Dear Mrs Hillier,

The Ministry of Defence’s arrangement with Annington Property Limited

Thank you for the invitation to give oral evidence to the Committee on 14th May at 3pm. I will be joined by Nick Vaughan, Commercial Director at Annington and Justin King, Non-Executive Director at Annington and representative of the adviser to the funds who are our shareholders (Terra Firma). In advance of the session I thought it would be helpful to provide some background information. When we appeared before the Committee previously, on Monday 16th January 2017, we did the same and I think Members found it helpful.

Personal Biography

As you may recall, I am a former soldier and have been Chief Executive of Annington Homes since July 1998, appointed twenty months after the purchase of the Married Quarters Estate. In total I have had over 30 years’ experience in property and real estate, the last twenty years of which have been at Annington.

Sale of the Married Quarters Estate and MoD Annington Contractual Arrangements

As you know, Annington purchased the Married Quarters Estate in 1996 for £1.662 billion. The terms of the sale were presented to the market by the MoD on a “take it or leave” basis. Annington was successful following a 12-month public auction process during which there were 19 formal bids. Our bid was highest by £150 million.

Amongst the properties we acquired on day one was the freehold of 2,374 homes which were no longer required by the MoD for Service Family Accommodation. All of these properties have been disposed of subsequently.

We acquired a 999-year lease in the remaining 55,060 homes on 765 sites and immediately granted a lease back to the MoD for 200 years. Under the terms of the lease drafted by the MoD:
• The original rent payable was set at a discount of 58% to open market. So far this has meant a saving of £4 billion against market levels. The rent is subject to two review mechanisms:
  
  o The Beacon Unit Review which commenced in 1999 on a rolling five-year basis (which assesses open market rental levels)
  
  o The Site Review which commences in 2021 (at which point the 58% discount ceases to apply)

• The sale included the provision for a 'profit share' payment on the sale of the properties to the Treasury between 1996 and 2011, which resulted in a further payment by Annington of £161m.

• The MoD retained responsibility for repair and maintenance of the houses under the terms of the lease.

• It is important to note that the MoD has complete flexibility under the lease to do with the homes as it sees fit, including the ability to terminate the lease on some or all properties in whole or part with 6-months' notice and the ability to redevelop.

So far the MoD has terminated its lease on more than 18,000 properties. Annington has sold the vast majority of these, with many being acquired by first time buyers, service personnel and key workers. However, the number of empty properties is currently high, and we want to work with the MoD to reduce the figure, which would be in our mutual best interests.

Maintenance has been much-discussed. We would obviously like the Estate to be well maintained: doing so would be in our interest as a business, but it is of course especially important for service personnel. However, as you know, when the sale of the Estate took place the MoD retained responsibility for repair and maintenance. At present this is contracted out by the MoD, and we are explicitly not involved. In fact, when a new maintenance contract was let in 2004 Annington considered bidding but we were actively discouraged from doing so at the time by the MoD.

Of the £1.662 billion paid by Annington to the Government, just 6.25% (£100 million) was returned to the MoD to improve and enhance the quality of the Married Quarters Estate. This was highlighted by the NAO in its recent report (p.24 para 2.8).

Recent developments

The recent NAO report has raised questions about whether the sale of the Married Quarters Estate has represented good value for money. The decision to sell the Estate was taken by Government and at the time was considered to be a good deal, as the NAO reported a year after the sale. Much of the criticism of the deal stems from the increase in value of property generally over the past two decades, and the impact that has had on Annington's valuation. As the NAO has said, no one could have foreseen these changes at the time.

It is worth noting that taken together the payments made by Annington to the Government and the savings of rent paid by the MoD compared to open market value, the deal has yielded nearly £6 billion to the taxpayer, compared to the alternative of renting this number of properties in the open market.
Finally, during our last appearance before the Committee, evidence was given about the relationship between Annington, the MoD and the DIO strategic business partner, and our lack of regular contact. I am pleased to report that this has changed, and we are now engaged in constructive and regular dialogue. The negotiations about the Site Review are at an early stage, and each side has, as would be expected, set out a clear starting position. We look forward to working with Government to reach a mutually beneficial solution.

I look forward to helping with the work of the Public Accounts Committee.

Yours sincerely,

[Signature]

James Hopkins  
Chief Executive  
Annington Limited