SIR STEPHEN LOVEGROVE, KCB

Ministry of Defence

PERMANENT SECRETARY

MINISTRY OF DEFENCE
FLOOR 5, ZONE D, MAIN BUILDING, WHITEHALL
LONDON SW1A 2HB

Telephone: 020 7218 7975
Fax: 020 7218 3048
E-mail: PUS-PrivateOffice@mod.gov.uk

D/PUS/11/7 (126)

8th October 2020

Meg Hillier MP
Chair of the Public Accounts Committee
Sent electronically

Dear Chair,

PAC HEARING – CARRIER STRIKE

During oral evidence on 28th Sep I agreed to write to the committee and provide more detailed costings on F-35 procurement and sustainment. The PAC also requested a formal response to the concerns raised about the eviction of families across the UK due to the decision by the MOD to sell married quarters through the Annington Homes arrangement. These are at Annex A and B respectively.

A separate return has also been provided to the PAC liaison representative with proposed transcript amendments.

I also offered to brief the PAC privately on F-35 costings in more detail. Arrangements will be made to offer this meeting at the earliest convenient opportunity.

Yours sincerely,

Stephen Lovegrove

STEPHEN LOVEGROVE

Annexes:

A. F35 Procurement and Sustainment Costs
B. Annington Homes – MOD SFA Subletting

Annex A
D/PUS/11/7 (126)
Dated 08 Oct 20

F35 PROCUREMENT AND SUSTAINMENT COSTS

At the PAC Oral Evidence session on Carrier Strike on 28 Sep, I undertook to write to provide more detail costings for F-35. The UK Lightning programme remains within its cost approvals. The Joint Program Office has been successful in driving down overall programme costs year-on-year and will continue to do so as the programme matures. The current approval of £10.5 billion covers capability upgrades, integration of UK weapons and sustainment costs. The F-35 programme operates on the basis of an incremental approval's strategy and, as such, there will be further cost approvals in due course to upgrade the existing fleet with new software and weapons. The cost of future aircraft will also be subject to negotiation.

The estimated whole life costs for 48 F-35 Lightning aircraft to an out of service date of 2048, are currently circa £18 billion. This covers 3 broad areas: development, production and sustainment:

- Development - £5 billion
- Production - £5 billion
- Sustainment/Support - £8 billion

These whole life costs do not include operating costs such as manpower, fuel and weapons expenditure. It would be misleading to provide a specific 'per-aircraft' cost based on these three elements as, for example, infrastructure and sustainment costs could not realistically be broken down to apply to individual aircraft.

A more detailed oral briefing will be provided to the committee as requested.

Annex B
D/PUS/11/7 (126)
Dated 08 Oct 20

ANNINGTON HOMES – MOD SFA SUBLETTING

At the Public Accounts Committee (PAC) Oral Evidence session on Carrier Strike on 28 September, I undertook to write on the issue raised by Nick Smith about the potential eviction of civilian families sub-letting MOD Service Family Accommodation (SFA) in the UK. Thank you for confirming after the evidence session that no notice of this issue had been given.

I am grateful for the opportunity to do so, particularly as this issue cuts across 2 interrelated subjects on which the PAC has previously made recommendations – the Department's arrangement with Annington Homes Ltd (AHL), and the number of empty SFA across the UK.

However, before providing more background on our approach to meet PAC recommendations, I wanted to answer firstly Mr Smith's points:

- In mid-September, the Department issued 367 Notices to Vacate to civilian sub-let tenants at 14 sites across the UK with an end date of 31 March 2021 (these have since reduced to 350 as 17 families have made alternate housing arrangements).

- However, in recognition of the extraordinary circumstances faced by tenants during the Covid-19 pandemic, the Department has since extended the Notice to Vacate period from 6 to 12 months, allowing affected families until 30 September 2021 to make alternate plans[1].

Details of the 14 sites and the number of civilian sublet tenants at each, together with their local MPs, are enclosed. You will wish to be aware that Jeremy Quin (Minister DP) intends to write to local MPs to explain the matter in more detail.

We do, of course, regret the unfortunate way this matter was handled, without the usual dialogue with local MPs and Authorities, and have taken steps to ensure there is no repetition. The issue arose primarily following a decision in late August to align with the Government's revised legislation from 1 September to provide all tenants with 6 months' notice, which compressed the time available for prior engagement with all relevant parties. In recognition of the issues that have been raised in recent weeks it has now been agreed that:

- Further consideration will be given as to the likely duration of tenancy before any additional properties are sub-let;

[1] The Department does retain the right to terminate sooner should there be any personal breaches of the tenancy agreement (such as rent arrears, domestic abuse or anti-social behaviour etc).

- There will be a review of the remaining sub-let properties and, where possible, a clear indication will be communicated to tenants of the likely duration of their tenancy;

- Properties that need to be released in significant numbers in certain locations will be served notice to vacate in a staggered way to give local authorities more planning time and the rental market more time to adjust thus reducing the impact on the local community;

- There will be closer communication with AHL about any future developments to avoid the current situation where they have claimed via their website that they had no prior knowledge of these actions; and

- The MOD will continue to work with AHL to explore the possibility of properties being handed back from MOD with sitting tenants, though this would require AHL agreement. If an agreement were reached it is likely that this would be without prejudice and would affect only the 350 families concerned. It should be noted that MOD will have no influence on the post-hand back rent set by AHL.

Turning now to our general approach to meeting the PAC recommendations, we have sought to simultaneously increase occupation of our housing stock while reducing its supply. Such an approach has inherent tensions, especially when set against the backdrop of the MOD and AHL Site Rent Review, which is currently in Arbitration. The review is essentially a renegotiation of the abatement MOD currently receives against open-market rents on SFA in England and Wales. The abatement was agreed at 58% for the first 25 years of the underlease in recognition of, amongst other things, MOD retention of responsibility for managing and maintaining the properties, but the abatement begins to fall away from 2021. As part of a joint agreement in 2018 to accelerate the review, it was agreed that MOD would hand back a minimum of 3,500 properties over seven years to AHL; in return the Department would receive a discount on dilapidation payments of up to £7,000 per property. Failure to return 500 properties per year based on a 2-year rolling average would result in the loss of the £7,000 discount per unit for the remainder of the 7 years and an associated loss to the taxpayer of up to £24.5m.

The binding Arbitration on the Site Rent Reviews will set rent payable to AHL for the next 15 years; the new rents payable by MOD will vary by location (site), whereas the original abatement applied to all underleased properties. The MOD has carefully considered which properties to hand back this FY in order to reduce the level of risk arising from an unfavourable Arbitration outcome and has prioritised those sites where it is anticipated that rental costs are likely to increase from Dec 2021. Should future AHL rents increase for properties sub-let to civilian tenants, the Department would need to absorb these additional costs which would represent a misapplication of Defence funds for the benefit of private citizens. Allied with this is the wider strategic desire for MOD to only hold housing stock that is, or will at a future date, be required for Service families.

With this in mind, the Department identified properties across several sites that could be handed back to AHL to meet the terms of the above agreement and strategic desire while meeting the conditionality of the 1996 agreement. That included the requirement to serve at least 6 months' notice on contiguous properties comprising the lesser of either 10% of the total number of properties on the site at the start of lease in 1996 or 20 properties. They should also be returned as a block and the MOD should pay to make good any dilapidation on the properties.

However, the impact of Covid-19 added significant complexity to the challenging process of balancing the supply and demand of SFA for our Service personnel and their families. The following constraints are apposite:

- A freeze on Service personnel moves from April – July 2020 to assist with containing the virus. This is relevant since some properties previously identified as suitable for hand back to AHL were no longer vacant and would have required a family to move out to release the property. This resulted in a reassessment of the housing plans for Service families and the sub-let stock throughout the summer months to reduce the necessity for Service families to move;

- More than 1,200 Service personnel and family members have lost entitlement to SFA since March 20, either due to ending service or estrangement and have been allowed to remain in MOD properties to avoid unnecessary hardship; this number continues to grow. On this matter we have followed Government Covid-19 guidance to landlords and paused all action to regain possession of properties.

These constraints make it difficult for MOD to meet its obligations to hand back properties to AHL while housing entitled Service personnel. Additionally, in recognition of the likely hardship that would be caused to those losing their entitlement during the COVID pandemic, MOD has necessarily prioritised Service personnel and those families who have recently lost entitlement to SFA. This led to the identification of properties surplus to MOD requirements for hand back to AHL, of which 1488 are currently occupied by civilian sub-let tenants.

I trust this explains fully how this unfortunate situation arose and hope the extension of the tenancy arrangements to September 2021 for the now 350 households directly affected, together with the actions outlined, will provide the PAC with confidence that the Department will deal with such matters more sensitively in the future.

Figure 1: Civilian Sublets with MP and Constituency

Civilian Sublets	MP	Constituency	Party
Biggin Hill	Gareth Bacon	Orpington	Conservative
Canterbury	Rosie Duffield	Canterbury	Labour
Deepcut	Micheal Gove	Surrey Heath	Conservative
Devizes	Danny Kruger	Devizes	Conservative
Exeter	Ben Bradshaw	Exeter	Labour
Fovant	Andrew Murrsion	Wiltshire South West	Conservative
Halstead	Laura Trott	Seven Oaks	Conservative

Haverfordwest	Stephen Crabbe	Preseli Pembrokeshire	Conservative
Linton on Ouse	Kevin Hollinrake	Thirst and Malton	Conservative
Lydd (Tranche 2)	Damian Collins	Folkstone and Hythe	Conservative
Lyneham	James Gray	Wilstshire North	Conservative
Netheravon	Danny Kruger	Devizes	Conservative
Plymouth	Sir Gary Streeter	South West Devon	Conservative
Wittering	Shailesh Vara	Cambridgeshire North West	Conservative
Military	**MP**	**Constituency**	**Party**
Bordon	Damien Hinds	Hampshire East	Conservative
Illchester	Marcus Fysh	Yeovil	Conservative
Lydd	Damian Collins	Folkstone and Hythe	Conservative
Marham	Elizabeth Truss	Norfolk South West	Conservative
Ripon	Julian Smith	Skipton and Ripon	Conservative
Ternhill	Owen Patterson	Shropshire North	Conservative
Warminster	Andrew Murrison	Wiltshire South West	Conservative
Wrexham	Sarah Atherton	Wrexham	Conservative