Dear Chair,

Following the PAC Hearing on 16 January 2017 which considered the National Audit Office’s audit report “Delivering the Defence Estate”, I made a commitment to write to the Committee to set out the results of the review of the Department’s Infrastructure Model.

The main review phase of the Defence Infrastructure Model Review was undertaken in early 2017 and made a number of recommendations. The following provides an update on the four key issues.

1. **Changes to the Strategic Business Partner Contract**

An amended and restated contract was signed with the Strategic Business Partner (SBP) in July 2017 which aims to meet better the needs of the Defence Infrastructure Organisation (DIO) and improve value for money. It provides targeted support, specified by the Department, designed to enable a smooth transition for the delegation of infrastructure funding to Top Level Budget Holders and the continued transformation of DIO. The amended contract will end by June 2019, at which point the leadership of DIO will have progressively moved to individuals employed directly by the Department.

The renewed mechanism under the original contract has been replaced with tailored approaches for the delivery of planned outputs and outcomes. The risk and reward structure under the amended contract is more appropriately balanced and I believe addresses the Committee’s concerns around incentivising sustainable savings and profit levels. One of the work packages still focuses on a requirement for the SBP to provide support to identify and develop opportunities for financial efficiencies in specific areas; however there is now no direct link between the amount of savings delivered and the fees payable. In summary, there are no opportunities for the private sector provider to earn excessive profit.

2. **Infrastructure System Operating Model**

The Department is developing its Infrastructure System Operating Model which will support the roles and accountabilities required of those involved in the various aspects of the system and how they work together within the delegated model. DIO is continuing to develop and improve the Management Information required to support the decisions that need to be made across the infrastructure system. DIO is also restructuring itself to support better the Front
Line Commands and the Department as a specialist adviser and technical authority on infrastructure.

3. Delegation of infrastructure funding
Noting the concerns raised by the Committee in January, the Department still considers delegation of infrastructure funding an appropriate model for the Department to manage its infrastructure budgets under the principles set by Lord Levene’s Defence Reform report in 2011. The Department will shortly conclude a readiness assessment of the Front Line Commands’ ability to take on their own infrastructure budgets. This will enable a decision to be made on whether to proceed with the delegations from April 2018. It will take time for the infrastructure model to mature and so I will establish an Infrastructure System Authority which will, amongst other things, be responsible for monitoring the health and effectiveness of the infrastructure system. The will include the performance of the delegated model and should ensure that the Department continues to manage the estate on an enterprise-wide basis.

There will be some exceptions to this broad delegation principle. A proportion of the funding for delivery of the Defence Estate Optimisation Programme will be held centrally to implement the November 2016 “Better Defence Estate” announcement and military housing will remain with DIO given the Future Accommodation Model work underway.

4. Recruitment and retention in DIO
I also committed to include information about how the Department intends to address recruitment and retention issues in the DIO and to secure the skills it needs to operate effectively.

DIO continues to have skills shortages in its specialist areas, including Programme & Project Management, Surveying, Engineering and Environment & Sustainability. Contributory factors to this skills shortage include the national and global supply of this resource, public sector pay restraint, pay in the wider market, competition for talent from high profile infrastructure projects such as Cross Rail and HS2, and the impact of the ageing demographic of the DIO workforce. DIO continues to employ some manpower substitutes to mitigate some of these skill shortages.

The organisation is updating its People Strategy to align with the transformation of DIO and support the new infrastructure operating model. This will provide the required focus on a number of activities including effective workforce planning, attraction and selection, talent and succession planning, and retaining our workforce.

DIO’s Apprenticeship Strategy is also being developed and implemented. It recently piloted the conversion of six posts into surveying apprenticeships at the University College of Estate Management. This approach aims to develop internal staff into Chartered Surveyors and support in bridging key skill gaps. An extension of the pilot into the external market is planned through the recruitment of 10 external surveying apprentices starting in April 2018. DIO currently has 80 members of staff undertaking an apprenticeship.

The Department’s infrastructure challenges will continue to be significant for several years to come and the measures to address them are, rightly, long term. The initiatives and programmes I have described above, along with the Defence Estate Optimisation Programme, will create a step change in the MOD’s approach to managing its estate and
infrastructure over the next few years and put the Department on the path to an affordable and optimised estate.

Yours sincerely,

STEPHEN LOVEGROVE