House of Commons

Public Accounts Committee

Oral evidence: Military Homes, HC 2136

Wednesday 8 May 2019

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Watch the meeting

Members present: Meg Hillier (Chair); Sir Geoffrey Clifton-Brown; Chris Evans; Stephen Morgan; Anne Marie Morris; Bridget Phillipson; Lee Rowley.

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, National Audit Office, Jeremy Lonsdale, Director, NAO, and Richard Brown, Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1 - 142

Witnesses

I: Stephen Lovegrove, Permanent Secretary, Ministry of Defence; Lieutenant General Richard Nugee, Chief of Defence People, Ministry of Defence; Graham Dalton, Chief Executive, Defence Infrastructure Organisation; and Henry Lloyd, Director, UK Government Investments

HOUSE OF COMMONS

Report by the Comptroller and Auditor General

The Ministry of Defence’s arrangement with Annington Property Limited (HC 762, Session 2017–2019)

Examination of witnesses

Witnesses: Stephen Lovegrove, Lieutenant General Richard Nugee, Graham Dalton and Henry Lloyd.

Chair: Good afternoon and welcome to the Public Accounts Committee. Before we move to our main business, I want to acknowledge the contribution of an unsung hero of the Treasury and the Public Accounts Committee. The Treasury Officer of Accounts, Richard Brown, has been a civil servant for 37 years, and since 2014 has been the Treasury representative on this Committee. He sits here, week in, week out, listening to the wonderful oratory of elected Members and the squirming evidence of Government witnesses. Do I characterise it in an impartial way?

Richard Brown: We must have been at different meetings!

Chair: He then reports back to the Treasury, so witnesses should be more frightened of him than of us, frankly. He has done that with grace and good humour, and behind the scenes has done an awful lot of work to glue together the relationship between this Committee and the Treasury, which is constitutionally interesting and important. It will be odd not to see you, Richard, at Committee, because this is your last Committee meeting. Would you like to say a couple of words as your valedictory?

Richard Brown: Thank you, yes, though not too many. I have regarded it as both an honour and a privilege to sit in on the Committee’s hearings, because they are a vital part of our constitution in the way in which the Executive and Parliament relate to each other.

One thing I have found a bit surprising is the number of people who watch the Committee hearings on television, including my postman, who came up to me a couple of weeks ago and said, more or less, "’Ere, mate. Do you go to that PAC thing? I think I’ve seen you on it." He was, of course, right.

The Treasury Officer of Accounts role is almost as old as the PAC’s role itself and goes back 147 years. That means, I hope, that my successors will be thinking about having a birthday party in three years’ time.

The only other thing I would like to say is, thank you very much indeed for your words, Meg, and thank you to the Clerks, with whom we have to work closely to ensure the system works effectively. Best wishes for the future, and I will tune in to watch you from time to time, but I don't promise to do so twice a week.

Chair: I was just at a book launch about a predecessor of mine, Morgan Jones, who when he chaired the Public Accounts Committee in the 1930s would sit from 11am to 5pm going through papers. I throw that at the witnesses. Whatever else you might feel about the Committee, you can be grateful that we will not be sitting quite so long today.

Thank you, Richard Brown. It is difficult to explain to people the importance of not just the role but the effort that Richard has put into it. I am hopeful that the Treasury machine will ensure that there is not as big a gap as I fear there may be.

Richard Brown: No, my successor will be David Fairbrother. He is someone I have known and worked with for about 15 years, and I am sure he will do an even better job than I have managed to.

Q1 **Chair:** What a nice thing to say about your successor, but you will be seriously missed. We will give your successor a rough time over Treasury minutes and all the rest, so just warn him that he has to keep to your standards. Thank you very much indeed. I never like to say goodbye, because I have a feeling that you might end up chairing an inquiry into something at some point. That is usually what happens to retired civil servants, isn't it?

We need to move on to our main session. Today we are looking at military housing and picking up on work we have done looking at Annington Homes, when the Ministry of Defence sold its military housing 20 years ago. Sir Geoffrey Clifton-Brown was a Member of this Committee, and I say that just to remind witnesses that there are people here with long memories. We also want to look at the future accommodation model, which is something we have looked at before, and, generally, at the maintenance of homes.

Our witnesses today include Lieutenant General Richard Nugee, who is the chief of defence people at the Ministry of Defence. Welcome back to you. Stephen Lovegrove is the permanent secretary at the Ministry of Defence. Graham Dalton is chief executive of the Defence Infrastructure Organisation, and Henry Lloyd is the director of UK Government Investments. Welcome to you all.

Before we get into that session, I want to pick up on a couple of points with Mr Lovegrove. I apologise—I should have let you know beforehand. I want to ask you about the restoration and renewal of the Houses of Parliament, to which, as you know, the thorny subject of the Ministry of Defence car park is critical. Not being able to use it for Portakabins, moving plant around and so on would delay the restoration and renewal of this House by around two years, at a possible cost of £350 million. Could you update us on whether there is any progress on that site being used by the House of Commons during the renovation work in order to reduce our costs?

Stephen Lovegrove: Chair, I'm afraid I cannot give you an update on that at the moment. The teams, I know, have been discussing ways forward with the House authorities. I heard yesterday that they had been having fruitful conversations, but I have not been briefed on the substance of them at the moment. I am very happy to go away from this session today, find out what the current state of play is and, if you would like, give you a call.

Q2 **Chair:** It would be very helpful if we could speak and update the Committee generally, but from what you say, it sounds as though things may be moving forward in a positive way, saving the taxpayer considerable sums of money.

Stephen Lovegrove: The conversation I had—it was a brief corridor conversation, as it were—was with our head of security. As you know, there are legitimate security concerns, not only for us but for the police and others. But the fact that he was saying that they had been having fruitful discussions I take to be a good sign.

Q3 **Chair:** In your personal position, you have quite a lot of input into this. Do you have the will to try to get it resolved and make sure that taxpayers' money is safeguarded?

Stephen Lovegrove: I have as much interest in value-for-money decisions in this area as I do in value-for-money decisions in the Ministry of Defence. I completely understand the points you are making, and if we can make it work, we will make it work.

Q4 **Chair:** Great. That's a positive step forward. Thank you very much indeed. If I may, I will stick with you before we get to the main session.

Last week, we had a number of your colleagues in to talk about nuclear submarine decommissioning. We just want to check in with you on this issue, because your finance director talked about the funding being available, but we are very concerned, of course, with the spending review being delayed and possibly not happening—it is certainly likely to be delayed until the end of the year, according to the Chancellor. Are you confident that you can secure the funding necessary to decommission the nuclear submarines that need decommissioning, and that you can protect that funding in the long term to make sure that that is actually delivered?

Stephen Lovegrove: I have read my colleague's testimony to the Committee and I agree, obviously, with every word that he said. This is a very, very, very high priority for the Department, and I can give you an absolute assurance that there will be no compromises taken on the safety and security of those submarines. We have in place long-term plans, which have been properly costed, to be able to get at this problem in a way that we have not been able to for the last 20 years or so, and we will be putting in a very, very, very vigorous bid for funding in the long term to be able to make those plans a reality. It is a high priority for us.

Mr Goldstone also said that if you were to rank it against other priorities, particularly in areas such as the maintenance of the continuous at-sea deterrent, it would come lower than that—that is the avowed and acknowledged No. 1 priority of the Department. So, ultimately, it's a bit difficult to say with absolute certainty, when balance of investment decisions are going to be made, where this one will come out. I can absolutely guarantee to the Committee, though, that this is a very, very high priority for us. We are in a better position to be able to get at it in a sensible way than we have been for the last 20 years. We will certainly be arguing as hard as we possibly can to have long-term funding put in place by the Treasury. I very much welcome the additional focus that the Committee has brought to bear on this area.

Q5 **Chair:** Of course, one of our concerns, as you know, is that, with the equipment plan, there is such a big gap in funding that this could be something—and from the evidence we heard from your colleagues, it could be something—that could be pushed back further again, even though I acknowledge what you say about it being higher up the list of priorities than it has been for the last 20 years or so. You have been quite cautious in what you have said, Mr Lovegrove. With the squeeze on your budget, where would this rank in terms of priority?

Stephen Lovegrove: There are so many things in the budget that it would be, I think, impossible to answer that question with the degree of precision that I suspect you would like. It will be very, very, very high. We absolutely acknowledge that the situation is not comfortable for anybody, and that there have been unconscionable delays in getting after the problem. We cannot just sit there and manage decay in the way that we have before. I can give you a guarantee that it will be very high up, but until we have had those discussions with the Treasury, I suspect we will not be able to give you more than that. I am very happy to come back to the Committee when we have more clarity on the funding that is being made available to us and let you know where it hits.

Q6 **Chair:** I think you are pretty much using a revolving door to come before the Committee, but we reserve the right to call you back on this issue, even if for 10 or 15 minutes, because it is of huge concern. To be fair to your current team, it is not a problem of your own making, but an example of poor public policy decisions over many decades and a lesson for us all.

Stephen Lovegrove: In my previous job, I spent a lot of time before this Committee talking about Sellafield. Those problems are quite a long time in the making. When they have been made, they are very close to intractable and require very long-term projects to try and fix them.

Q7 **Chair:** I do not think it is intractable, but about getting funding—

Stephen Lovegrove: That is true, and neither is—

Q8 **Chair:** If it is intractable, last week your own witnesses did a good job of telling us about things that were deliverable.

Stephen Lovegrove: Sellafield was more of a problem than this, actually.

Q9 **Chair:** I want to pick up on the issues raised by Anne-Marie Trevelyan about the Energy Act 2004. This is a Department that you led, when you were permanent secretary at DECC. This does not cover military nuclear; it only covers civil nuclear. Has any consideration been given by the Ministry, now or in the past, to campaigning to get some funding to help deal with military decommissioning?

Stephen Lovegrove: Not to the best of my knowledge, Chair, no.

Q10 **Chair:** Is that something that you would welcome if there were an amendment to that Act?

Stephen Lovegrove: I think I would welcome that. Ultimately, we are looking at the same disposal facilities when they are built. The GDF and the waste disposal facilities at Drigg are places where military kit will ultimately end up. The principle that we applied to new nuclear installations in the last round—and that we, effectively, apply now—is that there has to be a properly costed plan for disposal. That is a principle that we are applying in the Ministry of Defence as well. There are many points of similarity. Your suggestion is not one that I have heard before, but it has great merit.

Q11 **Chair:** It might be helpful to say that there are two colleagues who have nuclear submarines in their constituencies, and Anne-Marie Trevelyan, who will be bashing on your door to discuss this. Can I take that as an open invitation if they have a plan?

Stephen Lovegrove: Absolutely—a word to the wise.

Q12 **Chair:** I want to pick up on the skills issue, which we have come across a number of times in your Department. We were very concerned to hear about the problems with the number of nuclear engineers coming through and the fact that there are very severe shortages. Does your Department have any plans to work with industry to promote nuclear engineering and make sure that the skills are in place?

Stephen Lovegrove: We do. I noticed that when Mr Goldstone was giving evidence, he was asked what kept him awake at night, and on that particular area, he highlighted the skills. I have mentioned before this and other Committees that I am concerned about the level of nuclear skills in this country. We have new nuclear happening; a huge decommissioning issue in both military and civil; new facilities and platforms being built; and both Dreadnought and Astute, and what will come after Astute. We are not in as good a position as a nation as we need to be on the subject.

I have had conversations with my counterparts at Education and the Department for Business, Energy and Industrial Strategy, and we are working in this area together. It is a cross-Government issue, and we should try to take it forward in that way. It is an area of considerable concern. I think the civil side has probably made more progress than we have. I know that EDF in particular has invested quite a lot in educational academies around their facilities and their new facilities at Hinkley Point C, but we have got quite a long way to go in order to be able to fulfil the needs the country has, and that is, I think, particularly in the late-2020s. We have a bit of time, but not that much time, because it takes a long time to train people. General Nugee possibly knows more about some of the specific work that we are doing as a Department.

Lieutenant General Nugee: We have done two things. One is that we have completely looked at the way we train people and reduce the amount of time it takes to create nuclear engineers within the Royal Navy. That has been a very successful approach over the last few years. The other thing we have done is created a project called the Enterprise Approach, which was specifically designed, when it started, to look at nuclear engineers. We have completed the nuclear bit of that project—it is still going on with other skills areas where we are really short—and we have given it to the Director General Nuclear in order to try to make sure that we have a very close fit with industry and are not competing with industry but working in collaboration with industry. So it is things like skills passports and crossover careers, where people can take a bit of time out of the Navy, go into industry and come back again, and vice versa. We have done everything we can to try to break down the barriers between industry and ourselves in the nuclear space so that we can make the best use of those scarce nuclear resources that are available in the country.

Q13 **Chair:** As you highlighted, Mr Lovegrove, some of the issues around decommissioning were kicked into the long grass. It sounds like you do not intend to do that as permanent secretary, but words are meaningless without actions, so we will keep on this as a Committee, because we were very concerned by the evidence we had last week.

Stephen Lovegrove: Understood.

Q14 **Sir Geoffrey Clifton-Brown:** Mr Lovegrove, it is one thing having and devoting the money to do this, and another thing having the technical solutions. I would like to be assured that you do have the technical solutions to decommission these submarines and, in particular, a solution to the transportation of medium-level waste around the country to wherever it needs to go. You mentioned where it will go. That was highlighted in the NAO Report. If you do not have the answers today, I would be happy for you to write to us.

Stephen Lovegrove: I am confident that we will have the technical solution. I think it is still being refined. The transportation of nuclear waste is an area where there is quite a lot of experience in the country. Clearly we need to be able to get this material to Cumbria safely and securely, and we would not have stepped off on this path if we were not confident that that was the case. I am not an expert myself, so it is probably best if I write to you with a slightly fuller answer.

Chair: Okay. We are going to move on now to our main session about military housing in the round.

Q15 **Sir Geoffrey Clifton-Brown:** So back to the vexed subject of military housing and housing our service personnel. You are in the middle of negotiations, particularly on rent reviews. Can you tell us how that is going?

Stephen Lovegrove: Yes. For detail, I will pass to Mr Lloyd, who has been leading our negotiating team. It is probably best to start where previous hearings have taken us, which is with an acceptance, as you have written as a Committee, that the 1996 deal was a poor one. We have a comparatively weak hand in terms of this renegotiation, but we are playing it as skilfully and aggressively as we can. I think we are now in a position where we can say that we are making good progress. The team has done well, and Annington have had a part to play and deserve some credit for that as well.

There are some very significant improvements, in particular, to the way in which we are going to approach the rent reviews. They really help us in terms of value for money, making savings for the taxpayer. They really help us in terms of time, and they really help us in terms of being able to release housing stock, which is a good thing for us to reduce voids, but it is also obviously Government policy to try to address housing shortage more generally.

I will just mention a couple of high points of the negotiation that has broadly been concluded, accepting that there is a process to go through. No. 1, the average dilapidation fee, which had been £11,000 to £14,000 payable by the Ministry of Defence when it handed back a property to Annington, has been reduced by £7,000.

Chair: Thank you for your letters on this; we do appreciate them.

Stephen Lovegrove: That is obviously a financial saving, but also means that we can get on with handing these voids back, and we will reduce the voids accordingly.

Q16 **Sir Geoffrey Clifton-Brown:** Can I just stop you there, Mr Lovegrove? I am really sorry to stop you, but I want to just clarify this £7,000 figure. Is it that the average of all the houses that you hand back is reduced by £7,000, or is it that the first £7,000 of dilapidations are now exempt?

Stephen Lovegrove: I will turn to Mr Lloyd.

Henry Lloyd: We get a waiver on the first—well, not the first; on 500 properties that we hand back per annum.

Q17 **Sir Geoffrey Clifton-Brown:** So on the first 500, you are not charged any dilapidations for the first £7,000.

Henry Lloyd: Correct, yes. We don’t pay the first £7,000 of dilapidations.

Q18 **Sir Geoffrey Clifton-Brown:** Maximum?

Henry Lloyd: Correct.

Q19 **Sir Geoffrey Clifton-Brown:** So you pay up to £7,000. If it was £3,000 of dilapidation, you would pay £3,000; if it was £14,000, you would pay £7,000. I want to be very precise on this figure.

Henry Lloyd: Yes. If it is £14,000, we will pay £7,000.

Q20 **Sir Geoffrey Clifton-Brown:** So it is a maximum cap.

Henry Lloyd: Yes, it is a maximum amount.

Sir Geoffrey Clifton-Brown: Thank you very much.

Henry Lloyd: But it is not the first 500. We can choose the 500 to which the dilapidation waiver applies.

Q21 **Sir Geoffrey Clifton-Brown:** So you would obviously choose the ones with the biggest dilapidations.

Henry Lloyd: Yes.

Sir Geoffrey Clifton-Brown: Thank you.

Stephen Lovegrove: That means that it is economic to hand back more properties, clearly, and it is a minimum of—I think—500 for the first seven years. That releases housing, tackling the shortages that we talked about, and the dilapidation discount continues after that seven-year period is over as long as we continue to hand back a minimum of 500 a year. I look to Mr Lloyd to correct me if I get any of those things wrong, but I think that is right.

The site review, which had been going to encompass 488 separate site reviews in a three-year period between 2021 and 2024, is now going to only look at a basket of 27.

Chair: I mean, you do not need to repeat what is in the letters. That 27 is—

Stephen Lovegrove: And that will be done by 2021. There is obviously the arbitration mechanism, which will save time and money; unquantifiable, but I am sure it will save money.

As I say, Annington are engaged. We have a joint working board to look at all of this, and we have a variety of different other working boards as well. Of course, there is going to be a set of negotiations and associated tension as we go through the process of looking at the site reviews. They will be shorter and there will be fewer of them, and we may be taking a number of them to arbitration, so no doubt there will be tension in that. However, it will be quicker and fairer, and definitely the taxpayer will benefit as a result of that.

As I say, I am pleased with the outcome so far. We have a process, which I think is an awful lot better than the one that we had before, but we've got to start the process.

Q22 **Chair:** It couldn't have been much worse than the one you had before.

Stephen Lovegrove: It couldn't be much worse than the one we had before, and you made some very trenchant observations about whether or not we had the personnel to be able to do 488 site reviews over that period of time. We would have geared up to do those, because we would have had to have done, but I am pleased that we are not in that position.

Q23 **Sir Geoffrey Clifton-Brown:** Is it your position that the 58% discount of rent to local rental market value is still maintained?

Stephen Lovegrove: It will be maintained until new arrangements are settled upon, either through the process of the rent review or the rent review going to arbitration and then a number being settled after that, when clearly we will be arguing as hard as we possibly can for the largest possible discount.

Q24 **Sir Geoffrey Clifton-Brown:** When do you expect that process to be complete?

Stephen Lovegrove: Again, I look to Mr Lloyd, but the entire 27 basket is meant to be over, I think, by 2021. It is basically starting.

Sir Geoffrey Clifton-Brown: The Chair was whispering in my ear that it was 2024, which was my understanding.

Q25 **Chair:** Just to be clear, your letter of 28 March states, in the fourth paragraph: "The MOD will continue to pay rent at the current prevailing downward adjustment of 58% from open market levels until the dates on which the new rents become payable, which fall between 2021 and 2024." That's correct, isn't it?

Stephen Lovegrove: My mistake—I apologise—2024, which would have been the moment at which the old process would have finished, is going to be the moment at which the 58% falls away.

Q26 **Sir Geoffrey Clifton-Brown:** Would you like me to direct some of the detailed questions to Mr Lloyd?

Stephen Lovegrove: It might be safer.

Chair: There you go. You are very honest, Mr Lovegrove.

Sir Geoffrey Clifton-Brown: I will ask Mr Lloyd the questions, but if you disagree with his answers, tell us. We have been round this course quite extensively already in the previous hearing.

Chair: And 20 years ago.

Q27 **Sir Geoffrey Clifton-Brown:** And 20 years ago, but let's not go back 20 years; let's go back to the previous hearing. Could we talk about voids? Clearly, in an increasingly vexed housing market where people need homes, any void is one too many when it could go to somebody in need of a home. It is highly undesirable to have more voids than you need. At the last hearing, you predicted that you needed to get down to the normal management level of 10%, to quote your words in the last report. Actually, when it comes back, it looks like 12%. Where exactly are we on this?

Henry Lloyd: I am going to defer that one to Mr Dalton, if that's all right.

Graham Dalton: At the last hearing, it was probably me who said we wanted to get to the 10%, as the normal management margin we use.

The Committee asked us to do so within three years. We came back to you and said that we thought we had a plan that would get us to 12% by spring 2022, which is about four years. Since then, we have revised that forecast with where we have got to over the last 12 months or so, and we now think 10% by late 2022. That is about a year later than you would like us to get to it. We think we can get to 10%; we have a plan to get to 10%.

Some variables then come into play. The number of service personnel is clearly an issue. If General Nugee recruits service personnel at the rate he hopes then I have fewer voids; if he does not, then we have more. We are clearly vulnerable to that variable. If the take-up of the pilots of the FAM is very high, that may leave us holding some properties in the short term, until the outcome of those trials is held. That would drive the volumes up.

The change in eligibility—making co-habiting couples eligible—is in very early stages, but we believe that that will increase the demand for property. There are also the agreements that we have just entered into with Annington Homes, and incentivising and driving a programme of hand-backs, which we are now just getting into. Our assessment against all of those is that there is a little bit of stretch in the objective, but we believe that we will get to that 10% by autumn 2021, which is the date that, as a Committee, you have set.

Q28 **Sir Geoffrey Clifton-Brown:** By 2021—that is your latest target.

Graham Dalton: Which is three years from where you set us that objective. I am forecasting at the moment 2022. I have those four broad areas of variability—a couple of upward pressures, and some downward pressures. As a team in DIO managing this, we are driving to get towards that 10% by 2021.

Q29 **Sir Geoffrey Clifton-Brown:** Isn't this leaving it quite late? One of the FAM pilots, in Clyde, is going to start this year, and the other two are going to start next year. I think they are three years, so how will you be able to properly evaluate those pilots, in order to assess how many voids you are going to need? We are talking about over the whole estate, not just in the three pilots, aren't we?

Graham Dalton: In the short term, in this three to four-year period—quite right. The pilots are running, and—

Q30 **Sir Geoffrey Clifton-Brown:** Well, they're not, are they?

Graham Dalton: They will be. They are a variable in the three-year window that we are into. If the take-up of the pilots is quite high, I am sure that that will be a success on the one hand, and will help, but we have committed to still hold those properties in that time, so I will be looking to sublet, or for alternative means of keeping those properties full. They are a variable on three sides, but it is just one of the variables that we are dealing with.

Sir Geoffrey Clifton-Brown: Looking at the amount of social housing that can be provided by the release of these houses, I do not know whether there is anything more that you can do to encourage Annington to provide more social housing. Really, the only social housing that has been provided is from Canterbury: about 30-odd houses, out of 35; 30 houses for social housing.

Q31 **Chair:** Actually, not necessarily. They are rented by the London Borough of Redbridge. We have a letter from Annington—I do not know if you have seen it—explaining that. They are only rented; they are not actually social housing but they are for social housing tenants.

Graham Dalton: From Annington.

Chair: Yes, from Annington.

Graham Dalton: We have handed back sites at Canterbury and at Bordon in Hampshire—about 240 properties in total—and therefore those properties, after the dilapidations and refurbishment are done, are available for rent. I am encouraged that Annington will be looking at release of those for social housing use, but that is Annington's call.

Q32 **Chair:** That is a matter for them, ultimately. Just to be absolutely clear, you have no power or influence over what Annington do with them, because they are a separate body.

Graham Dalton: That is correct.

Q33 **Sir Geoffrey Clifton-Brown:** Nevertheless, to release some 435 houses and only get 30-odd houses to give back or to rent to one of the local councils is a very low level of social housing that Annington are giving back to the community, isn't it?

Graham Dalton: I don't think I can have a view on what is happening to them.

Chair: We will bring Annington in.

Q34 **Sir Geoffrey Clifton-Brown:** We might well take that up with Annington, indeed. Can we talk about rationalisation of the estates? What progress are you making with Annington in terms of negotiating rationalisation, in terms of where you give up these houses, these voids? How are you getting on with that and how is that tied in with the dilapidations figure?

Graham Dalton: Across the estate we have identified something like 600 units or properties for disposal. There are further numbers where we have long-term lease or hire that we make available to return to their landlord owners. Not all of them are Annington Homes. In rationalising the estate, we look across the estate as a whole, and not just at the Annington estate.

The wider estate optimisation programme is starting to work through in successive waves. We are identifying the need for additional accommodation—we concentrate serving personnel on existing sites, so we need additional accommodation—and that then triggers up as sites are identified for disposal. We would first make the assessment on whether those properties should be retained because they are within travelling distance of another retained site. Otherwise, we will notify and we will dispose, depending on their ownership and the lead time on them. We will do that at the time drawdown happens on those sites.

Q35 **Sir Geoffrey Clifton-Brown:** Are bulk lettings, redevelopments, utilities agreements and estate planning all part of that?

Graham Dalton: In working with Annington, we have had some fairly early discussions around where we are likely to need additional accommodation and housing, to explore whether there is something we can do with them on the estate that Annington holds. It is early exploration on that, but it is my view that if we share with Annington where we expect the demands to be it gives them the opportunity to be proactive and come up with some suggestions or potential projects. If they do not do that, then we will follow another route.

On the other things, such as utilities agreements, which is the provision of utilities, we have entered into an arrangement to extend the current arrangements to be coterminous with our longer term Aquatrine PFIs for drainage, waste water treatment and water supply PFIs. We have set up some working groups to start working those through.

Q36 **Sir Geoffrey Clifton-Brown:** Now you have this cap on dilapidations, have you revised your thinking about the number of houses you are going to hand back to Annington? Surely, this ought to make that easier for you to reduce that void figure?

Graham Dalton: It brings a really good incentive on us. I was really keen, right through the negotiation we had, to put an incentive on me, my successors and my successors' successors to manage our way out of parts of the estate that we do not need. The 500 a year was a balance, over the seven years, of what we thought we could achieve. We would like to—and probably will—hand back more, but it is a commitment. What we did not want to do was get into three years and find that we had only got 400 to hand back, and therefore the discount falls away. From our perspective, we were trying to find that sweet spot. We can guarantee to hand back 500; we can hand back more. We will be disposing of properties that are not Annington's, because we have properties in the English estate and none of the properties in Scotland are owned by Annington Homes.

Q37 **Sir Geoffrey Clifton-Brown:** If the pilots show you that people on the whole do not like living behind the wire and they would rather own their own homes or rent outside the wire, will you have to rethink your strategy again, or alter the boundaries of what is inside the wire? How is this all going to work?

Graham Dalton: One thing we have been doing is working with General Nugee, because DIO is a delivery organisation and there are some demand signals that we need to take from the General's policy. Part of the demand is the number of serving personnel who are entitled under existing arrangements. Then, as the numbers go up or down, I need some good forecasts, and the better the forecasts the General can give me, the better we can manage to them. I don't think in the past we have done that as well as we could have done; we have taken some fairly standard conversion factors and we have been chasing the numbers that have come down.

We need good forecasts on that, and a good understanding of the policy he is putting forward; changes in cohabitation rules are one aspect of policy that is changing, and changes in take-up. We are trying to monitor and understand the conversion of the number of serving personnel to those who are either entitled or eligible and how many actually exercise that entitlement, and turn that into houses we have to provide.

It is quite a complex pattern to manage, especially when you take in the regional overlay, movements of units and the maximum travel distance that we can do, and that is before we get any preference into it. The General has adopted a strategy, working with the service chiefs, to better understand the offer that will support them best for manning services and help us with some of those lead indicators, to give us an idea of how we should respond.

Q38 **Sir Geoffrey Clifton-Brown:** Can I take you back to the rent renegotiation? This will cost a great deal of money, depending on which way it goes. How confident are you that you will be able to get somewhere close to the 58% discount? Do you have any indication yet, if these things went to arbitration, where that figure would be likely to be? Mr Lovegrove, you now have legal people, asset managers and property people on the DIO team. Where do you think that is likely to end up?

Stephen Lovegrove: I would not want to prejudice what will no doubt be quite intense commercial discussions. In certain instances and certain locations, there are good arguments for the discount to be at least 58%, but the reason there are 27 baskets is that there are different characteristics associated with the baskets, and local housing pictures are obviously very different from what they were in 1996, so we are likely to see quite a varied pattern.

Q39 **Sir Geoffrey Clifton-Brown:** We talked last time about the line from the Wash to the Severn River, and the proportion of your estate that is south or south-east of that line. Clearly there is a differential in the growth rate of rents in the south compared with the north, so this is going to be quite an interesting negotiation, isn’t it?

Stephen Lovegrove: It is, yes. That line obviously incorporates some properties that may have gone up by quite a lot in the south-east, but also certain areas of the south-west where there are a lot of defence establishments and there has been nothing like that kind of house inflation. We will see a pretty varied picture even if you draw that line; it will not just be a question of north and south of that line.

Q40 **Sir Geoffrey Clifton-Brown:** Mr Lloyd, have you really started to get into the individual basket negotiations? Have you really started to say, “Well, this is where the rents ought to go,” or are we still at the preliminary fencing stage?

Henry Lloyd: It is very preliminary. At the moment, we are doing inspections, so we have set aside about six months between now and September to do the inspections before we really get into the negotiations, and arbitrations if we need them.

Q41 **Chair:** Are you doing those inspections with Annington?

Henry Lloyd: Yes, site by site of the 27 representative sites where we are going into each area.

Q42 **Chair:** At that point, are you finding it easy to agree, or are you having disagreements when you go to visit sites?

Henry Lloyd: It is just inspecting and taking notes on what we see. It is not a negotiation at this stage.

Q43 **Sir Geoffrey Clifton-Brown:** To press you on what the Chair was asking you, at the last hearing it very much came out that the records of the state and condition of these houses are not very complete. How are you working through that? Somewhere in the documentation it talks about you doing valuations on a sample of each of the 27 baskets. Is your inspection done on a sample, or are you trying to get the state and condition of each individual house?

Henry Lloyd: It is done on a sample of different types of properties. It is about 20% of each site that we are aiming to sample.

Q44 **Sir Geoffrey Clifton-Brown:** I accept that it would be a big job, but surely ultimately the aim must be to have the state and condition of any house, otherwise you do not really know which houses you should be giving back, which houses need money spending on them and which do not.

Henry Lloyd: What will happen is we will sample the properties and agree an adjustment to those properties, and that will then apply to the whole site and to all the sites in that basket. We will know the adjustment factor for the representative site of each of the 27 baskets, which will then apply for all the sites in that basket.

Q45 **Sir Geoffrey Clifton-Brown:** When are you going to move away from what I call the preliminary, inspection stage to the actual negotiation stage?

Henry Lloyd: This coming September.

Q46 **Sir Geoffrey Clifton-Brown:** Can we take it that all your inspection of all 27 baskets will be completed by September and you will be moving into the negotiation phase?

Henry Lloyd: Correct.

Q47 **Sir Geoffrey Clifton-Brown:** You will then have a negotiation, and if you cannot negotiate, it will then go to arbitration?

Henry Lloyd: Correct.

Q48 **Sir Geoffrey Clifton-Brown:** No doubt the first arbitration will be the really key case, which might then go to the Lands Tribunal. Do you realistically think that the whole process will be done by 2024?

Henry Lloyd: By 2021, this process will be completed.

Q49 **Chair:** But the rents will not change until—

Henry Lloyd: No, the rents will not apply until they were originally going to apply under the lease, but we will know—

Q50 **Sir Geoffrey Clifton-Brown:** Given that there is likely to be a landmark case, because you will have to test this discount, is it realistic to think that it will be done by 2021?

Henry Lloyd: The arbitration agreement is prescriptive in terms of what the windows are and the time periods allowed for what needs to come to the arbitration panel and when, so yes, it is absolutely designed to be completed. We have not got precise control over the arbitration itself, but the process is designed to be completed in two years.

Q51 **Sir Geoffrey Clifton-Brown:** Will you keep us up to date with that, please? It will be really important to know when the first one has been fixed. Is that how you are going to do it? Are you going to fix them basket by basket?

Henry Lloyd: Yes, we are doing it in batches. The first determination, if we go to arbitration, will be for four sites. We will propose two sites and Annington will propose two sites, and we should know the results of that in just over a year.

Q52 **Sir Geoffrey Clifton-Brown:** Would you perhaps undertake to write to the Committee when you have that result?

Stephen Lovegrove: With pleasure. I am happy to write to the Committee in September with an update on how the inspections have gone.

Chair: We may come out of this with a list of dates when updates would be helpful, given that you are committing to quite clear dates. Obviously you are back in front of us often enough for us to get updates in person, or for us to call you back in.

Q53 **Sir Geoffrey Clifton-Brown:** Moving on to the management side of things, how prepared are you for the ending of the Capita contract later this year?

Graham Dalton: We are in a pretty good place. Last time we saw you, we had a large number of senior appointments to make. They are all now complete, and all but one are filled on a permanent civil service basis—the other is on an interim basis. All but two are mobilised. The senior staff changeover has happened, with a third of people coming from around the DIO, a third from the wider MOD and a third from the external market. We have a mix of experienced and new people.

Q54 **Sir Geoffrey Clifton-Brown:** Will there be a seamless transition from Capita into DIO?

Graham Dalton: It will be as seamless as we can make it. There is then a large element of project and programme management support and some other professional services provided. For project and programme management support, we have contracted with Mace and some supporting partners to provide that. They are mobilising as we speak, and there are handovers being put in place. I have some other small procurements, or appointments, to do. That includes civil servant appointment for project and programme management, which is progressing—we have reasonable numbers in so far—and I have some other fairly specialist things still to buy in, for which we are in the process of procurement.

Transition is a big issue, and I and my team are very clear about the challenge we have over the next four or five months to keep the programme running. It is consuming quite a bit of our effort. I have no doubt that there will be one or two things that wobble a bit as we go; the issue is to try to spot them and make sure we make it as seamless as we can for our customers.

Q55 **Sir Geoffrey Clifton-Brown:** How will you manage these projects in future? Will you have various local or regional teams that will do this?

Graham Dalton: Housing and properties actually has been relatively unaffected by this transition. My housing and accommodation team is led by an air commodore. I have a mix of military and civilian personnel in the housing management team. They are run by a central team with regional offices around the patch, and they will continue to be staffed by some military personnel and by civilian personnel as now.

Q56 **Sir Geoffrey Clifton-Brown:** I think you told us you have one post still to fill, but you did not tell us what that was.

Graham Dalton: Across the piece?

Sir Geoffrey Clifton-Brown: In senior management.

Chair: The interim one.

Sir Geoffrey Clifton-Brown: Yes—in the senior management team.

Graham Dalton: It is an interim post, which is around digital and information.

Q57 **Chair:** Is that short-term interim? Have you recruited to that post and you are just waiting for someone to—

Graham Dalton: I have an interim on a short-term contract in place.

Q58 **Chair:** And you are recruiting for a full-time—

Graham Dalton: And we will go back to market. We have not gone back to market yet, but we will do so in due course.

Q59 **Chair:** Are there any particular reasons why that one has been harder to fill?

Graham Dalton: I kind of took the view that we had had quite a bit of success elsewhere. We found quite a few people with digital or chief information officer skills; it was about finding someone who had the skills that fitted the particular needs of the business at the moment. We did not find someone in that first go, so we have an interim, who has grasped it quite nicely. I think she will help us define the role a bit better and just give us a bit more time to go and search, probably more proactively than we did previously.

Stephen Lovegrove: In that particular area, the Government find it quite difficult to attract people, because it is quite highly paid, so—

Chair: That is partly why I asked. Another skill issue in the civil service.

Q60 **Sir Geoffrey Clifton-Brown:** What steps have you taken, Mr Dalton, to improve the governance and performance management of DIO?

Graham Dalton: Of the organisation as a whole?

Sir Geoffrey Clifton-Brown: Yes.

Graham Dalton: Quite a lot over the last year to 18 months, probably starting with my chairman. I have an independent non-executive chairman who chairs my advisory board, and I have four independent non-execs. They are bringing a degree of scrutiny to our planning and our performance, which either our customers or the central Department are unable to spend the time to do, with some sector expertise.

Then there is how we are running the business around our corporate support, corporate planning and corporate services. We have just come through to the end of our first year operating on a new and different business model—a delegated model, with funding delegated to the frontline commands for infrastructure. We set up and have been developing and then tracking a pretty long list of key performance indicators—whether they are all key is a moot point—and we are measuring the performance of the business against those. We are held to account quite clearly by the permanent secretary, by the chief operating officer in MOD and by the Chief of the Defence Staff and his vice-chief on a quarterly basis.

Q61 **Sir Geoffrey Clifton-Brown:** Given that the agreement with Annington only requires you to keep these properties up to good and tenant-like standard but you are committed to providing a decent homes standard, is the budget of £135 million that you are given for improving these homes enough?

Graham Dalton: If we keep running at those sorts of levels, I believe it is. We have 95% of the properties at decent homes plus standard,[1] and we have an active and fairly intensive programme of running through.

[1] The Department later added: '97% of the Department's properties are at minimum Decent Homes Standard; 86% are at Decent Homes Plus standard.'

There were about 3,800 properties improved last year, which is about 10% of the stock. It is certainly in the right sort of area. Part of what I need to do is make sure we are using it efficiently. Maybe an upside of having some voids is that we can get access to more houses to suit contractor time a little bit more, and we can get some efficiency by refurbishing groups and patches of houses at a time we could not otherwise do it.

Q62 **Sir Geoffrey Clifton-Brown:** Is that 95% of the houses that are occupied by service personnel?

Graham Dalton: No, that is 95% of the available houses. We will not offer a house if it is below the decent homes standard. In most cases they are decent homes plus, which is primarily decent homes with better insulation and that are cheaper to run.

Q63 **Sir Geoffrey Clifton-Brown:** How is your satisfaction survey rating going?

Graham Dalton: There are a couple of measures on it. The satisfaction scores are trending upwards; they have gone up by about 3 points in the last 12 months.

Q64 **Chair:** From what to what? Going upwards is good, but—

Graham Dalton: From 61% to 64-ish%, from memory, without flipping through the pages.[2]

Q65 **Chair:** So still a third of people are not satisfied.

Graham Dalton: Yes, still a material number are not satisfied. Net promoter score is another measure, which we hold Amey to account on, as our customer. It only covers their service, as opposed to the overall condition of the estate and the experience. The net promoter score is about more people recommending than not recommending. That is still failing to hit the mark; it is just below 50%. Beyond that, the number of complaints that we measure is down a third in the last year. We are encouraged by that.

Chair: I hope so.

Q66 **Sir Geoffrey Clifton-Brown:** I don't think there is any complacency to be had from those figures.

Graham Dalton: No, there is not.

Q67 **Sir Geoffrey Clifton-Brown:** If we ask our service personnel to live in decent homes, they should be given a service that any normal landlord would be expected to provide. What sort of targets have you set yourself to improve those? Also, given that these are very loyal people, the very last thing that they want to do is to have to complain. There must be a lot

[2] The Department later added: 'The DIO Customer Satisfaction Survey has shown a 2% increase in satisfaction (62% to 64%) as a rolling average year on year from 2017/18 to 2018/19.'

of people out there sitting silently who have to suffer these conditions. What targets have you set yourself to improve this?

Graham Dalton: First, we are trying to make it easier for people to register concern; being silent and unsatisfied is not good for anyone. Having web-based access—using Facebook, social media, websites and robotic webchat tools—to register complaints, queries and questions is something that our team, with Amey, have been working hard on. We have been running an improvement programme, to improve satisfaction. Bringing down the number of complaints is the result of a lot of hard work by my accommodation teams and by Amey to address issues and to get things right first time, at move-in, so that people are allocated a property that they are happy with and that is right when they move in.

The two areas that stand out at the moment are about getting first-time fix and reactive repairs when stuff needs to be repaired or put right. Satisfaction is low on those being done, particularly if it needs multiple calls. Feedback on the responsiveness and the degree to which Defence Infrastructure Organisation is demonstrating that we are listening to what is coming back is low. We are tackling both of those. On the first, it is about things like having more spares in vans, meaning that there is a better chance of a fitter or technician being able to repair something on that first visit.

Q68 **Sir Geoffrey Clifton-Brown:** Although I am delighted that you are recognising all those things, have you set yourself any actual targets, so that we can measure your improvement next time you come before the Committee? Where do you expect to be in a year or two years' time on all these aspects?

Graham Dalton: I have a number of detailed level indicators, including on overall satisfaction. I haven't got at the top of my head a target number.

Q69 **Sir Geoffrey Clifton-Brown:** Could you write to us?

Graham Dalton: I would be very happy to give you a number for where we will be overall in 12 months' time.

Sir Geoffrey Clifton-Brown: Thank you very much indeed.

Q70 **Chair:** Thank you very much. I want to turn to you, General Nugee, on the future accommodation model. You told us at the beginning of this year that you thought the pilot would be under way by about now—mid-2019. Why has there been further slippage?

Lieutenant General Nugee: We wanted to do a bit more research. The first will happen around September, which is about six months later than I would have wished, to be absolutely honest, but we wanted to make sure that we got it absolutely right. We need to do a lot of negotiation with the local area and make sure that this first one is as successful as we can possibly make it by properly understanding the local environment in Scotland, which is a slightly different environment from England. We wanted to make sure that we knew everything we possibly could before actually launching the pilot.

Q71 **Chair:** Sorry, are you saying that, because it is in Scotland—

Lieutenant General Nugee: No, that is just incidental. We wanted to make sure that our understanding of the local region was absolutely right. That is why we delayed.

Q72 **Chair:** It is just that the Committee has been talking to you about this for quite some time.

Lieutenant General Nugee: I know.

Q73 **Chair:** You have done this research. What has that research shown you about the effect of all of this on recruitment and retention, for example? What other things has the research thrown up that has perhaps been a reason for some of the delays?

Lieutenant General Nugee: One of the things that we have been doing—I don't have the exact detail—is negotiating with local councils and local regional authorities about what they might do to help us make this a reality. We went into it without expecting people to help us do this, so we went to the local councils and the local regions and said, "Can you help us make this work? It is in your interest and our interest to make this work." The process of negotiation and getting a much better understanding of what is going on in the local area has allowed us to do it by slightly delaying it. I don't have an answer yet about recruiting and retention. We very much hope that the pilots will show that by offering a different choice to our service personnel, we will definitely improve retention. That is one of the purposes of it.

Q74 **Chair:** We have been around this on a loop, haven't we? If it is not good enough or the right offer is not being made, you won't retain people. We know from some of the private information that Anne-Marie Trevelyan, a member of this Committee, has received—people aren't prepared to talk about this publicly sometimes—that there is a real concern that some personnel are finding it a bit too much when there are problems about their accommodation, whether it is the quality, the type or the options. Some, perhaps in the higher ranks, will want to buy their own homes, and others won't. You have done some research. When you set up the pilots, have you any idea what you are actually trying to find out?

Lieutenant General Nugee: We have some key performance indicators—forgive me; I don't have them in front of me—about how successful those pilots are. Part of it will be factual—how many people take up an offer outside the service families accommodation choice that they have at the moment. Part of it will be whether people are retained more. Part of it will be surveys about what they think about the process and what they think about the opportunity to get some subsidy for doing something that they wish to do, and which we are not allowing them to do at the moment. We have a number of KPIs. One of my major efforts has been to make sure we genuinely understand the benefits of doing the future accommodation model so that when it comes to the main gate business case in 2022, or three years' time, we will absolutely have some hard evidence and can say, "This is a good thing to do" or, "This is a bad thing to do."

Q75 **Chair:** Results can be skewed by local circumstances. If, in the area of a pilot, there is poor-quality accommodation currently, that might push people to go outside the wire and think about purchasing in an area where they can afford to do that. Are you making sure you level the playing field so that there are genuine choices for people?

Lieutenant General Nugee: We absolutely recognise that. That is why we have three sites—one in Scotland, one in the east of England and one in the south of England. We have three different geographical locations and three different populations. The Navy has a very different method of living from the Army, who tend to live on the base; the Navy much less so. What we have tried to do is to take, within our construct, as diverse pilot sites as we can so we can get a broad feel for what the reality is.

Q76 **Chair:** What about the comparison between the quality of provided accommodation versus the opportunities to purchase locally? Are you making sure the quality is of a good standard in the pilot areas?

Lieutenant General Nugee: If I read you correctly, we are not trying to skew the pilots.

Q77 **Chair:** I am not suggesting you are; I am saying that it could be skewed. If you do a pilot in an area where the accommodation is at the lower end of the quality scale—we are hearing some reassuring noises from Mr Dalton, but we know from satisfaction surveys that there is some way to go—the choice of going privately, whether to rent or buy, may be more appealing. Have you tried to balance that out and make sure you have weighted it?

Lieutenant General Nugee: Again, what we have tried to do is take different pilot sites. I am sure the quality of the offer that we have at the moment is not identical in all three of those sites. We have tried to take into account opportunities like that. Some will be good quality and some will be less good quality. You get different qualities within a single patch, so it is quite difficult to judge against that and try to level the playing field completely.

Q78 **Chair:** You have been changing your approach to the future accommodation model. I think it is three years that this Committee has been discussing it with you. In that time, a number of things have changed. In terms of the Annington situation—maybe Mr Lovegrove or General Nugee will answer this—you have a mismatch. You always had a mismatch in timing between the new accommodation model and the Annington renegotiations. With the changes in timetable on both of those, is that now a better situation or a worse situation, in terms of trying to resolve this in the long term?

Lieutenant General Nugee: I think it is a much better situation, because I have made it an absolutely key tenet of the future accommodation model that the main gate business case will not make a decision—we will not decide definitively whether to go down the future accommodation model route or not; these are pilots—until we understand what the implications of the Annington Homes renegotiations are.

That has always been my case, so that once we have the results from what Mr Lloyd has been doing, the main gate business case will probably be at about the same time—it is three years away. Whether the timings will be exact or not, they will inform each other very definitely, so that we can take a proper view, knowing what the negotiation on Annington Homes will be and what the views of our people on the future accommodation model will be.

Q79 **Chair:** I will perhaps turn to you, Mr Lovegrove—I will come back to you in a moment, General Nugee—about the consultation generally on FAM and housing issues. Overall, we have raised concerns here—you know about retention and recruitment. As I think Sir Geoffrey has highlighted a number of times, our armed forces personnel deserve the best. What have you learned as permanent secretary about what is going right and what is going wrong in housing in the MOD? And what are you hoping for from these pilots that will perhaps make a difference to our armed forces personnel?

Stephen Lovegrove: A few things. I have been in the job now for three years and I believe that the state of the housing estate we have at the moment is measurably better than it was three years ago. It is not, as you say, quite where we would like it to be, but we are under absolutely no illusion whatsoever about how important the domestic arrangements that we provide are for the psychological health and wellbeing of our people, and indeed sometimes for their physical wellbeing, too. When I started in the role, I do not think that it was quite as clear to me quite how central this was, but I do think that the Department has responded reasonably well.

The other two things that I will just say are, first, that the level of consultation that we now have with our people is very much better than it was three years ago, and I thank the Committee for bringing that to our attention on any number of occasions. And the last thing, which has been a bit more recent to me, is that we have been slow off the mark in recognising that the traditional modes of living, as it were—well, with the way that people like to live their lives and their partners, we have been very slow off the mark in recognising that in our accommodation offer right across the piece. That is being addressed reasonably quickly now, but we really should have been on that a good 10 years ago.

Q80 **Chair:** Are you talking particularly about same-sex couples and cohabiting?

Stephen Lovegrove: Things like same-sex couples and cohabitation. We have some frankly old-fashioned definitions of what constitute long-term meaningful relationships, which I think we are addressing, but we really shouldn't be—

Q81 **Chair:** On that point, General Nugee, as I understand it same-sex couples and cohabiting couples will have access to surplus family accommodation. Is that right? Have I interpreted that correctly?

Lieutenant General Nugee: Yes, that is correct.

Q82 **Chair:** So how will you define what is surplus and who qualifies for it, because I would have thought that if you are serving and you are married to someone of the same sex, or you are living with somebody, you are still a serving member of the personnel? Is it the personnel or the relationship that determines where you are in the priority order?

Lieutenant General Nugee: It is the relationship—it is people in a long-term relationship. We are using the Department for Work and Pensions—

Q83 **Chair:** Sorry. Just to be clear, if you are married are you more likely to get that accommodation than if you are cohabiting or in a same-sex relationship?

Lieutenant General Nugee: It is a difference between eligibility and entitlement. Serving personnel who are married are entitled; serving personnel who have a long-term relationship will be eligible for surplus accommodation. We were always going to link it to FAM. We were going to bring it in with FAM, because obviously if the FAM is a success in three years, then we are not determining that they live in service families accommodation; they will be entitled to live wherever they want to, in whatever—

Q84 **Chair:** Okay, but it just seems to me that some are more equal than others: some are entitled and some are eligible.

Lieutenant General Nugee: This is purely temporary while we are going through the FAM pilot, because the future accommodation model completely accommodates this. If you wish to live outside or in service families accommodation with a partner, actually that is really easy to do once we have the future accommodation model up and running. We have pre-empted that by bringing forward the eligibility, which is the best we can do at the moment.

Q85 **Chair:** What is the barrier that stops entitlement rather than eligibility?

Lieutenant General Nugee: Building masses and masses of property.

Q86 **Chair:** Because there is a latent demand.

Lieutenant General Nugee: We believe—it is very difficult to get facts on this, because it is not declared on our data systems—that there would be a very significant demand for service families accommodation. If we made them entitled to it, we would have to build significant amounts of service families accommodation—that is our only model at the moment, because we have not yet introduced the future accommodation model. That is the beauty of it. We would have to build significant amounts of property very quickly in order to be able to accommodate what was entitled.

Q87 **Chair:** What you seem to be saying is that there are a lot of armed forces personnel out there who are in couples, but as they are not married, be it to a same-sex or opposite-sex partner, they are not telling you or claiming housing. They are living in single accommodation—away from their family, in other words.

Lieutenant General Nugee: They are either living in single accommodation or have chosen to move out of all our accommodation and have no subsidy whatever.

Q88 **Chair:** And you have no record of that, even though we have had the Equality Act and all sorts of legislation come through.

Lieutenant General Nugee: We know those who are living off-base, but they get no subsidy at all. This is what the future accommodation model is trying to solve.

Q89 **Chair:** Do you have any idea of people's family circumstances? There must be data protection rules on this, but you must have next-of-kin information. Do you have any anonymous surveys?

Lieutenant General Nugee: To give you one example of an RAF base, next-of-kin information would have led us to believe that there are five individuals on that base who are cohabiting. When we did a survey on the base, it was 50. In other words, we have very little idea. The next-of-kin information cannot be used because it is not safe as a marker. We would have to survey every single person. We have not done that; we have widened the eligibility, because we know there is a burgeoning demand. That is why we have widened the eligibility.

Q90 **Chair:** Five to 50 is a lot.

Lieutenant General Nugee: Exactly. It is unpredictable.

Q91 **Chair:** I am just a bit surprised, because one thing the armed forces do very well is that you are managers of people. How you handle and collect data, I would have thought, is pretty good, because you need to know who is where and when—the logistics of it—yet you do not know, of your own personnel, who is in a relationship with someone and might therefore have some latent demand for accommodation.

Lieutenant General Nugee: Those who are living in single-living accommodation may well be in a relationship with somebody and have chosen not to execute that relationship formally by living with them formally, but choose to do it either informally, at weekends or whatever. There is a question mark. If they are not the next of kin because, say, the parent is the next of kin, we would have no formal record of it. I think it would be quite difficult for us to pry into every individual and say, "Are you in a long-term, or even a short-term, relationship?" just because we wish to know.

Q92 **Chair:** Do you offer people the opportunity to volunteer that information so that they get any benefits? If there are no benefits available at the moment, I suppose there would not be an incentive to do that.

Lieutenant General Nugee: Correct.

Chair: Now that there is eligibility, if not entitlement, are you finding that more people are volunteering the information that we might request for the benefits of the eligibility criteria?

Lieutenant General Nugee: It is very early days, but we have had a reasonable take-up of people who wish to apply for surplus service families accommodation and are in long-term relationships. I am sure that there will be many more as the idea takes off.

Q93 **Chair:** "The idea takes off." I think that has been around for quite a while.

Lieutenant General Nugee: No, sorry—the idea that you can live in service families accommodation.

Chair: Mr Lovegrove, this is extraordinarily out of date.

Stephen Lovegrove: Listening to this conversation makes me think that there is a fundamental mismatch of intention between—

Q94 **Chair:** I thought you might just say the word "cringe", because that might have been shorthand for—

Stephen Lovegrove: No, I wasn't going to say that. There is a fundamental mismatch of intention between increasing tension between the traditional model of military housing and how, increasingly, large numbers of UK citizens wish to live their lives, and the amount of information that they would be prepared to give about themselves to allow such a traditional model to operate with the effectiveness that you would like. From this exchange, clearly it is not quite working. I think FAM might be best thought about in that light, in a way. It is a way of evolving a military housing model into a world where people don't have quite such traditional expectations of their relationships or the way in which they are going to be housed—or possibly they never did, but just never admitted to it. There is something quite fundamental and profound, I think, going on here.

Q95 **Chair:** Can I just ask, then—this is probably for you, Mr Lovegrove. The Prime Minister appointed Mark Francois MP to lead a review of armed forces retention, and one of the seven criteria is about accommodation. There is a call for evidence out about that now. How is that fitting into the whole FAM piloting?

Stephen Lovegrove: I am not sighted on that, actually.

Chair: General Nugee?

Lieutenant General Nugee: I have met Mr Francois. He hasn't given me an indication as to what his report is going to say, yet. I think he is still in the process of gathering information, but I have met him.

Q96 **Chair:** Yes, I think he is at that stage, of gathering information. Are you providing information to him?

Lieutenant General Nugee: We will provide whatever he asks for, as long as we can, so yes.

Q97 **Chair:** Is he being supported by the Department?

Lieutenant General Nugee: Yes, he is.

Q98 **Chair:** So he has got somebody in one of your teams, presumably?

Stephen Lovegrove: He has a secretariat.

Lieutenant General Nugee: One of my team is supporting him, yes.

Q99 **Chair:** Okay, so there will be a free flow of information to him, so that he can then come up with recommendations.

Lieutenant General Nugee: Absolutely, as we did with his last report, where we accepted all his recommendations.

Q100 **Chair:** In terms of the FAM model, you said earlier that it was a very logical thing to have it come out at about the same time as the rents on the Annington Homes thing, but the pilot will be going ahead when no one in the pilot knows what the rents are on Annington Homes. Isn't there a danger that that skews results, whereby people are looking at the 58% reduction and that is the model they will be making their judgment on?

Graham Dalton: The outcome of the site review with Annington, which will be a different discount on different sites—not a blanket discount—

Chair: Will be known by 2021.

Graham Dalton: Will not change what service personnel pay—the change in rent is set by the Armed Forces Pay Review Body. It will affect the subsidy that the MOD pay.

Q101 **Chair:** So they won't be affected.

Graham Dalton: So they do know what rent they will pay.

Q102 **Chair:** General Nugee, we have talked a lot about how you will be assessing the effectiveness of the accommodation strategy. Are you planning to build any longitudinal studies? Clearly, from some of the exchanges we have just had, there are some quite outdated approaches. The Ministry of Defence has not kept up with the way the world works. It is not only the Ministry of Defence; there are other organisations that haven't, so it is just meant as a comment. Are you going to be watching to see that you are not throwing out the baby with the bathwater? Patterns of behaviour can change over time. How are you going to be monitoring the impact of the future accommodation model once you have gone through the pilots and once you have begun to implement it?

Lieutenant General Nugee: If it is implemented then yes, absolutely—

Chair: Some change is going to be implemented.

Lieutenant General Nugee: There will be some change implemented, but it has to go through a main gate business case and we would want to go through the correct process, so that the Department is completely happy that actually what we are doing is the right thing; because it is a large amount of money that we are dealing with for the Department, but also we want to try and make sure that we do the best we possibly can for our serving personnel.

Q103 **Chair:** How are you going to gather the information from those service personnel? Can you just talk us through the process?

Lieutenant General Nugee: Well, we will be doing surveys with them. We will be talking to them.

Q104 **Chair:** There will be face-to-face conversations, qualitative work as well—

Lieutenant General Nugee: Yes, but we will also be, obviously, looking at how many people choose to live away from the service families accommodation, how many people choose to take up the grant to help them buy their own house, how many people choose to decide to move their family to where they want to live, and they weekly-commute—all those sorts of things, which are different to parts of the armed forces' current culture, we will be assessing and monitoring, to make sure that we understand exactly what is going on.

Q105 **Chair:** For some of that, in the short term people make decisions that then don't work out in the long term—the commute that seems reasonable might not seem reasonable. The purchase of a property might seem a good idea, and then you find that you need to be moved to another base. My point is about longitudinal study. How are you going to make sure that you don't just make a judgment on what happens at the end of three years, and then find that people are actually rethinking it? Have you got the flexibility built in to look at modernising the future accommodation model over time, if that is a problem?

Lieutenant General Nugee: I would say absolutely. We want to build that flexibility. Ultimately, the whole idea of this model is that it is very flexible and offers the widest amount of choice that we can possibly give, and can afford, but I would say that actually there is not a single cohort that the next three years is going to look at. For that cohort, new people will be posted into those sites, and people will be posted out of those sites during the three years, so you will get some rotation of people, but also you will have some youngsters, you will have some slightly older people that the site affects, and different people at different stages of their lives may make different decisions. We are absolutely not expecting a homogeneous answer from any site, let alone all three sites. What we want is the variety of what people's choices are, depending on what their ages are, depending on what their marital status is, and so on and so forth.

Q106 **Chair:** The pilot is three years. When do you expect the future accommodation model, whatever that may be, to be implemented?

Lieutenant General Nugee: We would start implementing it immediately after, and we would do it site by site to make sure that we do it properly at each site. But there are a lot of sites. It will be subject to variation with the Defence Estates optimisation programme, to make sure that we get it right, so we are doing it at the right place at the right time, but it will take a number of years to roll it out across the UK.

Chair: I am sure we will have you back in the intervening years.

Q107 **Stephen Morgan:** I am keen to understand the overall improvements you are making to the accommodation sector, specifically meeting service personnel needs. Mr Lovegrove, you mentioned about knowing service personnel better than ever. How confident are you that satisfaction levels will improve?

Stephen Lovegrove: Accommodation has been improving. I am confident that we are making the kinds of changes in the affordability envelope that we have, which will mean that they improve further. Do I think that they are likely to improve at the rate that service personnel, we or Committee members would like? I suspect the answer is probably no. We will always have competing demands on our money. We tried to put more money into improvement of the accommodation and we put over 40% more money in last year than we did the year before. That has been noticed, but there is always a balance of investment decisions to make.

Q108 **Stephen Morgan:** I will come to money later, but in terms of where you want satisfaction levels to be, what is your ambition?

Stephen Lovegrove: Well, I turn to Mr Dalton for that. It has moved from 61% to 64%. It would be great for it to be at 100%, but I imagine that is overly ambitious, certainly in my tenure.

Stephen Morgan: Mr Dalton?

Graham Dalton: If I were to pluck something from thin air—

Stephen Morgan: You must have an idea of what you want to achieve.

Q109 **Chair:** Do you have targets?

Graham Dalton: I do not have a headline fixed target at the moment. I have a number of indicators, and I said I would write to you with where I expect to be in a year's time. If I took some simple Pareto theory—the 80:20 rule—80% is the point at which you have such a diminishing rate of return. We are still a long way short of that. We have independent research done for us to understand satisfaction with what Amey or its successor contractors do as contractor—the service level. That gets built into a contract and we can rack that up in a successor contract—that is a good commercial time to do it. There are things that we do such as defining the investment to go into the estate and managing the process of addressing faults. Breaking that down into the different groups of people and geographies helps us to tackle it far more, so we know the different age groups and satisfaction by rank and by geography.

Q110 **Stephen Morgan:** In terms of your insight and intelligence, to what extent do you engage with charities such as the Naval Families Federation and others to understand people's concerns?

Graham Dalton: With the family federations especially there is regular dialogue.

Q111 **Stephen Morgan:** What are they telling you?

Graham Dalton: They tell us the full, frank and unvarnished truth. They also very clearly flag up when we are getting it right.

Chair: They do that in private because they have been reluctant to come and give evidence in public.

Graham Dalton: They certainly do so in private meetings. And I have met the family federations as well.

Q112 **Stephen Morgan:** In terms of your priorities this financial year, what are you hoping to achieve? What sort of improvements do you want to happen this year?

Graham Dalton: I want to do at least as many properties as we did last year—that is another 3,500 to 4,000 units. We will have gone through and had a mix of bathrooms, kitchens, new windows and external wall insulation, which brings those 1950s and 1960s houses up to be better insulated and look better. There will be a re-roofing programme and suchlike.

Q113 **Stephen Morgan:** Are you confident that you have the resources to make that happen?

Graham Dalton: I have the resource to do it. The important thing is that we are going into the start of the year with a plan. If we can smooth the workload with our contractors, that will be good.

Q114 **Stephen Morgan:** Mr Lovegrove, in terms of managing expectations, how are you improving communications with service personnel and their families?

Stephen Lovegrove: Again, I'm probably not the person to ask that question of. I expect Mr Dalton will answer it in a second by saying that there is a very clear communications plan for all the families affected in terms of improvements as to when they can expect work to be undertaken on their properties.

Graham Dalton: In terms of housing, as with any communications, it gets more complicated with multiple channels. The operation that Mr Lloyd just talked about, which is the inspection of properties and going into about 1,200 or 1,300 homes, 70% to 80% of which will be occupied,[3] is significant. That is a big ask of families to have surveying teams go round and to be around to let them in. We are communicating with those, with family feds to support, by using the service housing colonels, our local offices and letter drops, and we are trying to lock into the social media channels that the families use.

More generally on the communication, particularly through the contractor, Amey, there is access to get your questions answered and to get a response to problems that you have even before it comes to a complaint. It is not just a phone number. There are regional offices around that you

[3] The Department later added: 'Our valuers will be inspecting just over 1,000 of the 38,000 properties we lease from Annington.'

can call into if it's a face-to-face, but you can do it through Facebook or through a web chat. We're trying as many channels as we can just to be accessible.

Q115 **Stephen Morgan:** General Nugee, the report suggests that about half of service families are satisfied with the overall standard of SFA. Are you content with that?

Lieutenant General Nugee: No, not at all. I would much prefer it was higher. It is getting a little bit better. In the last continuous attitude survey it went up a little bit. But no, I am not content with 55% or whatever the figure is now. I am not only strongly supporting what Mr Dalton is doing in terms of refurbishing, but I see that the future accommodation model allows people to be able to choose whether they go on to the local market or into service families accommodation, and therefore choose the quality that they are prepared to accept.

Q116 **Stephen Morgan:** Is there any more that you think you can do this year to improve satisfaction?

Lieutenant General Nugee: I think there is always more that we can do in terms of communicating with our people. It is quite difficult. We have got the Mr Selous report into families, and he reports that we ought to try to do more to communicate with families. I would agree, but it is not easy to do that. Our traditional mechanism has been to communicate through the serving personnel who we employ, and they are not always particularly good at communicating with their own families if, for whatever reason, they do not feel that that is the right thing to do. So it is not an easy nut to crack. We have worked very hard with the service families federations to try and improve it.

Q117 **Stephen Morgan:** In terms of securing more money, which you briefly mentioned earlier, Mr Lovegrove, are you confident that you have got what you wanted from the Treasury? What else do you need?

Stephen Lovegrove: Gosh, how long have you got?

Chair: Well, the Treasury Officer of Accounts is sitting here. His valedictory moment might be to go back and plead your case.

Q118 **Stephen Morgan:** Do you see it as a spending priority?

Stephen Lovegrove: Of course we see it as a spending priority.

Chair: And it's cheap, relative to other things you are paying for.

Stephen Lovegrove: And if Ms Trevelyan was here, I am sure she would say that we don't look upon our people as assets as much as we ought to. I think there is a good deal of truth in her observations about the way in which we try to analyse that component of what we do. We are a well-funded Department, comparatively, but we do have very many calls on the resources that we have. Some of those calls are very large and sometimes a bit more unpredictable than we would like, but I can assure the

Committee that the welfare and accommodation agenda in the Ministry of Defence is very high up the list.

Q119 **Chair:** General Nugee, you said that you felt it was sometimes hard to communicate with families and you do it through the forces family groups. I know of an example of a former Minister in the Foreign Office who decided to ask diplomats' families what they thought. He just called them in, had a chat, and they learnt an awful lot about what it was like to be married to a diplomat. Have you thought of doing something as simple as that? Or, because of the numbers, are you doing that through the forces' family groups? Is that how you are trying to do it?

Lieutenant General Nugee: We do go out and talk to families. My accommodation team go out and talk to families quite a lot, actually. Our Ministers go out and talk to families a lot, and we get a lot of information from them as well, on the satisfaction. But there are hundreds of thousands of families. It would be difficult to do.

Q120 **Chair:** I am not suggesting doing it one by one.

Lieutenant General Nugee: It would be difficult. Commanders regularly go and talk to families across the three services—making sure that our families are satisfied is a very important part of our duties—and feed that back.

Q121 **Chair:** Are you finding that they are being honest with you, or are they still worried about the chain of command and only reporting things through the chain of command?

Lieutenant General Nugee: I think families are remarkably keen to be honest with us, and that can sometimes be quite painful. I don't think they hold back.

Q122 **Chair:** So you know the problem.

Lieutenant General Nugee: I think we know what the problems are. I think solving them is slightly more difficult, and communicating what we are doing about it is slightly more difficult.

Q123 **Chair:** Mr Lovegrove, on a more practical point about the next generation's estates contract, there is obviously going to be a re-tendering. You agreed with our recommendation that you would look at what problems there had been with the then Carillion Amey, now Amey, contract. How are the preparations going for the re-letting? Is that one for Mr Dalton?

Stephen Lovegrove: It is more Mr Dalton's area than mine, but I think reasonably well. We are very cognisant of the fact that it wasn't an ideally designed contract beforehand and we want to be able to address those in the next iteration.

Q124 **Chair:** Mr Dalton?

Graham Dalton: A couple of things. Specifically around the housing aspect, we have consulted quite a lot, and looked at the market to package up the accommodation contracting work in scales or geographical patches that are attractive to the market, so that we get more interest. We have gone through the first stage of a competition. We have a framework of suppliers in place and we now have a shortlisted group of suppliers, which I am confident will give us a good competition. We will be going out on far more industry-standard specifications—first, it appeals to them and it allows a bit of that innovation that we are seeing in some of the private sector contracts.

Q125 **Chair:** So maybe smaller contracts.

Graham Dalton: There will not be one UK housing contract—it will be three or four, but it will still maintain a single point of contact for tenants to get it, so management and allocation will be done singly. It gives us an interface, but it will also allow some competition by reputation. I am sure not one of the, say, three contractors would want to hear their name in this room as being bottom of the list.

Q126 **Chair:** So the Committee has some purpose then—dragging Carillion Amey through the mud, although they put themselves there to a certain extent. We have also had correspondence—thank you. You wrote to us in November 2018. One of the things that you introduced was a compensation scheme. Can you tell us how much is being paid to complainants when planned repair and maintenance hasn't been delivered on time? What is the bill?

Graham Dalton: I have some numbers on compensation. Whether I can turn those up quickly enough— Compensation is based on missed appointments.

Q127 **Chair:** The things that most good landlords would tend to do.

Graham Dalton: You are quite right. Here we go: in 2018-19, we paid out a total of £109,000.

Q128 **Chair:** Do you know how many people that was across?

Graham Dalton: That was somewhere north of 3,000 complaints. It is based on move-in standards and missed appointments.

Q129 **Chair:** Move-in standards was quite a chunk of that, was it?

Graham Dalton: Move-in standards was actually quite small, and it is half what it was a year before. Missed maintenance appointments has been flat—it was just over 3,000 the previous year and it is just under 3,000. Significant defects at move-in—significant ones, where something is not working—was 232 in 2017-18 and 121 in the year just finished. So that is focusing the mind a bit as well.

Q130 **Chair:** Just to be clear, that compensation is paid for by Amey.

Graham Dalton: It is paid for at the moment by the MOD, in the form of vouchers. In the successor contracts, we will build in some incentivisation on the contractor into the contract.

Chair: So they will have to pay.

Graham Dalton: To negotiate something like that into a contract that is already—

Q131 **Chair:** When you say vouchers, what are they for? Marks and Spencer?

Graham Dalton: Retail vouchers.

Q132 **Chair:** So not money. Why is it retail vouchers?

Graham Dalton: There is stuff to do with control of cash and propriety, financial control.

Q133 **Chair:** Tell me if this sounds a stupid question, but do you decide in different areas which retail vouchers you offer?

Graham Dalton: I certainly wouldn't get involved in deciding what they are.

Q134 **Chair:** I am just wondering if everybody is being offered Sainsbury's vouchers, but there might not be a Sainsbury's in that area. Hopefully it has been a bit more thought through.

Graham Dalton: I would like to think that we don't get that quite so wrong.

Chair: We may well reflect on this, but—

Graham Dalton: They are generally available—

Q135 **Chair:** Under the new contract, there will be a financial penalty for the new contractor to pay—

Graham Dalton: Under the new contract, there will be incentives—sorry, a subtle but important difference, because we are trying to drive the behaviour, rather than hitting them when it goes wrong. We can build it into the contract, and compete at contracting time to get that running. Trying to negotiate it in part-way through a contract already—

Q136 **Chair:** No, we appreciate that. We have not quite given up on the Amey contract, but we recognise that there are problems and that this is where it is at.

Graham Dalton: It is performing a lot better than it was.

Q137 **Chair:** The key thing for us—we agreed, or had a correspondence about it—is that things need to change for next time. There has been some agreement about that, so we are keen to hear how it is going to change. There will be incentives to perform well, but what happens if they do not perform well—what is the disincentive? Where do you put the balance between carrot and stick?

Graham Dalton: I am not sure on the detail we have in—we are still working through the final details, whether for accommodation or the main estate—but if the contractors materially fail to meet the specified level of service, we can put penalty levels in there, and I would expect us to do so in some form or another.

Q138 **Chair:** The individual tenant or resident would not get anything, but the MOD would smooth it out—the MOD would get the money.

Graham Dalton: That is about getting performance up to a specified minimum level. The other things that we can put in there are about the volumes of work going through, so for the main estate contracts, the successor contracts, if the contractor is not performing, they do not win the extra volumes of work and we will give it to others to come in. Those are quite strong incentives—

Q139 **Chair:** Let us say, for argument's sake, the military wife with three children is sitting at home waiting for someone to come to fix the boiler but they do not turn up, or don't come a third time. Under the proposals at the moment—I know you haven't finalised them yet—is she likely to get any compensation?

Graham Dalton: I wouldn't be doing anything less than the scheme that we are doing now

Q140 **Chair:** There would be some retail vouchers, potentially.

Graham Dalton: That or something very like it. Let us see what innovation—

Q141 **Chair:** So you will wait for the contractors to come up with some proposals.

Graham Dalton: I would like to get a tender in. That is the sort of innovation—a combination of what they do to reduce and make sure there aren't the missed appointments, including—

Chair: I like the way you describe it as "innovation"—with other landlords, some of these things are well-worn practice.

Graham Dalton: Well, we would get different approaches from different suppliers. Some of them will use IT and technology to manage the success rate—it is in their interest for someone to be in when they turn up, so they might give a closer call window. We look to them to see the best way of making it more efficient for them and more satisfactory for the tenants, the user of the property.

Stephen Lovegrove: Just a small point really—it is not perfect in the private sector. I spent quite a lot of the weekend trying to get the landlord of my daughter's university lodgings to go along to fix the boiler, and I have to say that I didn't have a great deal of success.

Q142 **Chair:** I was not suggesting that there is a nirvana out there, but there is certainly good practice out there—

Stephen Lovegrove: There is good practice.

Chair: Well-worn channels of good practice—and of poor practice, as we know. Anyway, we try not to use anecdote in this Committee.

Stephen Lovegrove: I apologise.

Chair: I don't really want to finish on that point, but I think we are. This housing thing has been a sorry saga. I am not sure that we are reassured, but at least the pilots will be starting—that's a good thing. It seems like there has been some progress in a very difficult situation on Annington, and that we will actually have some concrete information. We would like those regular updates, because they might save you an appearance or two—or if they are bad updates, Mr Lovegrove, we might just call you back in to explain in person for 10 or 15 minutes. That will sharpen up your drafters. The transcript will be up on the website in the next couple of days. We will be producing a short report on this—probably not until June now. Thank you very much indeed for your time.