the defence community, but if the Government’s environment and sustainability agenda is a serious one, then these kinds of initiatives are important signals. Moreover, the political direction of travel in the public sector is that public authorities should be transforming themselves into lean organisations capable of doing more with less, and contributing to their running costs through efficiency measures or commercialisation opportunities. Such contributions may only be in the magnitude of order of 10% of running costs, but it is the change in operating culture that is the important point, and it is this transformation that both the MoD and the DE (and its successor Defence Infrastructure Organisation) are embarking upon.
Chapter Four: Facilities Management

Abstract

A key feature of modern Government buildings is the presence of private contractors carrying out Facilities Management (FM). This short section briefly explains what FM is and what scope there may be for the extension of FM across the Defence Estate. The central recommendation of this section is the critical evaluation of FM practices in the defence community to see if the fixed contract FM model is suitable in the defence environment, where operational flexibility is an ongoing reality.

FM is commonly divided into two categories, though many companies provide both services, sometimes simultaneously. ’Hard’ FM refers to the provision and upkeep of buildings and equipment, ’Soft FM’ refers to the provision of on-site services such as catering. In PFI and PPP contracts, a subcontractor usually provides FM to the services provider (the private partner who works at the same level as the building provider), although opportunities exist for vertical integration since the service provider does not have to subcontract the provision of FM.

Britain has a vibrant and growing FM sector. It is currently valued at £170 billion and it remains a growth industry. The British FM industry is more advanced than that of other countries, in part because due to its age it is the most mature of its kind. The industry has all sizes of service provider, from small and medium sized catering firms to giants such as Serco, which has revenue of almost £4 billion. FM is a field tailored to clients needs. Companies bid for service delivery defined by the client. There is an industry trend, via mergers and acquisitions towards Total Facilities Management (TFM), that is, a single company providing both hard and soft FM and front of house service as part of a single contract, although this trend does not seem to have been so keenly followed in the defence sector. The current model is mostly one whereby construction forms make a company acquisition of a ’soft-FM’ provider, to create the in-house capability, or via careful contractual relations.

One of the key issues in the FM sector is that there is no industry standard contract; all are bespoke to suit the needs of a particular client. Due in part to its age and maturity, FM is drawing in experts from other sectors and increasingly, companies are being engaged earlier in the process of outsourcing. Large FM firms have the capability to design services for entire departments, not just replicate services designed by the client. Furthermore, integrating service provision planning at earlier stages allows FM contractors to work with architects to help develop buildings that enable more efficient service provision. As has been noted in previous sections, the need for sensible and effective partnerships to be formed across Government, the wider public sector and industry is crucial here. Similarly, the sorts of flexibility called for in the financing section of this report are echoed here. FM contracts retain the same inflexibility that can be observed in traditional PFI deals. Building in flexibility increases the cost of the service being provided many-fold, but it is this kind of flexibility that is required in a defence context that is subject to changing operational needs. The review team found no evidence of the MoD attempting to model the costs of providing these services in-house, where the risk factor could be consumed within departmental budgets: namely extra-services would incur the same risk as the private contractors, but any savings would be kept in-house rather than having been passed on as part of a private contractors risk calculation.

The theoretical opportunities for the British Government in engaging the services of FM specialists is the cost-efficiencies gained by doing so, particularly over many sites. Engaging these external services can also provide cost certainties (built into the contract) over a number of years, and provide immunity from short-term cuts - therefore these contracts may provide better value for money over the medium to long-term. FM has become a specialised endeavour in its own right, and companies that bid for FM contracts do so because they believe that they can provide a better and cheaper service than a non-outsourced option. As the Government moves increasingly towards being a service enabler – and this is certainly borne out by the development of the DIO – based on a smaller civil service bureaucracy, contracting services for FM makes political and bureaucratic sense. Furthermore, FM is inherently managing the risk to service provision created by non-functioning or poorly managed facilities necessary to provide a service. Contracting FM services is, just like many of the financial models that have been discussed in this report,
effectively transferring risk to the private sector, and this is necessary under Treasury rules which are geared to transferring risk to those who are best able to manage them. Those who work or live in MoD buildings will have seen a marked improvement in their upkeep over the last fifteen years, which is in part due to the programme of building works to update facilities, but also due to the improved management of facilities, which can be seen as a success even if there have been some adverse publicity based on some of the costing within individual contracts. A comprehensive critical evaluation of whether the flexibility required by the defence community lends itself to fixed contracts is overdue: defence may be one of the special cases across Government where operational flexibility trumps the need for fixed pricing, but the political necessity currently is for continued outsourcing.

Conclusion

Based on the research the review team conducted there seems limited scope for the large-scale extension of FM across the defence community. This is partly due to market saturation – namely most of the facilities apt for FM outsourcing have already occurred – but primarily due to the MoD holding unique requirements for flexibility because of the roles it performs. There is scope though, as has already been proven across elements of the defence estate, for FM contracts to control and reduce costs to the MoD and the Treasury.

There is much activity by the military and MoD that requires flexibility in its facilities, and in the management of these facilities. It is in this regard that fixed FM contracts (fixed for pricing purposes) can be ill-suited to the defence environment. A critical and sensible review of where FM can be used in the defence estate and where it would be more sensible to retain a non-outsourced capacity should be undertaken, but the team recognise that the political backdrop to the issue will drive up the number of outsourced contracts, rather than suppress them. There may also be scope for ‘big society’ initiatives to engage in this kind of activity. Collectives of service families (for example) could perhaps tender for the FM contracts of their local military establishment. The creation of these kind of social firms have very strong political support from the Government, and it would be interesting to see whether these local collectives could challenge the established providers for these lucrative contracts.

Outsourcing FM is effectively civilising a proportion of defence activity. Contracts between the Government and the private sector are fixed and can be far less flexible than the statutory arrangements that exist between the Government and the armed forces. If the entirety of this type of service was to be contracted to the private sector by the MoD, then the armed forces would lose the technical capacity to perform those services without the aid of the private sector. That would be the end-logic of the ‘thin-client’ model of bureaucratic reform present across Whitehall and the Ministry of Defence. To avoid this, contracts will need to be very carefully drawn up and monitored, from a Government perspective, to ensure that these represent good value for money.
Chapter Five: Single Living Accommodation

Abstract
Of all of the topics examined during the HERO Review, Single Living Accommodation (SLA) appears to be the most settled. Project SLAM is reported to have delivered good quality SLA across the armed forces and to a standard and level of security that is appreciated by all of those who have used it. This section should be read, therefore, as a counsel of perfection rather than a fundamental critique.

The return from Germany of the remaining 20,000 British Army soldiers (and their estimated 23,000 dependents), announced in the SDSR, will create the need for significant additional SLA facilities, including in all likelihood new build facilities, and thus the issue of cost-savings generated by using different manufacturing techniques and materials will become salient. In addition, there are some issues around innovation and sustainability in the existing SLAM model, and the DE’s control of the SLAM concept, that may require addressing for the model to be sustainable in the longer term.

Following many years of criticism regarding the state of much single living accommodation, Project SLAM was initiated by DE, and awarded in 2002, as a £500m contract to upgrade the accommodation utilised by unmarried service personnel, or those on weekly commutes away from their stable homes. This was in recognition of the MoD’s commitment to significantly improve living standards for its Service personnel. This commitment was not entirely born of altruism - survey evidence had shown that the image of the armed forces had been negatively affected by the reputation of its single living accommodation and that this might impact on recruitment and of course if correct, retention. A significant volume of new accommodation has been constructed over the last seven years under the SLAM programme. There is likely to be an additional requirement for this type of accommodation when the Army (the RAF has already left) is fully withdrawn from Germany (as announced in the SDSR), as operational requirements dictate where personnel can be placed. This will involve a net spend for the MoD as the land in Germany that is to be vacated is not only not owned by the British Government, but may require investment before it can be returned to the German state – an issue beyond the scope of this study.

The aim of Project SLAM was to provide a comfortable and secure living environment fit for 21st Century living, and JSP464 (the Tri-Service Accommodation Regulations) set out the minimum standards service personnel can expect from their accommodation. Just as university halls of residence provide students with their first taste of living away from home, SLA does the same for many young recruits into the military. The design of this accommodation performs the function of trying to simultaneously bond a group together, whilst allowing for private time and space and many university halls of residence look and feel the same as military SLA facilities. A key aspect of SLAM was the desire to use it as a tool of retention, and in practice personnel are allowed to retain their rooms even when they are on tour, for their use when they return, making it more of a permanent home and saving on MoD storage facilities.

JSP464 established the minimum standards that service personnel could expect. This is captured by taxonomy of entitlement, based on hierarchical level:
The MoD’s response to these design parameters was to create a ‘standard model design’. They claimed this would generate efficiencies from suppliers as they became acquainted with putting these design parameters into practice. A number of the architects we interviewed said that while the ‘standard model design’ was an architecturally sound approach, it was not necessarily a cost effective solution, nor was it likely to be sustainable in the long-term. From the evidence of a variety of interviewees, we are content to say that SLAM has been a success in as much as it has improved the standard of accommodation across the services for the young men and women recruited into the armed forces to serve the UK. However, we also discovered a very large number of criticisms about the SLA programme, and the demands of DE in connection with these contracts.

DE, as the originator of the standard model design, has defended its approach stoutly. Possibly fearing a plurality of approaches would produce confusion across the estate and the sort of inconsistency that was present before 2000, DE has defended its SLA model to the hilt. One of the major and presumably unintended consequences of the standard model design approach has been to limit the enthusiasm (and therefore competition) between major contractors for SLAM work. The standard model design is so tightly configured that there is little room for innovation and similarly little room for competitive profit making, and those tendering for SLA projects with the DE are forced to think of ever more inventive ways of adding facilities to the overall package, in which they can demonstrate innovation and value-added. A consequence of this is that technologies that could address the important issue of sustainability are missing from the SLAM facilities, a potentially serious shortcoming which may lead to the SLAM concept becoming unviable in the future. This was not what the original Project SLAM envisaged. There has also been considerable criticism of the existing arrangements over spiralling costs, which have led to a cost of £70,000 per bed space (which is 10-15% more expensive than the Defence Training Rationalisation Programme (DTR) equivalent) and there is a commitment to try and deliver 18% capital cost savings in SLA provision by 31 March 2012. By comparison, civilian single room accommodation such as university halls of residence cost substantially less per bed.
space in some case as much as £40,000, less, although MoD claim that such accommodation is not directly comparable.

As things stand, 35,000 bed spaces out of a total of 90,000 are listed as Z scale (highest quality) with a further 20,000 at grade 2. The current DE strategy for continued investment includes a further programme of building new SLA accommodation blocks to full-scale modern standard, typically for trained personnel in single rooms with en-suite facilities. Whilst the majority of those who are in SLAM accommodation are pleased with it, it has created some tensions with those left in pre-SLAM and yet to be modernised accommodation, whilst some have opted to remain in those pre-modernised facilities because the rent they pay is substantially less. Overall, the picture is positive, but there is some unevenness that is worthy of mention.

The DE strategy for SLA also includes major refurbishment works for some existing facilities, but only where it is more cost effective than new-build projects. Some of these will be the so-called Z-standard, but the plans also include provision for a mix of standards including shared toilet and shower facilities. A programme of minor improvements to older blocks that are not due for replacement or refurbishment within the next 5 years is ongoing, and focuses on the facilities most needed by the occupants such as new furniture, modernised showers and toilets, improved storage space, improved heating systems and better Internet access, which we are told was in response to a survey of end-users, and which cost in the region of £16-18,000 per room. The MoD’s aim, which appears realistic, if rather modest, is that by March 2013 about 50% of trained personnel will be in Grade 1 SLA and the remainder in Grade 2. By that time, all accommodation for new trainees should be at the appropriate scale (X or Y) and most will be at Grade 1. The HERO Review’s interview evidence suggested that temporary accommodation for those moving towards overseas operational tours is currently the lowest priority for improvement, and in reality is highly unlikely to be improved even by 2020.

SLAM may be re-procured under the Next Generation Estates Contracts (NGEC) as a new contract, or projects may be delivered using the MoD's core works constructionframeworks that are being drawn up in 2011, and which are one-off contracts for major construction works. New SLA projects, including those that may accommodate returning personnel from Germany, may be tagged onto other projects, such as the regeneration of the defence training estate. That will not necessarily introduce innovation, or sustainability into the SLAM model, and so arguably does not advance the SLAM argument very far. Overall, we would note that the DE remains wedded to this particular approach to single living accommodation.

Detailed cost comparators have been used to benchmark SLAM accommodation with other equivalent public service accommodation (such as that provided in Higher Education, by the Metropolitan Police Force and the National Health Service). Within these comparators the defence estate’s SLA has been seen as expensive. DE claim that the SLA is necessarily more expensive than civilian SLA because of the more exacting security standards that have to be obeyed by military contractors. These standards are derived from a restricted document, JSP-440, which, despite requests, the review team has not been given access to, but which were are told places some compliance issues surrounding a building’s resistance to shrapnel from mortar or car bomb attack, and progressive collapse technologies in the event of it being attacked. We are unable to assess these requirements but would note that progressive collapse strictures are now commonly found within civilian building regulations and to defend huge additional costs on the basis of classified security standards is unsatisfactory.

There is a wider question, however, of what number of SLAM sites require these extensive counterterrorism measures when they are already ‘behind the wire’ in military establishments. It should be noted that we believe that under JSP440, all SLAM sites require some measures, which alter depending on how close to the wire they are. To change these requirements would require the MoD to go through a risk assessment process to judge how proportionate these measures are. It is inescapable however, that the counterterrorism measures have been used by the DE to justify its overly tight control over the SLAM concept and design, and to ward off innovation from architects, construction partners and service personnel alike. The security challenges of modern day terrorism have considerably developed since the major terror campaigns of Irish Republicans in the 1970s and 1980s and the concept of behind and outside the wire in terms of security for citizens as well as armed forces personnel is perhaps one that deserves reconsideration.

The construction firms the team interviewed during this study estimated that they could provide SLA bed space, based on their experience of providing higher education bed space (to a comparable standard to the

51 It should be noted that the document appears in full on the Wikileaks website, although the HERO Review team did not attempt to access it there.
SLAM model) at between £29k to £44k per bed space (with a large amount of that price differential taken up in the cost of land being built upon). It was suggested, therefore, that the DE should look to freeing up the design restraints a little (particularly in terms of the rigidity of the specifications and materials) and the imposition of a one design solution fits all approach, perhaps by taking on value management techniques to drive out waste from building specifications and design guidelines. It was argued that this would assist the DE/DIO in moving towards its ambition of 18% capital cost savings on this type of accommodation. The team have concluded that it should be possible for the DE/DIO, as the owner of the SLAM design, to invite proposals from industry (be it construction firms or architects) to see what kind of innovation is possible within the constraining counterterrorism measures. This would not remove ownership of SLAM from DE/DIO, but might assist in providing innovation and sustainability into the SLAM model. Such transparency might be easier if the DE/DIO was configured as a national corporation, looking to maximise value for money (VfM) against operational outcomes, or as an entirely private entity, better able to interact with its commercial partners.

Possible Future Avenues:

Off Site Construction:
Accommodation used in higher education settings now often contains an element of off-site construction. One such type is Unite’s Modular Solutions, which because of efficiencies of scale produces cost savings. Confidential industry data, from one of the leading providers of higher education accommodation, demonstrated that the inclusion of full modular technology in SLAM (which would make SLAM sites portable across the country) could produce 20% cost savings. Another advantage of a part-modular approach is that it would give the SLAM a ‘plug and play’ dimension: in essence modular accommodation can be moved around the defence estate to match the changing needs of the defence estate and operational requirements. A recent SLA project at Catterick used off-site construction and the use of modular units.52

Refurbishment:
Based on its interview evidence the team think there is scope to learn from the private sector such as how to ‘retrofit housing for the future’ and the lessons from these projects to meet low carbon sustainability targets. The cost of refurbishments range from £50/m² to £850/m², depending on the work to be done (from the lightest refurbishment, to the ‘strip back to frame’ comprehensive approach).

Use of private sector operator:
Most student accommodation is operated by third parties and examining the sort of proposition that big higher education providers like Unite or UPP could bring may well bring new types of thinking and cost reductions into the mix. We were told that large investment groups would not consider investing in the defence estate if they were not given control over the management of the property, as they demand in other settings. It might also be possible to rent out property to ex-forces personnel, which might reduce the problem of disadvantageous disposals, but also help ex-forces personnel to transition into civilian life. What this means in practice, on a defence site, is not entirely clear, as there are external factors such as security and the fact that all SLA is behind the perimeter wire of military establishments that cannot be wholly militated against.

The review team interviewed representatives from the NHS and the Metropolitan Police Service to make a comparison of the observable practices. The NHS operates stable SLA models, and has been able to benefit from being relatively flexible in the design parameters and being similarly flexible (on a Trust by Trust basis) as to how the accommodation is owned, managed and maintained. The Metropolitan Police, however, took the decision in 2006 to close all their SLA facilities (section houses in their terminology), having reduced them from 3300 to 750 bed spaces from 1996 to 2006. The Metropolitan Police took this decision on the basis that demand from their officers for this kind of provision had been reducing, and that their finances could no longer stretch to the costs of maintaining these facilities. In short, they decided that this kind of provision was not a part of their core business, and they could no longer afford to keep pursuing it. Whilst the police and the military operate in different circumstances, this is merely indicative of the type of shift in the approach of other public services to these similar questions. In that vein then, the DE could place the SLA into private hands and simply be the paymaster for this kind of activity, rather than be so intimately involved in it.

Conclusion
Project SLAM has delivered a large improvement to the SLA stock across the defence estate, and seems to be liked by those service men and women who use it. This has had a positive effect in terms of the reputation of the armed forces and retention issues created by poor accommodation, but this is not a unified picture. An internal (and limited) RAF study found that there was some resentment amongst service personnel occupying pre-SLAM blocks because they lack the modern facilities

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of SLAM, but conversely that because the rents are cheaper in the pre-SLAM units, some prefer to pay the lower rent and sacrifice the modern facilities. This is, of course, part of the rich empirical tapestry of service life, but such observations do highlight some tensions within this programme.

The top-end cost of SLAM does appear expensive when compared to other types of SLA, possibly to the tune of £25,000 per bed space, including full recognition of the security factors built into military SLA which the review team think is partly mitigated by it being located behind the wire. If the current design parameters were retained, it would make some sense to move the SLAM units closer to the wire so that as the defence estate footprint is reduced the SLAM units effectively are moved outside the wire and used for other purposes, such as hotels or conference facilities. This provides the potential for recovering some of the costs of construction in the future. Some cost-savings could also be derived by introducing some flexibility into the Project SLAM model, and by embracing some new technologies, such as modular engineering (which would also open up flexibility across the defence estate and the potential for a secondary market) and new materials technology (which would also assist in meeting sustainability targets).

The HERO Review’s research suggests that introducing private money (be it through investment funds or existing private SLA providers) into future SLA requirements might prove problematic unless the DE fully adopts its thin-client approach and gives over management responsibilities to the private sector. Reducing this management function would also assist the DE to achieve its institutional rationalisation targets.
Chapter Six: Service Families Accommodation

Abstract
Service Families Accommodation (SFA) has been a controversial issue within the defence community since at least the mid-1990s. Controversies have continued about the standard of the accommodation, how it is maintained, its cost, the value for money it has represented on disposal and the desire of the three services to retain control over it, prior to DE assuming control of it. The HERO Review team approached it from a sociological perspective in the first instance and have tried to look at what the social consequences are for what is widely perceived to be a failing area of Defence Estate activity. The problems with family accommodation run wider than crumbling infrastructure, there are the wider problems of service personnel not being on the property ladder (adversely affecting their personal financial planning), of being distant from broader society, and from being distant from mainstream and undisrupted education. So, the major challenges that the review team have identified within this section are:

- Soft FM – the maintenance of these properties has been problematically managed from central sources. The review team think that localism is crucial in this area, to provide continuity and better sense to the maintenance. A system of grant-giving that allows service families to commission maintenance or improvement works for their family accommodation would give them a sense of ownership over their living space and would represent one solution to this ongoing problem. Whilst there are problems inherent with this approach as well, any system of centralised maintenance provision must be connected up to local providers and local solutions.

- Personal finance – the team think there are good reasons for strongly encouraging home ownership amongst the military community. There have been differences between the services in this area given the differing approaches to basing historically. The lessening of rotation has eroded, to some degree, the punitive transaction costs of home ownership, and moves towards the so-called ‘super-garrisons’ in the Army would further improve this situation. To make home-ownership more attractive proposals should be worked up that would see service personnel being able to opt into a property bond scheme that would provide them with a cash lump-sum at the end of their service that would go a significant way to buying a house on the open market, or to buying a ‘service family accommodation’ house outright. The HERO Review has sought to think around ways of introducing more capital into the Defence Estate from private sources, of increasing the number of forces personnel with mortgages and home ownership aspirations, and to introduce (although a longer term aspiration) more of ordinary society into service family areas. The team think any such initiatives would have to also include the facilitation of good community amenities such as Government free schools, leisure facilities etc.

SFA is a type of housing provided by the UK armed forces to serving members of the military with spouses or children. The stock of housing is provided because the nature of military appointments means that servicemen and women are expected to move with the requirements of the Armed Forces. This requirement is part of military law and is integral to the contractual obligation that service personnel enter into when they join the armed forces. This clearly segregates service personnel from the typical social practice, in which professionals generally expect to purchase a property of their own in which to live. Owner occupation has risen from 51% in 1981 to around 70% in the contemporary market and is likely to remain so. Demand for housing has outstripped supply.
to the extent that housing in many key locations is now unaffordable for the first time buyer. In response to this, a number of initiatives, such as the previous Government’s Key Worker Scheme, subsidise or spread the cost of buying a house. A typical scheme for low income households is to buy part of the leasehold from the developer, while paying rent on the fraction that is not owned. This allows individuals and families to invest in property that would be otherwise unaffordable to afford outright.

Professionals that regularly have to move as a result of their work expect a commensurate level of support from their employer so as to minimise disruption for themselves and their family. Civilian contracts that include employer flexibility to alter working conditions are usually balanced with additional compensation for the employee. Without such clauses, forcing an employee to move offices or locations breaches the employment contract and the employee has grounds to sue for constructive dismissal citing the Employment Rights Act, 1996.

In the UK, the military covenant is the primary concept for understanding the obligation that the MoD, on behalf of wider society, has to service personnel. This does not serve as a legal requirement (and under current Government plans it is unlikely to do so), however its purpose has value and it is part of the socio-political infrastructure of the UK. The covenant is an expression of the treatment that service personnel can expect from society at large in return for volunteering to perform dangerous (and possibly lethal) service, as well as being called upon to utilise violence and force in service of the sovereign and state. The additional strictures of military law are bound into this covenant: service personnel submit to a greater degree of control by the state but in return are promised a certain standard of support. Importantly, the covenant states that “British soldiers must always be able to expect fair treatment, to be valued and respected as individuals, and that they (and their families) will be sustained and rewarded by commensurate terms and conditions of service.”

The inclusion of families of service personnel into the covenant leads to an expectation that they will be well supported. This includes provision of housing or other suitable arrangements to allow service personnel a stable family life.

There are many problems with SFA as it currently stands. Some of these problems are structural, that is, they are linked to the nature of military service and mostly revolve around issues of being rotated (moved) regularly. Another set of problems relate to the way the accommodation has been maintained and managed. Service families are not expected to manage or maintain (in a significant way) their accommodation, and there are no incentives for doing so as is common in private renting. Furthermore, the standard of the homes themselves, which often falls below the standards expected by civilians, is a documented source of discontent in the armed forces. There are also a category of problems, particularly affecting family relationships, which are caused by these structural problems and questions over whether the standard of family accommodation is symptomatic of the respect paid by society to serving armed forces personnel and their families.

The Army Families’ Federation (AFF) produces a quarterly qualitative report identifying issues that are raised by families, based on inquiries Federation has received in the previous three months. As the latest report shows, housing remains the number one topic, making up more than a third (36%) of all inquiries. Furthermore, AFF data since 2007 shows that housing is consistently the major concern raised by family members - generating almost 60% of inquiries in the second and fourth quarters of 2008. In Q4 2010, just over half the inquiries in connection with housing (51%) concerned repairs and maintenance, while 20% were to do with allocation and entitlement. With pay being frozen and allowances cut, the AFF has urged a freeze on accommodation charges: ‘AFF believes that any increase to charges for quarters will hit families very hard.’ In addition, the AFF conducted an ‘easy poll’ of members’ concerns as the Army faces a period of transition over the next few years (such as the withdrawal from Germany and cuts in personnel numbers). The issues of primary concern for respondents were possible changes to pensions (42%), education (36%, particularly in connection with the Continuity of Education Allowance) followed by housing (22%).

The RAF Families Federation also reports that ‘the top topic is housing’. Allocation policy and entitlement rules regarding Service Family Accommodation produced almost a quarter of queries to the organization, while concerns relating to repairs accounted for 17%.

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53 The covenant was originally an Army concept but has been widened to embrace personnel and families of all three services.
55 45% of service personnel living in service accommodation reported dissatisfaction with efforts to maintain or improve their accommodation (ACAS 2009, p.116).
57 ibid
58 RAF Families Federation, *Annual Report 2009*, p.10
Similarly, according to the Naval Families Federation, 38% of all inquiries centre on housing.60 ‘Considering the small proportion of our families living in SFA that does not sit comfortably in the Naval Families Federation (NFF) office’.60 While the NFF called for investment in SFA as well as more affordable home purchase schemes, its website also includes news about the cancellation of a £16.1m SFA regeneration project ‘in the light of pressure on MoD finances and the recently announced reductions in the size of the Armed Forces’.61

The problems caused by SFA are not slight. The UK’s armed forces face employee retention problems because of the strain, both mental and financial, that the current arrangements put on service families. Problems of community integration further exacerbate such problems. Many service families benefit from a strong culture of mutual aid between service families, but their links to the wider community can be weaker. The need to constantly move has further repercussions on those members of service families who are least equipped to deal with them: children. A Conservative party report before the last election on the Military Covenant found that the need to move was detrimental to the education of the children of service personnel.62 Furthermore the 2008 Armed Forces Continuous Attitudes Survey noted that 44% of Officers were dissatisfied with the way in which their service obligations were affecting their child’s education. This has a direct effect on service personnel morale (driven by the morale of their partners and children), and therefore affects the UK Armed Forces’ fighting potential as a whole. This problem is further highlighted by the results from The King’s Centre for Military Health Research, which found that some soldiers serving in Iraq overestimated the impact of their deployment on their partners and families at home.

A key problem with SFA is that military personnel do not have ultimate control or choice over where they live, or where they will be expected to move. Service families have no security of tenure in service family accommodation. Their current options are to rent SFA, rent privately (at considerable cost), or try to buy, but with the obvious downsides of being posted away regularly, making the transaction costs ununeconomic. At present, the UK’s armed forces are spread over a number of locations, although consolidation is planned to move the majority of the armed forces into larger bases, commonly termed ‘super garrisons’.60 This process has been underway for some time in the Royal Navy and Royal Air Force, with a focus on key regions, but is still in relatively early stages for families of Army personnel. However, this lack of control does not necessarily have to cause as much disruption or uncertainty as it currently does. The main impact is that service personnel and their families cannot invest in property in the same manner that the majority of the British population can, and this can have a knock-on effect of failing to satisfy a spouse or partner’s desire to enjoy a full career as well. This is especially problematic for service personnel who do not plan on spending a full career in the armed forces - the majority of them (only 30% of officers and 43% of other ranks intended to stay in the armed forces for as long as they could according to the 2009 ACAS). In this way, extended service creates a wealth disparity between the armed forces and civilian professionals and the pay of service men and women does not bridge such disparities. A recent report by the Armed Forces’ Pay Review Body found that while enlisted ranks’ pay was largely in line with civilian pay, officers could expect to earn significantly less until they attained the rank of Lieutenant-Colonel (OF-4). This pay review only compared military pay with public salaries and there also exists a significant differential between public and private sector employees’ pay.64

There are few professions in which renting property is almost a condition of the career itself. The required flexibility of the UK’s armed forces means that service personnel cannot easily invest in a property with the same 25-year timescale as civilians, as they may be required to serve elsewhere in the country. The cost of buying and selling mortgaged property is not covered by the MoD, and therefore service personnel who move frequently will inevitably suffer financial hardship if they attempt to sell their property and buy a new home in line with every new posting. This has been mitigated somewhat by the subsidised schools fees scheme although this grant is thought likely to be reduced or even abolished soon.

The standard of SFA is a further problem. Many of the housing units are below standards expected by the general civilian population. Service personnel increasingly expect similar standards of accommodation as their civilian peers, and it is arguably in line with the spirit of the military covenant. The provision of sub-standard accommodation to service personnel and their families is an obvious breach of the military covenant, which was explored earlier in this report. Furthermore, the aspirations of the partners and spouses of service personnel were often higher than those of the service members themselves. As outlined in the Defence Estate Development Plan, 2009, p.2

61 Ibid
62 Cancellation of the Rowner Regeneration Project’, ibid
64 Pay Comparisons between the Armed Forces and the Civilian Sector, 2009

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personnel to live in quality homes is also having an impact on the way that service family accommodation is viewed. The MoD faces a considerable task in meeting these expectations, a task which it is arguably failing to do. Low quality, poorly maintained SFA is often the only type of accommodation that service personnel with families can afford. It is not hard to see that a combination of structural factors and poor housing could contribute to low morale for service personnel with families.

The Strategic Defence and Security Review (SDSR) underlined the nation’s commitment to the military covenant. It also introduced further uncertainty into that unwritten contract by declaring a substantial restructuring of the UK’s armed forces. It is clear that certain changes, such as the British Army’s withdrawal from Germany, will be accelerated, but it is not yet clear how these forces will be integrated into the new super garrisons and whether other plans for the restructuring of the defence estate will be brought forward to ensure appropriate space exists for these personnel.

There is a range of options for improving the existing SFA stock, as well as alternate methods of funding the provision of new SFA stock. The closure of some bases as part of the overall drive for efficiency will be hoped to release capital with which the MoD could provide suitable accommodation for its service personnel. The large-scale changes in force structure and placement in the near and medium term are designed to allow sufficient flexibility to overcome any initial teething problems of super garrisons and deliver a suitable service accommodation solution for Britain’s armed forces.

Conclusion

SFA has been a long running issue for the defence community, and whilst heavily subsidised family accommodation is a good benefit to many service personnel, the opportunity costs of not buying property or saving to do so, can create a significant problem later for some when leaving the forces. There is also reported to be a problem of a lack of knowledge amongst some service personnel regarding mortgages, managing a credit history and making financial provisions for the future. Specialist financial services provided by companies such as Blueforces, (which recently went into administration), made a strong contribution to transitioning forces and ex-service personnel into civilian forms of home ownership and rented accommodation. Such schemes are probably worthy of better thought out support from the MoD and it is to be hoped that similar, clearly very necessary schemes will spring up in light of the review of the defence estate and conditions of service review being conducted in the MoD at the time of writing.

Finance is another significant problem. The review did not find any great appetite amongst the private financiers contacted to place significant investment into new service housing (something that is a common problem in the general economy as well) and most doubted that it would be forthcoming in the short term. There are some land-swap and smart-disposal options (including renting SFA to ex-service personnel) that may help overcome a number of these instinctive barriers however. The research team found considerable support for the view that an obvious route out of this problem was via the service personnel themselves, who could be encouraged (and perhaps supported) – within operational constraints – to place solid roots in an area and to invest in property, as much of the British population has done. Royal Air Force and Royal Navy personnel have to some extent practised this for some time, albeit without effective support from MoD that many think should be provided. The move towards super garrisons may eventually provide the sort of stability that will be helpful to army personnel seeking to lay down solid roots in a particular geographical area, although a number of these are likely to be far away from the areas in the North of England and Scotland where the majority of army recruitment occurs.

To promote the levels of home ownership in the forces to a level in line with the civilian sector, a military property bond scheme could be established. Such an approach, in which service personnel’s payments into the scheme were matched by MoD, would, by the end of a 15-year term, provide enough capital to buy a SFA or go a long way towards buying a property on the open market. In the medium to long term the benefit to the MoD would be a substantially reduced requirement for it to provide and maintain SFA and potentially improved morale compared to the consequences of the current unsatisfactory situation for many service families. There is, however, a great deal of enthusiasm in the MoD for the idea of divesting all responsibility for service family accommodation. It might therefore be simpler to issue a universal accommodation allowance for all service personnel. Such an allowance could be linked to CPI, thus seeing a real term reduction year on year, whilst supporting the notion of self-determination and choice.

The maintenance of property is another area that has been identified as being problematic. Whilst centrally

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67 There was reference made to this type of scheme in the Military Covenant section.
organised FM and maintenance schemes offer efficiencies of scale, they must be rooted in local providers and local solutions. DE announced a new single contract for the provision of all housing-related services to the Armed Forces and their families – the National Housing Prime Contract in February 2011, which is expected to run from 2013 for five years. But a more radical system of grants or allowances could be introduced that would allow service families to maintain or improve their accommodation and therefore to incrementally improve the quality of the SFA. The review team’s preference would be to issue an accommodation allowance that underpins the DE/DIOs divestment away from service family accommodation whilst supporting the transition of service personnel from military to privately owned or rented accommodation.
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