Dear Chair,

MINISTRY OF DEFENCE'S ARRANGEMENT WITH ANNINGTON PROPERTY LIMITED

I am writing to follow up my appearance before your committee, of 14 May, at which I gave evidence regarding the Ministry of Defence's Arrangement with Annington Property Limited (APL). A great deal of work has gone on within the Department to both ensure the provision of quality accommodation to service personnel and their families and, drawing lessons from our experience with Annington, to ensure we are better placed to deliver value for money. The Public Accounts Committee made a number of recommendations in its report, which I accept in full, and, in line with the commitment I made, I have set out below the progress made on these. Importantly this progress underlines the hard work going on within the Ministry of Defence (MOD) to improve the service given to the armed forces community and to the tax payer.

1. Effective protection for the taxpayer on all future deals

Specifically regarding APL, the MOD is currently undertaking ongoing commercially sensitive negotiations and is working towards an arbitration protocol to allow an accelerated site review to begin. The site review valuations will be based upon a representative method and the representative sites are being chosen based on several criteria which include, location, site size, local market conditions and demographics. An agreement between the MOD and Annington on the arbitration protocol is pending, and I am sure you will understand that I cannot go in further commercial details at this juncture. Once an agreement on the protocol is reached, the Department envisages that the site review will be concluded towards late 2019. The parties will continue to work on our relationship to help ensure the estate is managed on the most efficient basis possible.
More broadly the Department has implemented changes and significant controls to its governance arrangements to ensure increased oversight of contracts. The Modernising Defence Programme has a specific strand reviewing the Department’s commercial capability. A review has identified opportunities to improve capability, systems and processes that underpin the Department's commercial work. The MOD has developed a three-year plan to build on the improvements already being made within the Department, and the Defence Infrastructure Organisation (DIO) published its first Commercial Strategy in 2018.

2. The quality of housing provided to Service Personnel

The Department recognises that the provision of decent living standards is essential to supporting operational capability and maintaining morale. Upon recent views expressed by service personnel to improve the levels of customer service provided, the Department has developed a joint Departmental and Industry Partner Improvement Plan. The plan focuses on providing consistency of move-in standards and the introduction of more online services for occupants to report accommodation issues. A Complaints Management Team was introduced to manage Stage 1 Complaints in a more timely and effective manner, which has led to a tangible improvement in the resolution of complaints within the prescribed timeframe. The Department has also introduced a Compensation Scheme to recompense occupants when planned repair and response maintenance appointments are not honoured.

The Department has delegated significant funding to its Accommodation Regional Managers to enable them to quickly deal with emerging issues, as well as prioritising more localised improvement works. Initial indications are that these initiatives are having a positive effect; with a reduction in the number of Stage 1 Complaints raised over the course of the year, together with an increase in customer satisfaction levels. This is evidenced in responses to the annual Armed Forces Continuous Attitude Survey and the monthly DIO Customer Satisfaction Survey. These measures of customer satisfaction are supported by the Tri-Service Families Continuous Attitude Survey, satisfaction surveys carried out by the MOD’s Accommodation Industry Partners and customer satisfaction on response maintenance.

The Department has committed to provide Service Family Accommodation (SFA) that meets the Government Decent Homes Standard and will continue to fulfil this obligation. In the current Financial Year £105m has been allocated for an enhanced programme of improvement works to be delivered to existing properties and for the purchase and construction of new SFA properties.

The Department continues to hold its contractors to account for the delivery of an efficient and effective maintenance and repair service. On the National Housing Prime contract, Amey is monitored on reactive maintenance, successful move-ins (move-ins with no fault) and estate compliance. Amey has met its target of 95% for reactive maintenance in August 2018 and September 2018. On move-ins with no fault, Amey achieved 94% in August 2018 and has met the target in September 2018. This reflects a steady and sustained improvement
since 2017 which has been recognised by key stakeholders and has led to increased levels of customer satisfaction over the course of the year. The Department will continue to work collaboratively with Amey to sustain improved levels of performance, whilst holding them to account through stronger governance arrangements.

3. The requirement for a co-ordinated strategy on the Annington Negotiation, Future Accommodation Model and Estates Disposal

Following up on the Committee’s earlier observations, in October 2018, a housing symposium met, reporting to the Defence Board, to ensure that interrelationships in the Defence accommodation arena are clearly understood. As a result of this the Chief of Defence People has been directed to take the lead in developing a Defence Accommodation Strategy (DAS) by April 2019.

The aim of the DAS is to develop an overarching operating model to better coordinate the accommodation delivery programmes, change initiatives and policy developments across the Department. This will allow them to be individually assessed against their contribution to key Departmental targets; including operational effectiveness, value for money and sustainability. Furthermore, it will bring greater focus to the delivery of individual projects and help protect the Department’s position in these; for example, the Annington Rent Review, the Future Accommodation Model and the Defence Estates Optimisation Programme (DEOP). It will also help ensure potential synergies are fully exploited.

4. Organisational Changes which ensure a strong negotiating position

Both I and the DIO Chief Executive fully appreciate that the right skills balance and organisational arrangement is key to ensuring we have the capability to successfully lead the negotiations with Annington. Like any organisation the DIO will evolve over time, however organisationally it has now reached a state of maturity. You will further be aware that the DIO’s Strategic Business Partner (SBP) contract ends in June 2019, with the Department actively transferring leadership roles previously filled by the SBP to civil servants directly employed by the Department; including the key appointments of Commercial Director, Finance Director and Regional Director. In addition to this we have bought in expert capability from UKGI who are supporting the Chief Executive, whose role will transfer to the civil service, and his team on the negotiations.

The Department is engaging constructively with Annington Homes to secure maximum value from the estate and has a specialist team in place for this. Not all the specialist skills needed can be found from within government, and as such DIO has instructed external valuation consultants for the 2021 site review along with four internal Valuers. These will oversee the process and act as a check and balance mechanism, challenging the valuations prepared externally to ensure that the best possible evidence is presented. In addition, the DIO has
also commissioned Gowlings to provide specialist legal advice in relation to the 2021 review and other Annington related issues.

5. The development of a plan to reduce the number of empty MOD properties

The Department has a plan and timetable in place to reduce void rate properties rates to c12% by March 2022. I realise that this does not reach the 10% target within three years, however it does represent an ambitious but achievable goal. The plan is to achieve this through a combination of disposals, which will form part of the negotiations with Annington, demolitions, sub-letting, and housing some 4,000 personnel returning from Germany. The table below sets out the planned reduction in the void rates, to be achieved by March 2022.

<table>
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<tr>
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<th>18/19</th>
<th>19/20</th>
<th>20/21</th>
<th>21/22</th>
<th>22/23</th>
<th>23/24</th>
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<tr>
<td>Total UK SFA</td>
<td>49,760</td>
<td>49,226</td>
<td>48,656</td>
<td>48,268</td>
<td>47,818</td>
<td>47,618</td>
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<tr>
<td>Total Void UK SFA (Gross*)</td>
<td>11,507</td>
<td>7,873</td>
<td>6,703</td>
<td>6,315</td>
<td>5,865</td>
<td>5,665</td>
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<td>Sub-Lease</td>
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<td>Disposal</td>
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<td>367</td>
<td>388</td>
<td>450</td>
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<tr>
<td>Demolition</td>
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<td>tbc</td>
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<tr>
<td>Germany Influx</td>
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<td>1100</td>
<td>tbc</td>
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<tr>
<td>Total Voids Remaining</td>
<td>7,873</td>
<td>6,703</td>
<td>6,315</td>
<td>5,865</td>
<td>5,665</td>
<td>5,665</td>
</tr>
<tr>
<td>Adjusted Void Rate %</td>
<td>15.82</td>
<td>13.62</td>
<td>12.98</td>
<td>12.15</td>
<td>11.85</td>
<td>11.90</td>
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The development of the Defence Accommodation Strategy (DAS) also seeks to support reducing the number of void properties by more efficiently bringing together all the accommodation delivery programmes, change initiatives and policy developments across the Department. The delivery of individual projects such as the Annington Rent Review, the Future Accommodation Model and the DEOP will reduce the reliance and costs to the department of void properties.

Yours sincerely,

Stephen Lovegrove