



House of Commons
Defence Committee

The work of Defence Estates

Fifteenth Report of Session 2006–07

Report, together with formal minutes, oral and written evidence

*Ordered by The House of Commons
to be printed 24 July 2007*

HC 535

Published on 14 September 2007
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

The Defence Committee

The Defence Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Ministry of Defence and its associated public bodies.

Current membership

Rt Hon James Arbuthnot MP (*Conservative, North East Hampshire*) (Chairman)
Mr David S Borrow MP (*Labour, South Ribble*)
Mr David Crausby MP (*Labour, Bolton North East*)
Linda Gilroy MP (*Labour, Plymouth Sutton*)
Mr David Hamilton MP (*Labour, Midlothian*)
Mr Mike Hancock MP (*Liberal Democrat, Portsmouth South*)
Mr Dai Havard MP (*Labour, Merthyr Tydfil and Rhymney*)
Mr Adam Holloway MP (*Conservative, Gravesham*)
Mr Bernard Jenkin MP (*Conservative, North Essex*)
Mr Brian Jenkins MP (*Labour, Tamworth*)
Mr Kevan Jones MP (*Labour, Durham North*)
Robert Key MP (*Conservative, Salisbury*)
Willie Rennie MP (*Liberal Democrat, Dunfermline and West Fife*)
John Smith MP (*Labour, Vale of Glamorgan*)

The following Members were also Members of the Committee during the Parliament.

Mr Colin Breed MP (*Liberal Democrat, South East Cornwall*)
Derek Conway MP (*Conservative, Old Bexley and Sidcup*)
Mr Mark Lancaster MP (*Conservative, North East Milton Keynes*)
Mr Desmond Swayne MP (*Conservative, New Forest West*)

Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at: www.parliament.uk/defcom

Committee staff

The current staff of the Committee are Philippa Helme (Clerk), Eliot Wilson (Second Clerk), Ian Rogers (Audit Adviser), Stephen Jones (Committee Specialist), Adrian Jenner (Inquiry Manager), Richard Dawson (Committee Assistant), Sheryl Dinsdale (Secretary) and Stewart McIlvenna (Senior Office Clerk).

Contacts

All correspondence should be addressed to the Clerk of the Defence Committee, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 5745; the Committee's email address is defcom@parliament.uk. Media inquiries should be addressed to Alex Paterson on 020 7219 1589.

Cover image of new Other Ranks Single Living Accommodation, Tidworth Garrison.

© Crown Copyright, images from www.defenceimages.mod.uk

Contents

| Report | <i>Page</i> |
|--|-------------|
| Summary | 3 |
| 1 Introduction | 5 |
| 2 Defence Estates | 6 |
| Organisation | 6 |
| Oversight | 6 |
| Recent developments | 7 |
| 3 Performance against Key Targets | 9 |
| 2005–06 Key Targets | 9 |
| Agency status | 12 |
| 4 Single Living Accommodation | 15 |
| Building improvements | 15 |
| Regional Prime Contracts | 18 |
| 5 Service Family Accommodation | 20 |
| The Annington Homes deal | 20 |
| Standard of accommodation | 22 |
| Disposal of properties | 23 |
| Empty properties | 24 |
| Home ownership | 26 |
| The Housing Prime Contract | 27 |
| Customer satisfaction | 28 |
| 6 Estate rationalisation | 29 |
| Project MODEL | 30 |
| Proceeds from the disposal of assets | 30 |
| The Defence Training Estate | 31 |
| 7 Environmental issues | 34 |
| Sustainable development | 34 |
| Energy management | 35 |
| Water management | 36 |
| Heritage and scientific concerns | 37 |
| 8 Conclusion | 38 |
| Conclusions and recommendations | 39 |
| Annex: List of Abbreviations | 43 |

| | |
|---|-----------|
| Formal minutes | 45 |
| Witnesses | 46 |
| List of written evidence | 46 |
| List of Reports from the Committee during the current Parliament | 47 |

Summary

Defence Estates—a part of the Ministry of Defence (MoD)—manages and maintains the defence estate in the UK, including working and living accommodation for Armed Forces personnel and their families and the training estate.

The Committee has undertaken a short inquiry into Defence Estates' responsibilities and performance and highlights a number of concerns in this report.

Defence Estates ceased to be an Agency of the MoD in April 2007. It is important that the loss of Agency status should not result in a loss of transparency and accountability. The MoD should ensure that Key Targets are rigorous and challenging.

Several programmes are in place to upgrade and modernise the Armed Forces' Single Living Accommodation, some of which is in extremely poor condition. Defence Estates has made considerable progress in the past few years, but the scale of the challenge remains enormous. The MoD needs to do more if Servicemen and women are not to be left in sub-standard accommodation for many years to come. There appear to be problems with the operation of the Regional Prime Contracts, which were intended to improve the maintenance of Single Living Accommodation.

The MoD sold the majority of Service Families Accommodation in England and Wales to Annington Homes Ltd in 1996 on a lease-back deal. Views on the merits of the deal differ, but it is deeply disappointing that the incentives in the deal to maintain acceptable standards of repair and fewer empty properties have not operated as intended. There is a case for a review of the whole of the married quarter estate to ensure that property is being retained and disposed of optimally.

The MoD should consider increasing the amount of loan offered to Service personnel to buy their own homes and should explain how it intends to respond to the proposals in the Housing Green Paper for extending home ownership.

Defence Estates has sub-contracted the maintenance of Service Families Accommodation in England and Wales to a private company, under the Housing Prime Contract. The implementation of this contract has faced widespread difficulties and the level of service being delivered is unacceptably poor; the MoD had to invest an extra £20 million to overcome the initial problems. We are not yet satisfied that the MoD has taken on board the extent of the problems and the degree to which Service families now experience sub-standard maintenance. It is vital that Service personnel know whom to turn to when problems occur and where responsibility lies, so that such problems can be resolved swiftly and satisfactorily.

Defence Estates is undertaking a wide-ranging programme of estate rationalisation to concentrate the Armed Forces on fewer, larger sites. The proceeds from the sale of MoD's assets are not as a matter of course returned to the MoD, much less to Defence Estates. This takes away a major incentive for creative thinking with regard to the disposal of property. The MoD should conclude its strategic plan for London as soon as possible in order to ensure that proper investment decisions can be made.

The MoD must also address the issue of how the Defence Training Estate will be affected by the drawdown of forces from Germany and the consequent increased pressure on training areas in the UK.

The MoD has recognised the increasing importance of sustainable development and energy efficiency. We welcome the way in which it has integrated sustainability concerns into its estate management and into its contractual arrangements with private companies. The MoD has also carried out some innovative work into energy conservation, but it has been slow to replicate this work across the estate.

Overall, Defence Estates is doing much good work, and we were impressed by the candid and realistic approach of the new Chief Executive. But there are considerable challenges ahead and Defence Estates must raise its game to meet these challenges. A substantial increase in investment in the defence estate is required and the MoD must resist the temptation to take from the estates budget when the defence budget is stretched.

1 Introduction

1. The Ministry of Defence (MoD) is one of the largest landowners in the UK, with an estate of 240,000 hectares (1% of the UK mainland). This comprises a built estate of 80,000 hectares, including naval bases, barracks and camps, airfields, research and development installations, storage and distribution centres, communications facilities, housing for Service families and careers offices; and a rural estate of 160,000 hectares, providing training areas and ranges. The MoD's overseas estate consists principally of garrisons in Germany, Cyprus, the Falkland Islands and Gibraltar, with major training facilities in Canada, Cyprus, Germany, Norway, Poland and Kenya, and other facilities in Ascension Island, Belize, Brunei, Nepal, Singapore and the United States. The total defence estate is valued at around £18 billion.¹

2. Responsibility for managing the defence estate and ensuring that it supports the delivery of defence capability lies with Defence Estates—until April 2007 an Agency of the MoD and now re-integrated as part of the MoD. Defence Estates has an annual budget of some £1.15 billion.²

3. We decided to conduct an inquiry into the work of Defence Estates as part of our programme of short inquiries into MoD Agencies (before Defence Estates lost its Agency status). This was not intended as a comprehensive inquiry into the broad and complex activities of Defence Estates but as an overview of its responsibilities and performance, with a particular focus on the standard of accommodation for Service personnel and their families, which has been the subject of public concern.

4. We took oral evidence on 15 May 2007 from Defence Estates management: Vice Admiral Timothy Laurence, the new Chief Executive; David Olney, Director General Operations; Bill Clark, Agency Secretary; and Mike Martindale, Finance Director. We received written evidence from the MoD, the Defence Manufacturers Association, the Council for National Parks and Bob Russell MP. We undertook visits to barracks and married quarters at Hounslow, West London, and Pirbright, Surrey, on 24 May 2007 to see the accommodation at these sites. We are grateful to all those who contributed to our inquiry, and to our specialist advisers.

5. In March 2007, the National Audit Office (NAO) published a report into Defence Estates entitled *Managing the Defence Estate: Quality and Sustainability*.³ We have drawn on the NAO's report in this inquiry.

1 Ev 18, para 1

2 Ev 18–19, paras 3 and 10

3 National Audit Office, *Managing the Defence Estate: Quality and Sustainability*, HC 154, Session 2006–07

2 Defence Estates

Organisation

6. The management of the defence estate has been subject to several organisational changes over the past decade. The Defence Estates Organisation was created in March 1997, an amalgamation of the Defence Works Service, the Defence Lands Service and a Central Policy Division of the MoD. It was re-launched in 1999 as Defence Estates, following the Strategic Defence Review, with primarily an advisory role providing a strategic overview of the defence estate, rationalisation and disposals.

7. Defence Estates was again re-organised and re-launched on 1 April 2003 with responsibility for delivering the Armed Forces' defence estate requirement.⁴ In 2003, the MoD adopted a new approach to managing the majority of the defence estate, separating the supply and demand functions. The Service and other Top Level Budgets (TLBs) now set and fund their future estate requirements, and Defence Estates is expected to deliver these requirements in the most cost-effective and efficient way.⁵ Vice Admiral Laurence told us that

Defence Estates is the organisation responsible for delivering an Estate of the right quality and the right size for the Ministry of Defence. We sit between the customers, the frontline and other customers in the Ministry of Defence, and the supply chain [...] the contractors who deliver services to the Ministry of Defence.⁶

8. In 2004, Defence Estates merged with the Defence Housing Executive, adding to its responsibilities the management of Service Families Accommodation in the UK. From April 2006, it took over responsibility for the Defence Training Estate from the single-Service training estate organisations. Defence Estates became a TLB in its own right in April 2005. From April 2006 it became the single balance sheet owner for land and buildings, so that these assets are now accounted for under its budget rather than under the TLBs which hold and use them. The MoD states that it was “in light of these changes” that Defence Estates ceased to be an Agency in April 2007—a matter to which we return in paragraphs 22 to 26 below.

9. Some legacy projects—notably the Allenby/Connaught Private Finance Initiative project, the three Naval Dockyards, and works under the Defence Training Review—remain outside Defence Estates' responsibility.⁷

Oversight

10. The development and implementation of policy for the MoD's estate is overseen by the Defence Estates Committee (DEC) on behalf of the Defence Management Board (DMB),

4 See HC Deb, 1 April 2003, col 57WS

5 Ev 18, para 3

6 Q 3

7 Ev 19, para 8

the DEC being chaired by the Second Permanent Secretary.⁸ The Minister of State for the Armed Forces may chair the DEC if matters of policy are being discussed. Ministerial responsibility for day-to-day estate issues falls to the Parliamentary Under-Secretary of State.⁹

11. Defence Estates is managed by an internal Management Board, headed by a Chief Executive. Vice Admiral Timothy Laurence took over as Chief Executive from Vice Admiral Peter Dunt in April 2007.

12. In 2006, the MoD published an Estates Strategy, *The Defence Estates Strategy 2006—In Trust and On Trust*, which sets the principles by which the defence estate is to be managed and developed.¹⁰ Defence Estates has published annually a Corporate Plan for the following five financial years, the most recent being for 2007–12.¹¹

Recent developments

13. The MoD is seeking to improve the delivery of estate services through the introduction of new contractual arrangements. The majority of the MoD's built estate in England and Wales is now managed through a series of Regional Prime Contracts (RPCs). There is also an RPC for Scotland, to cover the built and rural estate. Maintenance of Service Families Accommodation (married quarters) has been contracted out under a separate contract: the Housing Prime Contract.

14. An overview of the key major defence estate projects currently underway is set out at Table 1 below.

Table 1: Major defence estate projects

| Project | Type of contract | Purpose of project |
|---|----------------------------------|---|
| Single Living Accommodation Modernisation (SLAM) | Prime Contract | To upgrade or replace some single living accommodation across the defence estate as part of a major investment programme. |
| Housing Prime Contract | Prime Contract | To manage Service Family Accommodation in England and Wales. |
| Regional Prime Contracts | Prime Contract | Five contracts delivering maintenance and minor construction work in the UK. |
| Allenby/Connaught | Private Finance Initiative (PFI) | To provide living and working accommodation for 18,000 personnel. |
| Colchester | Private Finance Initiative | To provide living and working accommodation for 3,500 personnel. |

8 This post is currently held by Sir Ian Andrews, a former Chief Executive of Defence Estates (1998–2002)

9 Ev 18, para 6

10 Ministry of Defence, *The Defence Estates Strategy 2006—In Trust and On Trust*, March 2006; see Ev 18, para 2 and HC Deb, 21 March 2006, col 13WS. This builds on *In Trust and On Trust—The Strategy for Defence Estate*, published in June 2000

11 Ministry of Defence, *Defence Estates Corporate Plan 2007–2012*

| Project | Type of contract | Purpose of project |
|--------------------------|----------------------------------|---|
| Project Aquatrine | Private Finance Initiative | Three contracts transferring the responsibility for the maintenance and operation of water and sewage works to industry, who are best placed to manage the risks. |
| Vanguard | Public Private Partnership (PPP) | To manage the Army training estate. |
| MoDEL | Prime Plus | To consolidate some facilities within Greater London. |

Source: NAO¹²

15. It is outside the scope of this report to examine all these projects in-depth. We highlight some concerns about the Regional Prime Contracts in paragraphs 43 to 48 and about the Housing Prime Contracts in paragraphs 76 to 80. We look briefly at the progress of the programmes to improve Single Living Accommodation in paragraphs 29 to 36, and of Project Aquatrine in paragraphs 114 and 115.

3 Performance against Key Targets

2005–06 Key Targets

16. Defence Estates is set a wide range of Key Targets each year. Its performance against its Key Targets for 2005–06 is set out in Table 2.

Table 2: Defence Estates' performance against its 2005–06 Key Targets

| Key Target | MoD's assessment of performance | Achievement |
|--|--|----------------------------|
| Key Target 1—To improve the defence estate in a sustainable manner to improve its fitness for purpose and condition. | | |
| 1a. Improve Single Living Accommodation (SLA) to Grade 1 (Project SLAM and SLA Parallel Projects (PP), including overseas) | Project SLAM—3,570 SLAM bedspaces were delivered in year against a target of 2,500. The SLAM programme delivered an additional 1,070 bedspaces, exceeding the target by over 40%. | Target exceeded |
| | SLA Parallel Projects—3,055 bed spaces were delivered against a target 5,300. The number of bedspaces delivered by the TLBs has failed to meet the target ¹³ . | Target not achieved |
| 1b. Improve Service Families Accommodation (SFA) by completing the upgrade of properties to Standard 1 for Condition (S1FC) as part of the programme to upgrade all core stock required for the longer term | 1,705 upgraded properties were completed at end of Quarter 4 against a target of 600. The target was exceeded by 184%. | Target exceeded |
| 1c. Improve and maintain the defence estate | The target condition for the built estate has been established with customers. This now forms a baseline against which the performance of Regional Prime Contracting (RPC) will be measured in future. | Target achieved |
| 1d. Sites of Special Scientific Interest (SSSI) in Satisfactory Condition (95% by 2010) | 79% of SSSIs have met the criteria for satisfactory condition against a target of 75% of MoD sites in England. | Target exceeded |
| Key Target 2—To provide an estate of the right size through the consolidation of assets. | | |
| 2a. Provide an estate of the right size through implementing agreed Estate Rationalisation (ER) milestones | Evidence of performance is reflected in the contribution to the achievement of a number of estate related projects, for example, the progress of TLB Co-locations. Progress towards estate of the right size resulting in a rationalised estate with financial receipts obtained through site disposal. | Target achieved |

13 Owing to later starts to Colchester and Allenby/Connaught PFIs.

| Key Target | MoD's assessment of performance | Achievement |
|---|--|--|
| 2b. Achieve Accrued Estates Disposal Receipts (Gross) | Target to achieve accrued Estates Disposal Receipts (gross) of £250m. Receipts of £257.5m (excluding assets transferred to the Private Sector) achieved. | Target exceeded |
| Key Target 3—To improve customer satisfaction and service delivery. | | |
| 3a. Decrease customer dissatisfaction with the quality of property provided as SFA | Housing Directorate has now completed the development of the new survey which will be rolled out in 2006–07. | Target achieved |
| 3b. Decrease customer dissatisfaction with service delivery to SFA occupants | Housing Directorate has now completed the development of the new survey which will be rolled out in 2006–07. | Target achieved |
| 3c. Increase customer satisfaction with Defence Estates service delivery to Customer Estate Organisations (CEstOs) | The measure for 2005–2006 was overall achievement of Customer Service Agreement (CSAs) to be $\geq 90\%$. The CSAs measure delivery against performance targets but contain an element of customer satisfaction. For 2006–07 a separate measure of customer satisfaction will be developed. | Target achieved |
| Key Target 4—To achieve key milestones for implementation of key MoD Estates Change Initiatives. | | |
| 4a. Regional Prime Contracts | RPC (Central) Contract Awarded November 2005 against a target of September 2005. Delay a result of protracted contract negotiations, but in Service Date of April 2006 achieved with Contract Award within Project tolerance of August to December 2005. RPC (East) Contract Award November 2005 against a target of October 2005. Date of Contract award not met but no impact on planned go live date of June 2006. | Target not achieved Target not achieved |
| 4b. Defence Housing | Housing Prime Contract (HPC) awarded 14 November 2005 against a target of August 2005. Delay a result of extended contractual negotiations. Progress made against streamlined Housing Directorate structure. | Target not achieved |
| 4c. Project Alexander | Deferred Scope Implementation introduced across Northern Ireland (NI), Germany and UK training estate. Implementation achieved by April 2006. | Target achieved |
| 4d. Defence Training Estate Rationalisation Study (DTERS) | Completion of Phase 1 has been achieved. All assets now transferred with 2 new organisations up and running, Customer and Supplier Organisations with Commercial and associated finance to manage the assets in place accordingly. | Target achieved |

| Key Target | MoD's assessment of performance | Achievement |
|---|---|----------------------------------|
| Key Target 5—To deliver value for money efficiencies. | | |
| 5a. Deliver 30% through-life value for money output efficiencies through the introduction of Prime Contracting | <p>Following the successful conclusion of pilots for the Estate Performance Measurement System (EPMS) at 9 MoD locations, it was agreed to roll out a single asset grading methodology, introduce Integrated Estate Management Plans (IEMPs), and demonstrate Value for Money using the developed model and associated performance indicators, across the defence estate.</p> <p>Demonstrated 3% through-life Value For Money (VFM) efficiency target for 2005–06 in Prime Contracts against baseline.</p> | Target achieved |
| 5b. Deliver output efficiencies from Project SLAM | £5.04m. This figure is taken directly from the Departmental Efficiency Programme. Delivered profiled efficiency. | Target achieved |
| 5c. Deliver output efficiencies from Project Aquatrine | £11.04m. This figure is taken directly from the Departmental Efficiency Programme. There is already improvement with significant investment in infrastructure taking place. | Target achieved |
| 5d. Deliver the savings from the introduction of the Housing Prime Contract (HPC) | Initial restructuring of "soft" housing service is underway but further economies are being examined. Restructuring will be complete by April 2007. Delay in awarding HPC. The transfer of responsibility for all repairs and maintenance to Services Family Accommodation (SFA) to Housing Prime Contractor completed March 2006. Some Housing Directorate staff remain to be re-deployed. | Target not achieved |
| 5e. Deliver the savings from restructuring and the merger of Defence Estates and Defence Housing Executive | New Housing Directorate Head Office structure in place and nine regional structures have been streamlined into two - North and South. Housing Directorate services managed within reduced budget allocation. £2.1m merger savings achieved. £500k unable to be realised because of late completion of final structure. | Target partially achieved |
| 5f. Reduce the management margin of vacant housing to 10% by November 2005 (i.e. the proportion of working stock that is vacant, excluding housing earmarked for disposal in the next 12 months) | <p>By November 2005 the management margin was 13%. If, however, the proportion of SFA held vacant awaiting deployments and/or rationalisation decisions by the Services is excluded, the margin reduces to 6.8%. The corresponding figures at 31 March 2006 were 13.9% and 7.9% respectively. The number of empty properties will reduce from 1 April 2006 as Gurkha families take up SFA following changes to their terms and conditions of service.</p> <p>Given the continued uncertainty in respect of many Service deployments and rationalisation studies there is a need to retain a large number of vacant properties (c.3,000) to meet potential future requirements. The target of 10% will not be achieved until firm decisions have been taken and implemented.</p> | Target not achieved |

Source: MoD¹⁴

17. Defence Estates achieved or exceeded 14 (66.7%) and did not achieve or partially achieved 7 (33.3%) of its 21 targets for 2005–06. Two of the targets were greatly exceeded, Target 1a by more than 40% and Target 1b by some 184%.

18. Key Target 3 covers customer satisfaction and service delivery. Target 3a is to decrease customer dissatisfaction with the quality of property provided as SFA, and Target 3b is to decrease customer dissatisfaction with service delivery to SFA occupants. Both these targets were assessed as being achieved on the basis that a new survey has been developed, but was not being rolled out until the following financial year.

19. Defence Estates met two-thirds of its performance targets in 2005–06. Two targets relating to decreasing “customer dissatisfaction” were assessed as being achieved, although the assessment was based on the development of a new survey, not the results of a survey. Some targets were greatly exceeded—one, relating to the number of properties upgraded to Standard 1 condition, by over 180%. It may be that exceeding the targets relating to the upgrade of properties simply reflected a staggeringly good performance on the part of the MoD, but we find this difficult to judge. The MoD should review the way it sets targets for Defence Estates to ensure that targets are not set at a level which is too easy to achieve.

20. The MoD Annual Report and Accounts 2005–06 provides the following information on Defence Estates’ performance against its targets for the three years 2003–04 to 2005–06:

- 2003–04: 10 of 11 (91%) targets achieved.
- 2004–05: 10 of 15 (67%) targets achieved.
- 2005–06: 15 of 22 (68%) targets achieved.¹⁵

21. The targets set for Defence Estates have increased in number from 11 in 2003–04 to 22 in 2005–06 and the percentage of targets achieved have ranged from 91% in 2003–04 to 68% in 2005–06. Such variation makes it difficult to assess how a defence agency is performing over time. We recommend that the MoD should review whether Defence Estates needs to be set such a large number of targets and whether there is scope for focusing on a smaller number of key targets in the future.

Agency status

22. Defence Estates ceased to be an Agency in April 2007.¹⁶ We examined the organisational changes to Defence Agencies, specifically the removal of agency status, in our reports on the *Ministry of Defence Annual Report and Accounts 2004–05*¹⁷ and the

14 Ev 24–26

15 Ministry of Defence, *Annual Report and Accounts 2005–06*, HC (2005–06) 1394, 14 July 2006, p 259 [This gives 22 targets not 21]

16 Ev 18, para 3

17 Defence Committee, Sixth Report of Session 2005–06, *Ministry of Defence Annual Report and Accounts 2004–05*, HC 822, paras 54–56

Ministry of Defence Annual Report and Accounts 2005–06.¹⁸ In the latter, we concluded that:

We accept that the arguments for giving parts of the Ministry of Defence separate agency status are finely balanced, and we are not opposed to the removal of agency status from small agencies. But we have two concerns. First, it would worry us if the trend against agencies was a symptom of a wider centralist tendency in the MoD, denying managers the freedom to manage effectively. Secondly, we are concerned that it may lead to a loss of transparency, if the ex-Agencies no longer produce separate annual reports and accounts.¹⁹

23. We recommended that:

ex-Agencies continue to publish an account of their annual activities. The MoD must ensure that the apparent trend against agency status does not lead to a loss of information and accountability.²⁰

24. The Government’s response to this report stated that:

The number of agencies in the Department continues to fall as the benefits derived from agency status have become embedded in the Department’s overall business processes [...] The removal of agency status is not therefore symptomatic of a centralist tendency but reflects the department’s success in delegating responsibility from the centre.

it is no part of our intention to reduce Parliamentary scrutiny of defence business by reducing the number of agencies. We note the Committee’s recommendation that former Agencies continue to publish an account of their annual activities [...] the logic which leads to removing agency status will sometimes make it inappropriate to report discretely on the area of work previously undertaken by an agency [...] In the context of producing the Department’s and Agencies Annual Reports over the coming months we will therefore consider how best we can respond to the Committee’s reasonable wish that the amount and quality of our public reporting should not be materially reduced as a result of any removals of Agency status and make further proposals.²¹

25. We asked what was the reason for Defence Estates losing its agency status and the consequences of this. Vice Admiral Laurence said that when Defence Estates became a Top Level Budget holder in the MoD two years ago, it put the organisation on a par with the frontline commands and the Defence Equipment & Support (DE&S) organisation. This had given Defence Estates an “important status” in the MoD and, having achieved this, “the status of being an Agency became very less important”.²² Bill Clark, Agency Secretary,

18 Defence Committee, Second Report of Session 2006–07, *Ministry of Defence Annual Report and Accounts 2005–06*, HC 57, paras 91–97

19 HC (2006–07) 57, para 96

20 HC (2006–07) 57, para 97

21 Defence Committee, Seventh Special Report of Session 2006–07, *Ministry of Defence Annual Report and Accounts 2005–06: Government Response to the Committee’s Second Report of Session 2006–07*, HC 376, Appendix, paras 26–27

22 Q 8

added that DE was still accountable through its key targets to the centre of the MoD. In terms of reporting, he said that:

instead of reporting through another Top Level Budget holder, we now report directly into the Defence Management Board and, in that sense, are held more directly accountable for the delivery of services.

26. Defence Estates was one of the largest Defence Agencies, but from April 2007 lost its agency status. As with other Defence Agencies which have lost agency status, we are concerned that there will be a loss of transparency and accountability if Defence Estates is not required to produce its own annual report and accounts. We remain to be convinced that additional information in the MoD's Annual Report and Accounts on the activities of a former agency will be sufficient to allow proper parliamentary scrutiny.

4 Single Living Accommodation

27. The poor quality of some of the accommodation provided for our Service personnel has been the subject of media attention in recent months. The MoD acknowledged that:

More needs to be done to bring all accommodation up to the highest appropriate standard. The problems relate to a housing stock dating in large part from the 1950s and 1960s and to a legacy of under-investment, because the occupiers of the estate often used cuts in maintenance funding as a balancer or regulator of their budgets.²³

28. When we asked Vice Admiral Laurence what were his priorities as the new Chief Executive of Defence Estates, he told us that:

You could say that the top four priorities are: accommodation; accommodation; accommodation; and accommodation. Certainly the first I would put is accommodation; both improving the standard of the accommodation that we have, upgrading it, bringing it up to the top condition; and also improving the standard of routine maintenance that we provide through various contractors. That is my top priority.²⁴

Building improvements

29. There are a number of projects currently being undertaken to upgrade and improve the condition of Single Living Accommodation—the accommodation provided for Armed Forces personnel who are single or who have elected not to be accompanied by their families.

30. Perhaps the most significant is Project SLAM, the Single Living Accommodation Modernisation programme. This is being carried out for the MoD by Debut Services Limited, a joint venture between Bovis Lend Lease Limited and Babcock Infrastructure Services. Project SLAM has so far created more than 6,000 new bed spaces, with another 3,000 to follow. On 11 January 2007, it was announced that the second phase of Project SLAM would deliver a minimum of 3,800 upgraded bed spaces.²⁵ According to Defence Estates' Annual Report for 2005–06, SLAM had substantially exceeded its in-year target of delivering 2,500 bed spaces, with 3,750 being created.²⁶

31. In parallel to SLAM, Project CHALLENGER is underway in Northern Ireland; the Project to Upgrade and Modernise Accommodation (PUMA) in Germany; and separate projects in Gibraltar and Cyprus.²⁷

32. Private Finance Initiative (PFI) projects are also contributing to improving Single Living Accommodation. The largest such project is Allenby/Connaught, a 35-year contract

23 Ev 20, para 20

24 Q 6

25 Ev 21, para 26

26 Defence Estates, *Agency Annual Report and Accounts 2005/06*, HC (2005–06) 1273, para 1.5

27 Ev 21, para 22

worth £8 billion, to deliver modern living and working accommodation to Aldershot Garrison and the garrisons around Salisbury Plain. The contract was let to Aspire Defence Limited, a consortium consisting of Carillion Holdings Limited, Kellogg Brown and Root, and HSBC. The intention is that Allenby/Connaught will house 18,000 personnel (nearly 20% of the British Army). The first major challenge will be the return from Germany in July 2007 of 2nd Royal Tank Regiment.²⁸

33. The redevelopment of Colchester Garrison, which we visited in 2006, is also being undertaken as a PFI project—by RMPA Services plc, a consortium consisting of Atkins Limited, Sir Robert McAlpine, Sodexo and HSBC. The 35-year contract, worth £2 billion, is intended to provide accommodation for 3,500 Service personnel and 700 civilian workers. Construction began in May 2004, and the first units moved into the new Merville Barracks in September 2006. These were 7 Parachute Regiment Royal Horse Artillery, 16 Close Support Medical Regiment and 216 Signal Squadron.²⁹

34. The redevelopment of Catterick Garrison is taking place under a different relationship with the private sector. In order to expand the garrison to accommodate a further five major units—Catterick is already home to 18,500 people, housing ten major units and numerous minor formations—the MoD, in cooperation with Richmond District Council, has begun to sell land in Catterick to developers who undertake, as part of their contractual obligations, to provide amenities for the military and civilian population, such as retail and leisure facilities.³⁰

35. PFI projects have brought substantial levels of investment in new, high-quality living and working accommodation for the Armed Forces, and allow access to private-sector expertise across a range of disciplines. However, they also commit the MoD to very long-term deals and limit its flexibility. Vice Admiral Laurence told us:

My own view is that it is a balance we must keep under very close review. The proportion of accommodation which is within the PFIs is increasing. There needs to be a mix, and we need to make sure we are not transferring too many of our accommodation into private ownership.³¹

36. **It goes beyond the scope of this inquiry to offer an evaluation of the merits and risks of Private Finance Initiative and Public Private Partnership projects.** We note that the NAO has begun a study into the management of MoD PFI projects, focusing on eight projects to examine the allocation of risks and how the risks have been managed to date.³² We shall be noting its conclusions with great interest. **These are matters which we shall continue to monitor closely.**

37. While these projects are delivering substantial improvements in Single Living Accommodation, the scale of the challenge remains enormous. The NAO found that:

28 HC (2006–07) 154, p 19, Box 2

29 “Colchester gets keys to ‘new’ Garrison”, *Defence News: Estates and Environment*, 26 September 2006, www.mod.uk

30 See Qq 73–76 and footnote to Q 74

31 Q 78

32 http://www.nao.org.uk/publications/workinprogress/MoD_PFI.htm

At current planned funding levels, the Department will increase the number of single bed spaces at the requisite standard from some 25,000 (22% of the requirement) at the beginning of 2003–04 to around 50,000 (45%) by the end of 2007–08. This would rise to nearly 75,000 (68%) by the end of 2012–13. Given the predicted fall in requirement, this leaves a shortfall of around 35,000 bed spaces below the required standard.³³

38. The shortfall will be even worse if—as in the past—programmed improvements are delayed. The NAO’s report identifies significant deferrals in 2006–07:

- In Scotland, £1.3 million of planned work deferred;
- In the South West, 231 projects delayed to meet budget cuts, and 83 upgrades and 75 redecoration projects deferred.³⁴

These deferrals may not have related to living accommodation, but they demonstrate the risk that the programmed improvements to Single Living Accommodation are not achieved.

39. We asked Vice Admiral Laurence whether some Service personnel could be living in sub-standard accommodation for many years to come. He considered that the MoD had set its standards for accommodation “extremely high”, aiming for every member of the Armed Forces to have a single room with en-suite facilities. He acknowledged that there was a “huge backlog” and told us:

We are doing what we can. We will not reach our very highest standards for perhaps ten or 20 years; but I do not think it is true to say that those people not living in those very highest standards are living in substandard accommodation.³⁵

40. While much progress has been made, the condition of some SLA remains appalling. We visited Cavalry Barracks, Hounslow, currently home to the 1st Battalion, Worcestershire and Sherwood Foresters Regiment (1 WFR), and several ‘guest’ units; and Elizabeth Barracks, Pirbright, home to the 1st Battalion, the Royal Anglian Regiment (1 R ANGLIAN). Both 1 WFR and 1 R ANGLIAN are currently on operational deployment. The accommodation provided was disgraceful. At Hounslow, we found barrack blocks with overflowing drains and repairs which had been left unattended; at Elizabeth Barracks, we saw where NCOs slept eight to a room, with minimal privacy and negligible storage. We were told that soldiers from 1 R ANGLIAN on deployment in Afghanistan had more comfortable accommodation than their comrades left behind in Pirbright. In contrast, we saw magnificent new accommodation for Army recruits at Alexandra Barracks, home of the Army Training Regiment (Pirbright).

41. The concern was expressed to us that poor accommodation was having a serious effect on morale and retention, especially among NCOs. Vice Admiral Laurence argued that accommodation issues were not reflected as a significant reason for leaving the Armed

33 HC (2006–07) 154, p 15

34 HC (2006–07) 154, Appendix 5. See also Q 10

35 Q 11

Forces in the Continuous Attitude Surveys, but nonetheless conceded, “I am absolutely convinced that it is a factor in there somewhere. I am convinced that for personnel and, in particular, their families accommodation is a factor”.³⁶

42. We welcome the steps which are being taken to improve and modernise Single Living Accommodation, and have seen some new accommodation which is first-rate. However, it is not clear what the strategy is and some accommodation remains appalling. This is unacceptable. Quite apart from this being poor management of property, accommodation is an important factor in retention, and the MoD must do more to address the condition of accommodation if it is not to lose experienced personnel who are very difficult to replace. The MoD must, as a priority, put right the worst accommodation as well as that which can most easily be improved.

Regional Prime Contracts

43. Improvements to existing Single Living Accommodation come under the new Regional Prime Contracts (South West, South East, Central, East and Scotland). The five contracts provide primarily estate services, for example, grounds and building maintenance and decoration, and some new building work.³⁷ The NAO report says that estate procurement was previously undertaken by many parts of the MoD and was hampered by many client-customer interfaces, imprecise allocation of risk and vulnerability to fraud and malpractice. Problems including poorly directed funding, inconsistencies in approach and varying standards led to a poor quality estate.³⁸

44. The implementation of the RPCs is intended to deliver through-life value-for-money improvements in estate management of the order of 30% by 2013. According to the MoD, this will be achieved through “improved planning, supply chain management, incentivisation, continuous improvement, economies of scale and partnering”.³⁹ The improvements which the RPCs are intended to bring about are measured using an Estate Performance Measurement System (EPMS), which was piloted in early 2005 and then rolled out more widely. However, the MoD cautioned that the poor availability of historical data has “hamper[ed] assessments”, though it was confident that the RPC system would deliver substantial savings.⁴⁰

45. The NAO report concluded that, while the RPCs were improving the way the estate was managed, it was too early for this to have had an impact on the overall quality of the estate. It noted that the MoD had faced affordability constraints across the defence budget in 2006–07 and Defence Estates had to find savings of £13.5 million (4.5%) in the funding of Regional Prime Contracts largely through deferrals in planned maintenance repair.⁴¹

36 Q 68

37 HC (2006–07) 154, p 51

38 *ibid.*, para 1.4

39 HC (2005–06) 1394, p 151

40 *ibid.*, p 152

41 HC (2006–07) 154, paras 8–9

46. During our visit to Cavalry Barracks, Hounslow, we heard dissatisfaction with the complexity of the new contractual arrangements. We were told that, prior to the introduction of the Regional Prime Contracts, each district had received an allocation of money for maintenance, and the General Officer Commanding had had the ability to inject additional resources from elsewhere. There was now an arrangement whereby Defence Estates represented the customer, while the Army Infrastructure Organisation at Wilton controlled a budget from which it released funds to Defence Estates for maintenance as required; Defence Estates then approached the contractor to carry out the repairs. This was seen as excessively cumbersome.

47. We were also told that there were frequent disputes with the contractors on the distinction between routine maintenance and improvements to the fabric of buildings; a broken sash window, for example, might lie unrepaired while Defence Estates and the contractor argued whether the broken window constituted maintenance or was the result of the poor fabric of the building.

48. The Regional Prime Contracts are intended to improve the maintenance of Single Living Accommodation, but it is clear that there are significant problems in the way they are operating in practice. We recommend that the MoD provide us, in the response to this report, with a progress report showing how these contracts are performing against the expected improvements.

5 Service Family Accommodation

49. Defence Estates is responsible for around 49,000 family homes in Great Britain. The majority of the Service Family Accommodation (SFA) in England and Wales was sold to Annington Homes Ltd in 1996 (which we consider in paragraphs 50 to 56 below). SFA in Scotland and Northern Ireland is owned by the MoD. Responsibility for the maintenance and upgrade of SFA in England and Wales, has been contracted out under the Housing Prime Contract (discussed in paragraphs 76 to 80 below). Defence Estates retains responsibility for the maintenance of SFA in Scotland and Northern Ireland, while SFA overseas is managed by the appropriate TLB holder.⁴²

The Annington Homes deal

50. The sale of SFA in England and Wales to Annington Homes in 1996 raised some £1.67 billion.⁴³ Under the terms of the deal, the MoD leased back all the houses it continued to require and pays rent on them to Annington Homes (currently around £140 million a year).⁴⁴ When it no longer needs the properties, Annington Homes is able to sell them, with 25% of the proceeds returned to HM Treasury. The total proceeds returned to the Treasury, to the end of 2006, amount to some £140 million.⁴⁵

51. The objectives of the sale were:

- To transfer to the private sector property which the MoD did not need to own themselves;
- To improve management of the quarters through greater involvement of the private sector;
- To secure improvement in the quality of married quarters, by raising sufficient funds to upgrade the bulk of quarters in the United Kingdom to ‘grade-one’ condition; and
- To secure value for money through a competitive sale.⁴⁶

52. The then Minister of State for Defence Procurement—now the Chairman of our Committee—explained the deal to our predecessor Committee in 1996 as part of its inquiry into the Future of the Married Quarters Estate:

In defence terms, what we need to do is provide the Services with the right housing in the right places and at the right time. This does not require ownership. So here is a large asset which the Government does not need to own. The virtue of the sale is two-fold. First, it will give us the incentives and means to reduce the number of empty houses, because that will be the effect of six-month break clauses, guaranteed

42 Ev 20, paras 22–23

43 Q 37

44 Ev 20, para 22

45 HC Deb, 20 February 2007, col 618W. See too Memorandum from Bob Russell MP, Ev 29–30

46 National Audit Office, *The Sale of the Married Quarters Estate*, HC 239, Session 1997–98, p 1

release commitments, and the discipline of paying rent [...] Second, the sale will provide money to improve the stock.⁴⁷

53. The NAO's conclusions from its examination of the sale are set out in Table 3 below.

Table 3: NAO conclusions on the sale of the Married Quarters estate

| | |
|---------------------|--|
| Conclusion 1 | The following objectives for the sale were achieved: the sale was competitive; it transferred ownership of nearly four-fifths of the married quarters estate in the United Kingdom to the private sector; and it provided funds to upgrade below-standard quarters. |
| Conclusion 2 | As regards the objective of improving the management of the married quarters, the sale has provided the Department with a financial incentive to identify and surrender surpluses. There were, though, different incentives to dispose of surpluses before the sale, and the Department will have to monitor the effectiveness of the new arrangements. Significant responsibilities have been retained by the Department, including maintenance, which remain unaffected by the sale. |
| Conclusion 3 | The sale price exceeded the Department's advisers' assessments of the likely value of the sale transaction from the perspectives of potential purchasers, but was below the Department's benchmark values for retaining ownership of the married quarters. Proceeding with the sale rested, ultimately, on securing a competitive price for assets that the Department did not need to own, and other policy benefits. |
| Conclusion 4 | The sale process itself was well managed, and while looking to make the sale attractive and give new owners opportunities to develop the estate, the Department have also sought to protect their future interests. |

Source: NAO⁴⁸

54. Vice Admiral Laurence said that

with the benefit of hindsight [...] it does not strike me as being a great deal; and the price of the property that was sold has risen very significantly [...] If we had our time again perhaps we would have done this in a different way.⁴⁹

Mike Martindale, Defence Estates' Finance Director, considered that this was

perhaps not a deal we would have done now, in that we maintain maintenance responsibility; if we were doing the deal today we would probably transfer that to the landlord.⁵⁰

55. On the other hand Vice Admiral Laurence acknowledged that

At the time the deal looked a good one. We put it on the market; the highest bidder won the deal and there were plenty of bidders for it; and it looked the right thing to do.⁵¹

47 Defence Committee, Sixth Report of Session 1995–96, *Future of the Married Quarters Estate*, HC 424: Oral evidence, 5 June 1996, Q 1591

48 HC (1997–98) 239, p 1

49 Q 31

50 Q 48

He also told us that:

we make the arrangements work well at the moment. The relationship with Annington is good, and the rent we pay to Annington is fair. We maintain the houses through a new contract which is just settling down [...] The arrangements are satisfactory.⁵²

56. Views on the merits of the Annington deal differ. Undoubtedly, the increase in property prices makes the deal look, with the benefit of hindsight, less attractive than it looked at the time. But the deal was intended to deliver not just money into the public purse but also incentives for the MoD to maintain acceptable standards of repair and fewer empty properties. Our comments below on the disposal of properties suggest that these incentives have not operated as intended. We find this deeply disappointing. Given the constraints of the Annington deal and the changing strategic requirements, there is a case for a review of the whole of the married quarter estate to ensure that property is being retained and disposed of optimally, with maximum value for money for the taxpayer.

Standard of accommodation

57. It was intended that the proceeds of the Annington deal would secure improvement in the quality of married quarters, by raising sufficient funds to upgrade the bulk of quarters in the United Kingdom to ‘grade-one’ condition. It is clear that this has not happened. When property is sold, the Government’s share does not return to the MoD, but goes to the Treasury.⁵³ **In our view, the proceeds from sales of surplus married quarters should be re-invested in Service accommodation.** We return to the proceeds from sales of defence assets in paragraphs 95 to 97 below.

58. The condition of Service Family Accommodation is divided into four Standards for Condition. This is calculated from 102 attributes organised into eight categories: Health and Safety; Sanitary; Kitchen; Energy Efficiency; Building Fabric; Electrical; Security; and Bedroom Standard. These are taken into account as follows:

- Properties are assessed as Standard 1 if they achieve a Standard 1 rating in all eight categories;
- Properties are assessed as Standard 2 if they achieve a Standard 1 or 2 in each category, with a Standard 1 generally reached in at least five categories. Improvements required might include a thermostatic shower, a new kitchen or upgraded loft insulation;
- Properties are assessed as Standard 3 if they only achieve a Standard 3 in at least one of the categories, and will usually have achieved a 1 or 2 in half the categories. Improvements required might include a complete rewiring, a new kitchen or bathroom, or upgraded loft and plumbing insulation;

51 Q 59

52 Q 31

53 Q 39

- Properties are assessed as Standard 4 typically if they achieve a Standard 4 in five or fewer categories, and will generally require a new bathroom, electrical system, kitchen, insulation upgrade, and health and safety review.⁵⁴

59. Fifty nine per cent of the MoD's housing stock is currently assessed as being Standard 1, with another 36% Standard 2. The remaining 5% is Standard 3 or 4.⁵⁵ In 2005–06, Defence Estates was set a target of upgrading 600 SFA properties to Standard 1. It substantially exceeded that target, and upgraded 1,705 properties over the financial year.⁵⁶ We expressed in paragraph 19 above our concern that this target was insufficiently challenging, given the margin by which it was exceeded.

60. Vice Admiral Laurence explained that the picture of upgrades was more complex than it first appeared: upgrading a property from one condition to another could range from simply installing loft insulation to a complete refurbishment costing £70,000. In previous years, simpler and cheaper upgrades, so-called “quick wins”, to bring properties up to Standard 1, had been prioritised, allowing targets to be exceeded. In the future, however, the upgrades remaining would be more expensive ones, and so Defence Estates would find itself spending the same amount of money each year, but managing to upgrade fewer properties.⁵⁷

61. While we welcome the progress the MoD has made in upgrading Service Family Accommodation, much more remains to be done. The MoD needs to recognise the scale of the challenge it faces.

Disposal of properties

62. When properties are released to Annington Homes for sale they must be in “good tenable repair”.⁵⁸ We asked whether this meant that the MoD was spending money to get rid of property, rather than spending the money on properties which Service personnel were currently living in. Vice Admiral Laurence did not think this was the case.⁵⁹ We asked whether the houses being handed to Annington Homes for sale were in a better condition than those actually being lived in. David Olney told us that he could not “say hand on heart that every single Service person is living in accommodation which is better than that which we would hand over”, but that the vast majority would be living in accommodation of at least that standard.⁶⁰ Vice Admiral Laurence explained that:

if we discover that there are properties we no longer need, and they may well have been properties that have been empty for three of four years, perhaps longer, and we want to get rid of them, there is a balance of investment to be made [...] there is an outgoing attached to it [...] but before we hand them back to Annington we have to

54 Ev 27, Annex C

55 Ev 21, para 25

56 Ev 24, Annex A, item 1a

57 Q 63

58 Q 49

59 *ibid.*

60 Q 50

spend a certain amount of money dealing with perhaps some defects that would not meet the contract”.⁶¹

63. It would be perverse if Defence Estates were spending money improving properties which it intends to dispose of when so much accommodation in which Service personnel are living is in need of improvement. It was intended that the Annington deal should incentivise the MoD to maintain properties to an acceptable standard, so that it could dispose of them without expense if they were no longer required. If the MoD is allowing property to fall into disrepair prior to disposal, this is simply bad management. We recommend that the MoD give details, in its response to this report, on how much it has spent on upgrading property before disposal.

Empty properties

64. While at Pirbright, we were shown a group of married quarters which were empty and had fallen into disrepair. In some cases, squatters were occupying them, and attempts to secure the premises while they remained unoccupied had been inadequate. We were told that the situation had been brought to the attention of Defence Estates on a number of occasions, and that the Minister had also been made aware of it. Still no repairs had been made, nor had the quarters been made secure against vandals or squatters.

65. The Secretary of State explained in a letter to us that the unoccupied quarters had been held for possible use if required by the Defence Training Review. They were in a “semi-rural area” and therefore had been regarded as being at a low risk of vandalism:

However, the breaking of a few windows led to a decision to board up the houses. Unfortunately, this appears only to have provoked a more sustained attack of vandalism. Every effort was made to establish the perpetrators, which included the use of increased patrols by Military Police and MoD Police, but to no avail. CCTV has been installed and the Surrey Police used the site for dog handling training in order to improve security.

He concluded that door locks had been changed to prevent further instances of squatting, that Guard Dog signs had been erected to deter further vandalism, and that “dilapidation repairs” were due to be carried out to make the quarters suitable to be returned to Annington Homes.⁶²

66. It was intended that the Annington deal would reduce the number of empty properties held by the MoD. Disappointingly, the MoD’s Annual Report 2005–06 states that there were some 3,000 vacant Service family properties. This is known as the “housing management margin”. The Annual Report and Accounts states that:

We continue to use this, less housing earmarked for disposal in the next 12 months, as a measure of the efficiency of our housing management [...] The housing

61 Q 52

62 Ev 34

management margin increased to 13.9% from 11.2% over the year against a target of 10%.⁶³

67. Defence Estates did not, therefore, achieve Key Target 5f—to reduce the management margin of vacant housing to 10% by November 2005 (see Table 2). By November 2005 the management margin was 13%. The corresponding figure at 31 March 2006 was 13.9% and the number of empty properties was expected to reduce from 1 April 2006 as Gurkha families took up SFA following changes to their terms and conditions of service. In its written evidence, the MoD states that given the continued uncertainty in respect of many Service deployments and rationalisation studies, there was a need to retain a larger number of vacant properties (around 3,000) to meet potential future requirements. The target of 10% would not be achieved “until firm decisions have been taken and implemented”.⁶⁴

68. We asked Vice Admiral Laurence about the position on empty properties, known as “voids”. He told us that:

The number of voids is an issue we track very, very closely indeed [...] It is a figure which, in my view, is too high; I would like to reduce it. One of the factors in this difficulty of reducing it is the uncertainty about future accommodation and trying to balance whether we want to hang on to accommodation because we might need it, or sell it and then find in five years’ time we need it.⁶⁵

69. Local authorities, which also manage large housing stocks, often publish the number of voids on a monthly basis to help ensure that the relevant officials remain focused on keeping the number of voids down. Given that Defence Estates’ voids figure is very high, we asked how it compared with that of local authorities. Mike Martindale explained that the reason why Defence Estates had a 10% target was because it had “20,000 move-outs and move-ins every year” as a result of moving Armed Forces personnel and their families around the country. He added that:

I think you will find in most local authorities the number is much smaller in terms of the number of people who move. The Army occupancy of a house is only, say, six months on average, which is why we need so many “voids” as a standard minimum requirement, just to accommodate the move-ins and move-outs as we move the Armed Forces around.⁶⁶

70. We share Vice Admiral Laurence’s view that the number of vacant Service family homes is too high. Defence Estates has a target to reduce the proportion of Service family homes it manages which are left vacant to 10%, but fell well short of this target in 2005–06 with almost 14% of such homes left vacant. While we acknowledge that, to some extent, the high number of vacancies reflects the frequent moves of Service personnel and their families, it also reflects uncertainty about future requirements. **We recommend that, in its response to our report, the MoD set out how it plans to reduce the number of vacant Service family homes. We also expect the MoD to set out when the key decisions will be**

63 HC (2005–06) 1394, para 310

64 Ev 26

65 Q 55. See also Ev 32–33, A8

66 Q 56

made which will provide clarity on the number and location of Service family homes needed in the future.

Home ownership

71. The MoD's Defence Living Accommodation Strategy (DLAS) aims to operate "a 'mixed economy' comprising quality public funded SFA in the right locations to support mobility and choice for those individuals who choose greater stability".⁶⁷ The MoD has introduced various initiatives to assist choice, including the long-service advance of pay scheme, whereby eligible individuals can apply for a loan of up to £8,500 towards the purchase of a house, and the joint Housing Advisory Office, which briefs Service personnel about future housing opportunities. **We note that the MoD offers individuals a loan of up to £8,500 towards the purchase of a house. Given the rise in house prices throughout the UK in the last decade, the MoD should consider increasing the amount of loan offered to Service personnel.**

72. The planned concentration of Service communities in 'super garrisons' will increase the potential for home ownership. We note also that the new Housing Green Paper proposes new ways of encouraging home ownership among key workers, and use of MoD land for new homes.⁶⁸ **We recommend that, in the response to this report, the MoD set out how it intends to respond to the proposals set out in the Housing Green Paper, and how these policies will impact on Service personnel in areas covered by the devolved administrations.**

73. There have been reports in the media that Service families living in SFA which the MoD has decided to release for sale have been forced to queue for the opportunity to buy their own homes.⁶⁹ We pressed the Defence Estates management on this point. It seems that there is no automatic right-to-buy for Service families. Annington Homes undertook, when the original deal was concluded in 1996, to offer to help Service personnel to become home-owners by allowing them discounts on the properties it sold and by offering "attractively priced" mortgages. Since 1996, 30% of sales have been made to Service or ex-Service personnel, at a total discount of £12.3 million.⁷⁰

74. In addition, Annington has tried to reserve Service quotas on larger-volume sales, so that Service personnel or their representatives are given first refusal on 50% of the properties for sale on a 'first come, first served' basis, "provided they are in the queue by 12:00 on the launch day". When 48 homes at RAF Coltishall were sold recently, a quota of 24 was set aside for Service personnel, of which 17 resulted in sales to Service buyers.⁷¹

75. We welcome the steps which Annington Homes has taken voluntarily to prioritise Service families when it sells former Service Family Accommodation. However, the fact that Service families may not in practice have the opportunity to buy their own homes

67 HC (2006–07) 154, p 14

68 Department for Communities and Local Government, *Homes for the future: more affordable, more sustainable*, Cm 7191, 23 July 2007

69 For example, "Service families camp out for homes", www.guardian.co.uk, 13 April 2007

70 Ev 31–32, A6

71 *ibid.*

sits uneasily with the MoD's efforts to encourage home ownership among Service personnel.

The Housing Prime Contract

76. Defence Estates has contracted responsibility of maintenance of SFA in England and Wales out to a private provider, in the Housing Prime Contract . In November 2005, the MoD announced that this contract had been let to MODern Housing Solutions, a joint venture between Carillion Holdings Limited, Atkins Limited and Enterprise Managed Services Limited, which had been appointed as Designated Contractor in April 2005.⁷² The contract with MODern Housing Solutions is for seven years, and is worth around £690 million.

77. The MoD has acknowledged that the implementation of the Housing Prime Contract was not wholly successful: “the initial service [...] was not up to the standards anticipated or required”. It attributes these problems in part to a large number of outstanding cases inherited when the Housing Prime Contract was introduced. Defence Estates officials were candid when they gave evidence to us. David Olney, the Director General Operations, admitted that the Contract had “got off to a pretty terrible start”.⁷³

78. However, the MoD has pointed to a number of achievements:

- 97% of emergency calls which involve an immediate health and safety risk are responded to within three hours of notification;
- 82% of urgent calls are responded to within five working days;
- All calls to the helpdesk are answered within two minutes;
- 94% of customers surveyed were satisfied with the service.⁷⁴

79. The NAO found that the problems in implementing the Housing Prime Contract stemmed in part from a “shorter than planned mobilisation period and a higher than expected number of houses being in use”. Moreover, while the initial problems had been addressed, this had only been achieved with an additional £20 million from the MoD.⁷⁵

80. The MoD must learn from the problems it experienced in implementing the Housing Prime Contract. While new contractual arrangements inevitably suffer from teething problems, it is extraordinary that the MoD had to pay an additional £20 million—a fifth of the contract value—to achieve a reasonable level of service. We expect an explanation, and a progress report, in the response to this report.

72 HC Deb, 15 November 2005, col 48WS

73 Q 89

74 Ev 21, para 24

75 HC (2006–07) 154, p 15

Customer satisfaction

81. Defence Estates has targets to “decrease customer dissatisfaction with the quality of property provided as SFA... and with service delivery to SFA occupants”.⁷⁶ We examined the assessment of these targets earlier in our Report (paragraph 18). In order to monitor its progress on this issue, the MoD redesigned its Housing Customer Attitude Survey (CAS), to make it more narrowly focused and to exclude non-estate issues. The most recent CAS, conducted in late 2006, included overseas occupants. The MoD promised to send us the findings of the CAS as soon as they were available.

82. We welcome the increased focus on customer satisfaction in the new Housing Customer Attitude Survey and its extension to the occupants of Service accommodation overseas. We are disappointed that the MoD has still to make the results of the CAS available to us. We look for an analysis of the findings, and of the MoD’s plans to respond, in the response to this report.

83. During our visit to Pirbright, we found considerable dissatisfaction with the maintenance service provided for married quarters. We visited the quarters of a Sergeant who had recently returned from Germany. She had complained of a leak in her kitchen ceiling, which had been investigated—this had involved tearing a large hole in the ceiling, leaving pipes and cables exposed. The cause of the leak had not been established, and she had been left waiting for six weeks for further repairs to be made, or even for the hole to be covered up. She and the Regimental Welfare Officer were frustrated by the inadequate repairs and the long wait.

84. We were told that personnel had no opportunity to view their property before moving, or to reject it, if unsatisfactory.⁷⁷ **It is essential that there be robust inspection of property to ensure that it is habitable before new tenants move in, and wherever possible families should have the opportunity to view property before moving.**

85. **During our visits we encountered an attitude of resignation to poor maintenance of married quarters. The contractorisation of responsibility for maintenance seems to have left widespread confusion about how to get things done. The power to resolve maintenance issues had—in the name of efficiency—been removed from the chain of command and even from Defence Estates. There was no longer any local estates manager responsible for sorting out problems and with whom the unit command could engage directly. Both unit commanders and Defence Estates officials were helpless to resolve the situation; worse, they did not seem to know where responsibility lay nor what, if anything, they could do. At present, there is no sense that anyone has ownership of the problem: someone in the chain of command needs to be clearly identified and authorised to ensure that the contractor gets work done. If the problems we encountered are representative of the situation across the MoD’s built estate, then it is a serious failure of policy. It is exacerbated by an alarming lack of recognition at senior levels that these problems are more than minor difficulties.**

⁷⁶ Ev 24

⁷⁷ See HC Deb, 27 June 2007, col 793W

6 Estate rationalisation

86. The MoD defines a key part of Defence Estates Estate Strategy as being to ensure that the estate consists of “fewer larger sites appropriately located and making the best use of resources whilst remaining fully capable of meeting the military need”. Achieving this has entailed the disposal of substantial assets: the value of the land and buildings sold since 1999 amounts to £1.69 billion.⁷⁸

87. Vice Admiral Laurence explained to the Committee that estate rationalisation for Defence Estates was necessarily an ever-evolving process:

Normally, when one sets off on a rationalisation programme you want to know where you start and you want to have a clear end-state. I suspect there will be an element of continuous change about the Defence Estates I suspect that by the time we have reached what looks like the end-state, at the moment, we will find we want a different end-state.⁷⁹

88. He identified as the major trend a move across all three Services towards fewer, larger sites, pointing towards the creation of so-called ‘super garrisons’ by the Army, the drive for a smaller number of large core airfield sites by the RAF and a need on the part of the Royal Navy to make a decision about the number of naval bases. “Overall,” he concluded, “the number of sites will decrease, the size of sites, in general, will increase [...] that is a general picture of how I see it moving over the next 10 to 20 years”.⁸⁰

89. The MoD estate in London has so far been reduced from seven to three office buildings, and future investment across the UK will be focused on those sites identified as “anchor locations” (defined by the MoD as large sites which have an indefinite operational future, have capacity or potential for development, and will be the main focus for future operational activity and investment).⁸¹

90. In 2005, the MoD outlined a series of rationalisation measures which would release substantial parts of the estate for re-use or disposal. So far, two measures have been completed:

- The merger of FLEET and Second Sea Lord HQs at Portsmouth, and
- The creation of Air Command, through the concentration of Strike Command and Personnel and Training Command HQs at High Wycombe.

A further three measures remain at the planning stage:

- The collocation of the former Defence Logistics Organisation at Abbey Wood (Bristol) and Bath;

78 Ev 19, para 11

79 Q 99

80 *ibid.*

81 Ev 19, para 11

- The concentration of HQ Land and Adjutant General's HQ at Andover in 2009 (Project HYPERION); and
- The rationalisation of the Chief of Defence Intelligence's estate.

A rationalisation project awaiting approval is the Midlands Medical Accommodation project, which would involve the relocation of HQ Defence Medical Education and Training Agency (DMETA) from Gosport and Keogh Barracks, Aldershot, to Lichfield, with the provision of attendant SLA, SFA, messing and other facilities.⁸²

91. We note the measures outlined by the MoD in 2005 which aim to release parts of the defence estate for either re-use or disposal. Such rationalisation can lead to much disruption for both Service personnel and civilian staff and the MoD must ensure that the process is managed as effectively as possible to limit such disruption.

Project MODEL

92. Project MODEL is a significant rationalisation of the MoD's estate in Greater London. It will entail the consolidation of the facilities currently used by UK Forces on modern and integrated facilities at Northolt. MODEL will be funded by the receipts from the sale of sites no longer required, and is expected to release 100 hectares of brownfield land for development. It also involves a new procurement strategy known as "Prime Plus Contracting", whereby industry is involved as an integrator of the four key project outputs: construction work, disposal of sites, finance, and re-location of personnel.⁸³

93. During our visit to Hounslow, we saw money being spent on short-term repairs to a barracks which potentially has no long-term future. We were told that other London barracks were in a similar position. **The strategic plan for London needs to be brought to a conclusion as soon as possible to ensure that proper investment decisions can be made.**

94. Part of Project MODEL has been the sale of Chelsea Barracks. Vice Admiral Laurence told us that the Army had decided, when reviewing its presence in the capital, to retain and invest in the Royal Artillery Barracks, Woolwich, as a core site, and dispose of Chelsea Barracks. The disposal of Chelsea Barracks has now been agreed in principle, and the MoD has an understanding with a prime bidder, but the deal will not be completed until January 2008.⁸⁴ There have been reports that the property was sold for substantially more than was initially expected.⁸⁵

Proceeds from the disposal of assets

95. The proceeds from the sale of assets such as Chelsea Barracks, which can be substantial, are not simply returned to Defence Estates, nor even necessarily in total to the MoD. We

82 Ev 19, paras 12–13

83 *ibid.*, para 15

84 Q 104

85 For example, "Sold, sir! £900m record for Chelsea Barracks", www.timesonline.co.uk, 29 April 2007

asked Vice Admiral Laurence to explain the rules governing the proceeds from the disposal of assets. He told us that:

Effectively the receipts from disposals come back to the defence budget. Now, it is not quite as simple as that because whenever a spending review is held a calculation is done, a prediction, with the Treasury as to how much we are likely to receive over the next three years, and that calculation is built into the calculations done as to the size of the defence budget. If we exceed those targets, in principle the arrangement is that the money is retained by the Ministry of Defence, but that is, of course, subject to discussion with the Treasury.⁸⁶

96. The thrust of Vice Admiral Laurence's remarks seemed to be that the Treasury would factor in likely proceeds from the sale of any assets when agreeing the MoD's budget. Although he argued that the 'default setting' would be for the proceeds to remain with Defence Estates for reinvestment, he admitted that "this is a matter for the Defence Management Board to decide because they may decide that they have priorities to provide protective vehicles for our troops or something".⁸⁷

97. While we understand that there is competition for scarce resources, we are concerned that the proceeds from the disposal of assets are not being properly reinvested within Defence Estates to improve the quality of the estate as a whole. Not only does this slow the vital process of estate improvement, it militates against innovative and creative rationalisation decisions: Defence Estates has no financial incentive to restructure the estate in a cost-effective manner if the proceeds from any sales are siphoned off to ease other parts of the MoD's budget.

The Defence Training Estate

98. The Defence Training Estate (DTE) comprises some 130 training areas and ranges in England, Scotland and Wales. In 2003, the MoD let a £600 million contract to Landmarc Support Services to assist in the management of the training estate. The services Landmarc provides include almost all support activities not directly relating to the training estate: Landmarc runs the built estate, camps and accommodation, the rural training areas and training ranges and a booking and management information system. It also provides support to Defence Estates on environmental and other issues. In addition to the initial 10 years of the contract, Landmarc will be eligible for a five-year extension if it delivers satisfactory results.⁸⁸

99. A wide-ranging review of education and training for the Armed Forces and MoD civilian staff began in 1999, and the Defence Training Review (DTR) report, *Modernising Defence Training*, was published in 2001. Among the report's recommendations was that the delivery of some types of specialist training should be rationalised on a tri-Service or MoD-wide basis. The DTR Rationalisation Programme was created to introduce modern training methods and technology, and concentrate training on to a reduced number of

86 Q 104

87 Q 105

88 Ev 20, para 19

sites, in order to give the MoD the flexibility it needs to match training demand to defence needs.⁸⁹

100. As part of the DTR, the training disciplines were divided into two contractual packages; Package 1 covers Aeronautical Engineering, Mechanical Engineering, and Communications and Information Systems, while Package 2 covers Logistics and Personnel Administration and Security, Languages, Intelligence and Photography. On 17 January 2007, the Secretary of State announced that the Metrix consortium had been awarded Preferred Bidder status for both Packages. It is expected that the number of DTE sites will be reduced from around 30 to around 10. The main campus will be at St Athan in the Vale of Glamorgan.⁹⁰

101. There are still a number of challenges facing the MoD with regard to the Defence Training Estate. Mr Olney acknowledged that the drawdown of troops from British Forces in Germany “undoubtedly will put pressure on training areas in the UK”.⁹¹ However, as Vice Admiral Laurence went on to point out, major formation exercises cannot be carried out on the mainland UK, and the MoD is therefore forced to rely on training facilities overseas, for example at BATUS in Canada.⁹² He suggested that one solution might be to retain the use of training facilities in Germany, the drawdown of British Forces in Germany notwithstanding.⁹³

102. The Council for National Parks was concerned that any rationalisation of the Defence Training Estate should not result in “new, renewed or intensified defence use of land in National Parks”, and pointed to the MoD’s statutory duty, under the 1949 National Parks and Access to the Countryside Act, to have regard to National Park purposes. Indeed, the Council suggested that estate rationalisation might provide an opportunity to reduce the impact of military training on the National Parks.⁹⁴

103. The MoD is currently reviewing the use of its Air Test and Evaluation (T&E) ranges at Aberporth, the Hebrides, West Freugh and Larkhill and the Sea T&E ranges around Raasay and the Clyde. These are operated by QinetiQ under a Long Term Partnering Arrangement, as part of which QinetiQ and the MoD undertake regular reviews to ensure that capability is provided as efficiently as possible. Each of the Air T&E ranges is currently managed independently. The MoD and QinetiQ are examining whether it would be more efficient to control trials from a single site, and, further, whether the use of four ranges is the best way to deliver the required capacity.⁹⁵

104. The MoD, through the Defence Training Review Rationalisation Programme, is seeking to rationalise the Defence Training Estate and to improve those sites and facilities that are retained. However, demand for training may well increase in the

89 About Defence: Defence Training Review Rationalisation Integrated Project Team DTRRIPT, www.mod.uk

90 *ibid.*

91 Q 93

92 British Army Training Unit Suffield, located at Canadian Forces Base Suffield in Alberta.

93 Q 94 (Vice Admiral Laurence)

94 Ev 28–29

95 Letter from Minister of State for Defence Equipment and Support, Lord Drayson, to Robert Key MP, 4 July 2007 (not printed)

future, particularly given the relocation of UK Service personnel from Germany. The MoD should, in its response to our report, set out how it plans to match the future demand for training land, which is likely to increase, with a reducing Defence Training Estate. The MoD should also set out how it will address the concern of the Council for National Parks that rationalisation of the Defence Training Estate might intensify the use of training on the land in National Parks.

7 Environmental issues

Sustainable development

105. The MoD acknowledges its responsibilities as a major landowner for sustainable development.⁹⁶ It says that it has also integrated considerations of sustainability into its contractual relationships with private partners. Since 2000, a sustainability appraisal has been an essential part of any policy, programme or project, and Defence Estates has developed a range of strategies to deliver this commitment:

The Environmental and Sustainability Appraisal Tool Handbook and the Defence Related Environmental Assessment Methodology [DREAM] provide Project Managers with a series of checklists for identifying significant environmental impacts of future developments. These are widely perceived as setting standards of best practice in Government.⁹⁷

106. Vice Admiral Laurence told us that DREAM was the MoD’s own equivalent of BREEAM, the Building Research Establishment Environmental Assessment Method, a tool designed to help construction professionals understand and mitigate the environmental impacts of any development projects. He claimed that DREAM was a “very tough standard”, and represented “a more tailored version of BREEAM for us”.⁹⁸

107. The MoD’s memorandum said that the department had introduced a number of measures to fulfil its responsibilities in relation to sustainability. These included:

- The introduction of Environmental Management Systems at all major MoD sites, requiring site managers to identify the impacts of site occupation, set targets to reduce any significant impacts, and monitor and report progress by an Annual Management Review as well as a periodic MoD audit process;
- Rolling five-year Integrated Land Management Plans to assess and manage any impacts at all major training areas, to ensure that any defence-related activities have regard to the requirement for nature conservation, woodland protection, heritage management and public access (less detailed Integrated Rural Management Plans are used for smaller sites);
- External Stakeholder Liaison on environmental issues, conducted through a series of consultation committees; and
- The support of a network of 180 voluntary Conservation Groups to monitor habitats and species, give input to management plans and sometimes to carry out practical work to support nature conservation and archaeology on the rural estate.⁹⁹

96 Ev 22, para 38

97 *ibid.*, para 41

98 Qq 113–14 (Vice Admiral Laurence)

99 Ev 22–23, paras 38–45

108. Defence Estates also integrates sustainability concerns into its contracts with private partners in three ways: the DREAM assessment is considered alongside other technical aspects of projects; sustainability targets are incorporated into the contractual arrangements; and there is a supplier association with a sustainability working group, in which Defence Estates and all its prime contractors share ideas and best practice.¹⁰⁰

109. The NAO report was generally positive about Defence Estate's approach to sustainable development. It acknowledged that there was more work to be done, but concluded:

The Department [the MoD] is carrying out much good work [...] to make its estate more sustainable [...] personnel throughout the Department increasingly understand that good links with stakeholders, in particular in the field of sustainability, are essential.¹⁰¹

Energy management

110. The MoD has acknowledged that it will not be insulated from growing concerns about energy consumption and costs, and climate change. Indeed, the MoD accounts for two-thirds of the Government's energy use and spends £28 million every year on non-operational energy.¹⁰² In April 2006, the DEC created an Estate Utilities Board (EUB) to look at ways of reducing water and energy consumption across the estate. The MoD also intends to conform to the Government-wide intention to achieve a carbon-neutral office estate by 2012, though it acknowledges that plans to implement this intention "have yet to be fully developed".¹⁰³

111. Despite these good intentions, the NAO found that the amount of carbon dioxide produced by the MoD estate had increased every year since 2001–02; that the MoD had been slow to encourage the uptake of simple energy conservation measures; and that it had yet to implement the Department for Environment, Food and Rural Affairs' *Minimum Environmental Standards—Quick Wins* programme (a set of standards covering commonly-purchased goods such as IT equipment and paper). There had been a successful project to reduce energy consumption at RAF Kinloss, in Moray, in 2005 (see box), which had led to estimated annual savings of more than £340,000, yet the MoD had not repeated the experiment elsewhere (though plans are in place to replicate the scheme on eight other sites).¹⁰⁴

100 Q 116

101 HC (2006–07) 154, p 27

102 Ev 23, para 46

103 *ibid.*

104 HC (2006–07) 154, p 28

RAF Kinloss Energy Conservation Scheme

The project at RAF Kinloss, achieved in cooperation with the Carbon Trust, involved putting in place an energy management system at a cost of £100,000. The Carbon Trust audited and surveyed the 10 buildings which consumed most energy and determined that substantial savings could be made through the installation of Building Maintenance Service (BMS) outstations in the buildings and replacing and linking new controls and metering with the networked Chief Environment Safety Officer (RAF) RAF Utility Management Bureau Service (UMBS). It also ensured that the onsite sub-meters were set up correctly and reporting the correct readings so that accurate monitoring and target setting could be put in place. These changes were carried out between August and December 2005. In 2006, a more comprehensive Building Energy Management System (BEMS) was installed in the buildings which consumed most energy.

Analysis of the energy consumption at RAF Kinloss between August 2005 and July 2006 revealed savings which were almost double the original estimates, amounting to £343,500 and 650 tonnes of carbon. The analysis also expected further savings to be made during the winter of 2006/07.

112. Defence Estates told us that, since the publication of the NAO report, the upward trend in carbon emissions had been reversed, as the result of pilot schemes like that at RAF Kinloss, and a series of audits, initially with the Carbon Trust, of energy consumption. Furthermore, Defence Estates had imposed a 15% energy efficiency cut in budgets over the next four years, which, it was claimed, would be “a major factor in focusing people’s attention on reducing consumption of energy”.¹⁰⁵ Vice Admiral Laurence conceded that, at the time of the NAO’s study, “not enough had been done”, but that a great deal of work had been carried out since then.¹⁰⁶

113. We welcome the recognition by the MoD that it, like any other department of state, must reduce energy consumption and its effect on the environment. The experiment at RAF Kinloss has clearly been a success and we congratulate the MoD for this innovative approach to energy management, which has delivered substantial savings over a relatively short period of time. However, we are concerned at the slow pace at which the MoD has built on this success. Defence Estates should extend the Kinloss experiment to other facilities as soon as possible.

Water management

114. Under Project AQUATRINE, the MoD has transferred the responsibility for the maintenance and operation of its water and waste water assets and infrastructure in the UK to three private sector providers. At £2.3 billion over a 25-year period, it is the UK’s largest water PFI project. It is divided into three geographical areas: Package A (covering the Midlands, Wales and South West England); Package B (covering Scotland); and Package C (covering the North and North West, East Anglia and the South East of England). The MoD claims that AQUATRINE has “enabled the transfer of environmental risk to those in

105 Q 119

106 Q 120

the private sector who are best placed to manage it and enabled the MoD to focus more on its core activities”.¹⁰⁷

115. We were told that Project AQUATRINE had led to considerable improvements in the control of water leakage and consumption. Mr Olney told us that “the three consortia are putting considerable effort into putting additional meters into our estates so we can substantially reduce the leakage rates [...] we have made considerable inroads into leakage rates on the estate”.¹⁰⁸

Heritage and scientific concerns

116. The MoD’s estate includes 179 Sites of Special Scientific Interest (SSSIs), around 650 listed buildings and 1,057 scheduled monuments.¹⁰⁹ In its memorandum to us, the MoD claims that it “fully recognises the importance of heritage for the nation and how the historic environment can enhance the working environment. This cultural resource supports the ethos and heritage of MoD”.¹¹⁰ The NAO report of March 2007 found weaknesses in the management of and care for this part of the estate, noting that English Heritage had reported in 2006 that the MoD did not know the condition of 77% of its listed buildings. On SSSIs, it welcomed improvements in the quality of the sites owned by the MoD, but suggested that cuts in the funding for the South West Regional Prime Contract in 2006–07 meant that SSSIs in that area would then be at risk.

117. When we pressed Defence Estates officials on their management of listed buildings, they confirmed that they had made significant steps to improve their knowledge of the condition of buildings for which they are responsible. At the end of May 2007, there were only 15% of buildings the condition of which Defence Estates did not know, and the target was to reduce this figure to zero by March 2008.¹¹¹ The MoD is required to report on the condition of its historic buildings as part of its Biennial Heritage Conservation Report, due to be published this summer.¹¹²

118. We find it completely unacceptable that, in 2006, the MoD did not know the condition of 77% of the historic buildings for which it was responsible. We acknowledge the improvements which Defence Estates has made since that time, and look forward to hearing in March 2008 that Defence Estates is aware of the condition of all of the historic buildings for which it is responsible. However, it is not enough for the MoD to be aware of the condition of its historic buildings, it must maintain them. In its response to our Report, the MoD should set out how it plans to maintain the historic buildings and Sites of Special Scientific Interest in its care.

107 Ev 21, para 31

108 Q 81

109 HC (2005–06) 1394, p 150, para 299

110 Ev 23, para 49

111 Q 124 (Mr Olney); see also Ev 33, A9

112 Ev 33, A9

8 Conclusion

119. The MoD is a major land and property owner caring for a vast range of assets on behalf of the nation. While property management may not be seen as a core activity within the MoD, it accounts for a substantial proportion of the MoD's annual expenditure.

120. The provision of good quality accommodation for Service personnel and their families, modern and efficient office accommodation, and a well-maintained training estate, play a vital role in contributing to the effectiveness of our Armed Forces. It is particularly important, given the current high tempo of operations, that Service personnel should know that their families are well housed. Defence Estates is doing much good work and its new Chief Executive has a candid and realistic approach, but there are very considerable challenges ahead. It is simply unacceptable that any of our Service personnel should be housed in sub-standard accommodation.

121. At a time when the defence budget is stretched, it is tempting to take from the estates budget. The MoD must resist this temptation. A failure to invest in maintaining property is a false economy, leading to greater expenditure in the longer-term. It is important that the outcome of the Spending Review should result in a significant increase in investment in the defence estate.

Conclusions and recommendations

1. Defence Estates met two-thirds of its performance targets in 2005–06. Two targets relating to decreasing “customer dissatisfaction” were assessed as being achieved, although the assessment was based on the development of a new survey, not the results of a survey. Some targets were greatly exceeded—one, relating to the number of properties upgraded to Standard 1 condition, by over 180%. It may be that exceeding the targets relating to the upgrade of properties simply reflected a staggeringly good performance on the part of the MoD, but we find this difficult to judge. The MoD should review the way it sets targets for Defence Estates to ensure that targets are not set at a level which is too easy to achieve. (Paragraph 19)
2. The targets set for Defence Estates have increased in number from 11 in 2003–04 to 22 in 2005–06 and the percentage of targets achieved have ranged from 91% in 2003–04 to 68% in 2005–06. Such variation makes it difficult to assess how a defence agency is performing over time. We recommend that the MoD should review whether Defence Estates needs to be set such a large number of targets and whether there is scope for focusing on a smaller number of key targets in the future. (Paragraph 21)
3. Defence Estates was one of the largest Defence Agencies, but from April 2007 lost its agency status. As with other Defence Agencies which have lost agency status, we are concerned that there will be a loss of transparency and accountability if Defence Estates is not required to produce its own annual report and accounts. We remain to be convinced that additional information in the MoD’s Annual Report and Accounts on the activities of a former agency will be sufficient to allow proper parliamentary scrutiny. (Paragraph 26)
4. It goes beyond the scope of this inquiry to offer an evaluation of the merits and risks of Private Finance Initiative and Public Private Partnership projects ... These are matters which we shall continue to monitor closely. (Paragraph 36)
5. We welcome the steps which are being taken to improve and modernise Single Living Accommodation, and have seen some new accommodation which is first-rate. However, it is not clear what the strategy is and some accommodation remains appalling. This is unacceptable. Quite apart from this being poor management of property, accommodation is an important factor in retention, and the MoD must do more to address the condition of accommodation if it is not to lose experienced personnel who are very difficult to replace. The MoD must, as a priority, put right the worst accommodation as well as that which can most easily be improved. (Paragraph 42)
6. The Regional Prime Contracts are intended to improve the maintenance of Single Living Accommodation, but it is clear that there are significant problems in the way they are operating in practice. We recommend that the MoD provide us, in the response to this report, with a progress report showing how these contracts are performing against the expected improvements. (Paragraph 48)

7. Views on the merits of the Annington deal differ. Undoubtedly, the increase in property prices makes the deal look, with the benefit of hindsight, less attractive than it looked at the time. But the deal was intended to deliver not just money into the public purse but also incentives for the MoD to maintain acceptable standards of repair and fewer empty properties. Our comments below on the disposal of properties suggest that these incentives have not operated as intended. We find this deeply disappointing. Given the constraints of the Annington deal and the changing strategic requirements, there is a case for a review of the whole of the married quarter estate to ensure that property is being retained and disposed of optimally, with maximum value for money for the taxpayer. (Paragraph 56)
8. In our view, the proceeds from sales of surplus married quarters should be re-invested in Service accommodation. (Paragraph 57)
9. While we welcome the progress the MoD has made in upgrading Service Family Accommodation, much more remains to be done. The MoD needs to recognise the scale of the challenge it faces. (Paragraph 61)
10. It would be perverse if Defence Estates were spending money improving properties which it intends to dispose of when so much accommodation in which Service personnel are living is in need of improvement. It was intended that the Annington deal should incentivise the MoD to maintain properties to an acceptable standard, so that it could dispose of them without expense if they were no longer required. If the MoD is allowing property to fall into disrepair prior to disposal, this is simply bad management. We recommend that the MoD give details, in its response to this report, on how much it has spent on upgrading property before disposal. (Paragraph 63)
11. We recommend that, in its response to our report, the MoD set out how it plans to reduce the number of vacant Service family homes. We also expect the MoD to set out when the key decisions will be made which will provide clarity on the number and location of Service family homes needed in the future (Paragraph 70)
12. We note that the MoD offers individuals a loan of up to £8,500 towards the purchase of a house. Given the rise in house prices throughout the UK in the last decade, the MoD should consider increasing the amount of loan offered to Service personnel. (Paragraph 71)
13. We recommend that, in the response to this report, the MoD set out how it intends to respond to the proposals set out in the Housing Green Paper, and how these policies will impact on Service personnel in areas covered by the devolved administrations. (Paragraph 72)
14. We welcome the steps which Annington Homes has taken voluntarily to prioritise Service families when it sells former Service Family Accommodation. However, the fact that Service families may not in practice have the opportunity to buy their own homes sits uneasily with the MoD's efforts to encourage home ownership among Service personnel. (Paragraph 75)

15. The MoD must learn from the problems it experienced in implementing the Housing Prime Contract. While new contractual arrangements inevitably suffer from teething problems, it is extraordinary that the MoD had to pay an additional £20 million—a fifth of the contract value—to achieve a reasonable level of service. We expect an explanation, and a progress report, in the response to this report. (Paragraph 80)
16. We welcome the increased focus on customer satisfaction in the new Housing Customer Attitude Survey and its extension to the occupants of Service accommodation overseas. We are disappointed that the MoD has still to make the results of the CAS available to us. We look for an analysis of the findings, and of the MoD's plans to respond, in the response to this report. (Paragraph 82)
17. It is essential that there be robust inspection of property to ensure that it is habitable before new tenants move in, and wherever possible families should have the opportunity to view property before moving. (Paragraph 84)
18. During our visits we encountered an attitude of resignation to poor maintenance of married quarters. The contractorisation of responsibility for maintenance seems to have left widespread confusion about how to get things done. The power to resolve maintenance issues had—in the name of efficiency—been removed from the chain of command and even from Defence Estates. There was no longer any local estates manager responsible for sorting out problems and with whom the unit command could engage directly. Both unit commanders and Defence Estates officials were helpless to resolve the situation; worse, they did not seem to know where responsibility lay nor what, if anything, they could do. At present, there is no sense that anyone has ownership of the problem: someone in the chain of command needs to be clearly identified and authorised to ensure that the contractor gets work done. If the problems we encountered are representative of the situation across the MoD's built estate, then it is a serious failure of policy. It is exacerbated by an alarming lack of recognition at senior levels that these problems are more than minor difficulties. (Paragraph 85)
19. We note the measures outlined by the MoD in 2005 which aim to release parts of the defence estate for either re-use or disposal. Such rationalisation can lead to much disruption for both Service personnel and civilian staff and the MoD must ensure that the process is managed as effectively as possible to limit such disruption. (Paragraph 91)
20. The strategic plan for London needs to be brought to a conclusion as soon as possible to ensure that proper investment decisions can be made. (Paragraph 93)
21. While we understand that there is competition for scarce resources, we are concerned that the proceeds from the disposal of assets are not being properly reinvested within Defence Estates to improve the quality of the estate as a whole. Not only does this slow the vital process of estate improvement, it militates against innovative and creative rationalisation decisions: Defence Estates has no financial incentive to restructure the estate in a cost-effective manner if the proceeds from any sales are siphoned off to ease other parts of the MoD's budget. (Paragraph 97)

22. The MoD, through the Defence Training Review Rationalisation Programme, is seeking to rationalise the Defence Training Estate and to improve those sites and facilities that are retained. However, demand for training may well increase in the future, particularly given the relocation of UK Service personnel from Germany. The MoD should, in its response to our report, set out how it plans to match the future demand for training land, which is likely to increase, with a reducing Defence Training Estate. The MoD should also set out how it will address the concern of the Council for National Parks that rationalisation of the Defence Training Estate might intensify the use of training on the land in National Parks. (Paragraph 104)
23. We welcome the recognition by the MoD that it, like any other department of state, must reduce energy consumption and its effect on the environment. The experiment at RAF Kinloss has clearly been a success and we congratulate the MoD for this innovative approach to energy management, which has delivered substantial savings over a relatively short period of time. However, we are concerned at the slow pace at which the MoD has built on this success. Defence Estates should extend the Kinloss experiment to other facilities as soon as possible. (Paragraph 113)
24. We find it completely unacceptable that, in 2006, the MoD did not know the condition of 77% of the historic buildings for which it was responsible. We acknowledge the improvements which Defence Estates has made since that time, and look forward to hearing in March 2008 that Defence Estates is aware of the condition of all of the historic buildings for which it is responsible. However, it is not enough for the MoD to be aware of the condition of its historic buildings, it must maintain them. In its response to our Report, the MoD should set out how it plans to maintain the historic buildings and Sites of Special Scientific Interest in its care. (Paragraph 118)

Annex: List of Abbreviations

| | |
|--------|---|
| BATUS | British Army Training Unit Suffield |
| BEMS | Building Energy Management System |
| BFG | British Forces Germany |
| BMS | Building Maintenance Service |
| BREEAM | Building Research Establishment Environmental Assessment Method |
| CAS | Customer Attitude Survey |
| CCTV | Closed Circuit Television |
| CEstOs | Customer Estate Organisations |
| CNP | Council for National Parks |
| CSA | Customer Service Agreement |
| DE | Defence Estates |
| DEC | Defence Estates Committee |
| DLAS | Defence Living Accommodation Strategy |
| DMB | Defence Management Board |
| DMETA | Defence Medical Education and Training Agency |
| DREAM | Defence Related Environmental Assessment Methodology |
| DTE | Defence Training Estate |
| DTR | Defence Training Review |
| EPMS | Estate Performance Measurement System |
| ER | Estate Rationalisation |
| EUB | Estate Utilities Board |
| HPC | Housing Prime Contract |
| HQ | Headquarters |
| IEMP | Integrated Estate Management Plan |
| MoD | Ministry of Defence |
| MQ | Married Quarters |
| NAO | National Audit Office |

| | |
|------|--|
| NCO | Non-Commissioned Officer |
| NI | Northern Ireland |
| PFI | Private Finance Initiative |
| PPP | Public Private Partnership |
| PUMA | Project to Upgrade and Modernise Accommodation |
| RAF | Royal Air Force |
| RPC | Regional Prime Contracting |
| SFA | Service Families Accommodation |
| SLA | Single Living Accommodation |
| SLAM | Single Living Accommodation Modernisation |
| SSSI | Site of Special Scientific Interest |
| T&E | Test and Evaluation |
| TLB | Top Level Budget |
| UK | United Kingdom |
| UMBS | Utility Management Bureau Service |
| VFM | Value for Money |

Formal minutes

Tuesday 24 July 2007

Members present:

Mr James Arbuthnot, in the Chair

| | |
|-------------------|-------------------|
| Mr David Borrow | Mr Bernard Jenkin |
| Mr David Crausby | Mr Brian Jenkins |
| Linda Gilroy | Mr Kevan Jones |
| Mr David Hamilton | Robert Key |
| Mr Dai Havard | Willie Rennie |
| Mr Adam Holloway | |

The work of Defence Estates

The Committee considered this matter.

Draft Report (The work of Defence Estates), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 121 read and agreed to.

Annexes (Summary and List of Abbreviations) agreed to.

Resolved, That the Report be the Fifteenth Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Ordered, That several papers relating to The work of Defence Estates be reported to the House for printing with the Report [together with the Memorandum reported and ordered to be published on 15 May].

[Adjourned till Tuesday 9 October at 10.00 am

Witnesses

Tuesday 15 May 2007

Page

Vice Admiral Timothy Laurence, Chief Executive of Defence Estates, **Mr David Olney**, Director-General Operations, **Mr Bill Clark**, Agency Secretary, and **Mr Mike Martindale**, Finance Director, Defence Estates, Ministry of Defence Ev 1

List of written evidence

| | | |
|---|---|-------|
| 1 | Ministry of Defence | Ev 18 |
| | Annex A: Defence Estates—Key Targets 2005–06 | Ev 24 |
| | Annex B: Defence Estates—Analysis of Additions 2005–06 | Ev 26 |
| | Annex C: Service Families Accommodation—Standards | Ev 27 |
| 2 | Defence Manufacturers Association | Ev 27 |
| 3 | Council for National Parks | Ev 28 |
| 4 | Bob Russell MP | Ev 29 |
| 5 | Supplementary memorandum from the Ministry of Defence | Ev 30 |
| 6 | Further supplementary memorandum from the Ministry of Defence | Ev 34 |

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2005–06

| | | |
|-------------------|--|----------------------------|
| First Report | Armed Forces Bill | HC 747 (<i>HC 1021</i>) |
| Second Report | Future Carrier and Joint Combat Aircraft Programmes | HC 554 (<i>HC 926</i>) |
| Third Report | Delivering Front Line Capability to the RAF | HC 557 (<i>HC 1000</i>) |
| Fourth Report | Costs of peace-keeping in Iraq and Afghanistan: Spring Supplementary Estimate 2005–06 | HC 980 (<i>HC 1136</i>) |
| Fifth Report | The UK deployment to Afghanistan | HC 558 (<i>HC 1211</i>) |
| Sixth Report | Ministry of Defence Annual Report and Accounts 2004–05 | HC 822 (<i>HC 1293</i>) |
| Seventh Report | The Defence Industrial Strategy | HC 824 (<i>HC 1488</i>) |
| Eighth Report | The Future of the UK's Strategic Nuclear Deterrent: the Strategic Context | HC 986 (<i>HC 1558</i>) |
| Ninth Report | Ministry of Defence Main Estimates 2006–07 | HC 1366 (<i>HC 1601</i>) |
| Tenth Report | The work of the Met Office | HC 823 (<i>HC 1602</i>) |
| Eleventh Report | Educating Service Children | HC 1054 (<i>HC 58</i>) |
| Twelfth Report | Strategic Export Controls: Annual Report for 2004, Quarterly Reports for 2005, Licensing Policy and Parliamentary Scrutiny | HC 873 (<i>Cm 6954</i>) |
| Thirteenth Report | UK Operations in Iraq | HC 1241 (<i>HC 1603</i>) |
| Fourteenth Report | Armed Forces Bill: proposal for a Service Complaints Commissioner | HC 1711 (<i>HC 180</i>) |

Session 2006–07

| | | |
|-------------------|---|------------------------------------|
| First Report | Defence Procurement 2006 | HC 56 (<i>HC 318</i>) |
| Second Report | Ministry of Defence Annual Report and Accounts 2005–06 | HC 57 (<i>HC 376</i>) |
| Third Report | Costs of operations in Iraq and Afghanistan: Winter Supplementary Estimate 2006–07 | HC 129 (<i>HC 317</i>) |
| Fourth Report | The Future of the UK's Strategic Nuclear Deterrent: the Manufacturing and Skills Base | HC 59 (<i>HC 304</i>) |
| Fifth Report | The work of the Committee in 2005 and 2006 | HC 233 (<i>HC 344</i>) |
| Sixth Report | The Defence Industrial Strategy: update | HC 177 (<i>HC 481</i>) |
| Seventh Report | The Army's requirement for armoured vehicles: the FRES programme | HC 159 (<i>HC 511</i>) |
| Eighth Report | The work of the Defence Science and Technology Laboratory and the funding of defence research | HC 84 (<i>HC 512</i>) |
| Ninth Report | The Future of the UK's Strategic Nuclear Deterrent: the White Paper | HC 225-I and -II (<i>HC 551</i>) |
| Tenth Report | Cost of military operations: Spring Supplementary Estimate 2006–07 | HC 379 (<i>HC 558</i>) |
| Eleventh Report | Strategic Lift | HC 462 |
| Twelfth Report | Ministry of Defence Main Estimates 2007–08 | HC 835 |
| Thirteenth Report | UK operations in Afghanistan | HC 408 |
| Fourteenth Report | Strategic Export Controls: 2007 Review | HC 117 |

Oral evidence

Taken before the Defence Committee

on Tuesday 15 May 2007

Members present

Mr James Arbuthnot, in the Chair

Linda Gilroy
Mr David Hamilton
Mr Adam Holloway
Mr Brian Jenkins

Mr Kevan Jones
Robert Key
Willie Rennie

Witnesses: **Vice Admiral Timothy Laurence MVO, ADC**, Chief Executive of Defence Estates, **Mr David Olney**, Director-General Operations, **Mr Bill Clark OBE**, Agency Secretary, and **Mr Mike Martindale**, Finance Director, Defence Estates, Ministry of Defence, gave evidence.

Q1 Chairman: Vice Admiral Laurence, welcome to you and your team. Would you please begin by introducing your team and telling us what they do?

Vice Admiral Laurence: Thank you very much. On my right, David Olney is the Director-General Operations who, as his name implies, runs the operational side of Defence Estates; on my immediate left Bill Clark, Director of Secretariat who deals with all Secretariat issues; and on the far left Mike Martindale who is my Finance Director.

Q2 Chairman: Thank you very much. This is part of a normal scrutiny process into the agencies and other bodies of the Ministry of Defence, and so we are doing this inquiry into Defence Estates. I am sorry in a way that you are being called before two select committees in two days; it seems a bit excessive somehow, but at least yesterday was a practice for today!

Vice Admiral Laurence: In the same room!

Q3 Chairman: Can you tell us what Defence Estates is exactly?

Vice Admiral Laurence: Defence Estates is the organisation responsible for delivering an Estate of the right quality and the right size for the Ministry of Defence. We sit between the customers, the frontline and other customers in the Ministry of Defence, and the supply chain, if you like to call it that, the contractors who deliver services to the Ministry of Defence. We essentially facilitate the delivery of services to the Estate.

Q4 Chairman: So you manage it. Do you also own the Estate, or do you just manage it?

Vice Admiral Laurence: Most of the assets of the Estate have now been transferred to a single balance sheet which lies within the organisation called "Defence Estates", so most of it we do; but of course some we lease; some is in other hands through private finance initiatives and so forth.

Q5 Chairman: Quite apart from being called in front of two select committees in two days, you only took up your role of Chief Executive, what, last month?

Vice Admiral Laurence: A fortnight ago.

Q6 Chairman: Thank you very much for coming to see us. What are your priorities in your new role?

Vice Admiral Laurence: Thank you for giving me that opportunity, Chairman. I would pick out four, but there are obviously more. You could say that the top four priorities are: accommodation; accommodation; accommodation; and accommodation. Certainly the first I would put is accommodation; both improving the standard of the accommodation that we have, upgrading it, bringing it up to the top condition; and also improving the standard of routine maintenance that we provide through various contractors. That is my top priority. The second priority is the need for a new overall Estate development plan. What I found coming into the job is that we have a lot of strategy and policy; we are very well served for that; but, as somebody once said, "The genius of the strategy is not in the design but in the execution". I think what we need now is an update of a really full, comprehensive execution. The last one we did was about four years ago and it needs updating. That will be an important task for me to complete fairly soon. The next priority, and we have talked about this to a degree already, is to redefine the role of Defence Estates: where exactly do we sit between the frontline customer and the suppliers? The new arrangements that have come into play over the last two or three years have now settled down; now is the time I think to review where that is going and to refine what we do; doing that will allow me to understand how many people we need in Defence Estates, and what precisely their skills should be. That will give us, the Board, a very good indication of where we need to take the organisation and who we need in it. The final priority I would point to is the whole issue of sustainability. It is absolutely vital to us to do a number of things: consume less energy and less water; to produce less waste; when we do new building to build on sustainable principles; to minimise the impact on the environment; and to look after our historic sites. I think all of those things are absolutely obvious and clear to us. My question

**15 May 2007 Vice Admiral Timothy Laurence MVO, ADC, Mr David Olney, Mr Bill Clark OBE
and Mr Mike Martindale**

is not *whether* we should be doing this but *how* we should be doing it. How do we do it in an affordable way? How do we make it practical to do it? When we discover good ways of doing best practice, how do we spread that best practice out across the Estate?

Q7 Chairman: You are the second largest landowner in the country, are you not?

Vice Admiral Laurence: Indeed.

Q8 Chairman: I have noticed a change, an improvement, in the Ministry of Defence's environmental approach. We will come on to that later. Last month you stopped being an Agency. What was the reason for that; and what would the consequences have been?

Vice Admiral Laurence: I will give my initial view on that, but I might ask either Bill Clark or Mike Martindale, who have had more experience of the Agency and the operation, to follow up. Two years ago we became a top level budget in the Ministry of Defence which put us on a par with the frontline commands and what is now Defence Equipment and Supply. I think that was the major change. It gave us that important status in the Ministry of Defence. Having achieved that status, the status of being an Agency became very much less important. All the disciplines of being an Agency were very well embedded in Defence Estates and will continue to be applied. In a sense, it became less relevant and the decision was taken, as I understand it, that it was no longer necessary. Perhaps I might just ask Bill Clark to add to that.

Mr Clark: I would just add, Chairman, the other thing is that we are still accountable through our key targets to the centre of the Department and, more importantly, we now are alongside the other top management parts of the Department, like the Defence Equipment and Support organisation, and like the frontline TLBs. I would also say that, in terms of reporting, instead of reporting through another Top Level Budget holder, we now report directly into the Defence Management Board and, in that sense, are held more directly accountable for delivery of services. I think the final point I would add is that our customers fully supported this—the frontline, the Armed Forces—because they actually felt they were coming into the centre of the Department and therefore work alongside them, instead of being perceived as an outside Agency in support of military capability; and for all those reasons, and bearing in mind all the Government's arrangements are as strong, if not stronger, than when we formed up as an Agency in 2003, I think it made perfect sense.

Q9 Robert Key: Admiral, nobody doubts your desire to improve the situation regarding accommodation both for married quarters and for single soldiers. The problem is that we are frequently told that any time someone is looking for a cut in an annual budget the first thing to go is housing maintenance; the second thing to go is housing refurbishment; and

the third thing to go is new build. In your experience, of all of two weeks, have you come across that; and is it a challenge you recognise has got to be faced?

Vice Admiral Laurence: I certainly think that was the case 10 or 15 years ago. That is the principal reason why we have inherited a backlog of work that needs to be done on the Estate. I think it is very much less true now, although in the last financial year there was a small cut imposed on the regional prime contractors which did have an impact on the Estate. My organisation argued against it at the time, and we will continue to argue against that sort of cut in the future.

Q10 Robert Key: I am sure I will be right with you in arguing against it. I think of my own constituency, for example, and Larkhill Garrison where the garrison commander invited me only last month to see the contrast of the stock that he has to work with. It may have been only a small cut but the fact is, in the regional prime contract areas, in Scotland £1.3 million worth of planned work was deferred; in the south-west 231 projects were deferred this year; 83 building upgrades were deferred; and 75 redecoration projects were postponed. In the central area there is no firm programme of upgrade work; in the eastern area there is no firm programme of lifecycle replacement works. From the point of view of the soldiers and their families this is becoming a serious factor in recruitment and retention. We are told that this is a real problem facing particularly the Army at the moment; the Navy has got it better under control, it has to be said.

Vice Admiral Laurence: All of those facts you have pointed out are true. There were a number of deferrals from last year into this which we would rather avoid. Yes, I do not welcome that; and, as I say, we argue strongly against this sort of occurrence.

Q11 Robert Key: Do you think the National Audit Office was right to suggest that Service personnel could be living in substandard accommodation for up to 20 years at the present rate?

Vice Admiral Laurence: The term "substandard" is emotive and I challenge it slightly, I have to say. I think we set our standards for accommodation extremely high. We hugely increased the standards that we set towards the end of the last decade, particularly the single living accommodation where, up to that point, it had been the norm for people to live in multiple room barracks. We have now set the standard—that we aspire for every member of the Armed Forces to have a single room with en suite facilities. That was a massive change and there is a huge backlog to catch up with that. We are doing what we can. We will not reach our very highest standards for perhaps 10 or 20 years; but I do not think it is true to say that those people not living in those very highest standards are living in substandard accommodation; it is merely accommodation which is not as high as we aspire to.

15 May 2007 Vice Admiral Timothy Laurence MVO, ADC, Mr David Olney, Mr Bill Clark OBE
and Mr Mike Martindale

Q12 Mr Jones: You rank your accommodation standards one to four, one being the best and four being the worst. How many senior officers or generals are actually in Standard 4 accommodation?

Vice Admiral Laurence: I do not know the answer to that, but I would be surprised if there were any. We have very, very few married quarters in condition four.

Q13 Mr Jones: Condition three?

Vice Admiral Laurence: Again, I do know the answer to that. I do not know if any of my colleagues do?

Mr Clark: I do not know. We would have to let you have a note.¹

Q14 Mr Jones: It would be interesting to have a breakdown to see, by rank, how the accommodation is kept. Can I ask a question in terms of the newspaper headlines this morning about poor accommodation, especially married accommodation. Do you actually think it is right that four generals in the Army Board cost the taxpayer in excess of £600,000 for their accommodation, and the fact that one spent £2,000 on tableware, when we are actually asking members of the Armed Forces and their families to live in substandard accommodation? Is it not about time we actually reviewed what is actually being offered to single generals?

Vice Admiral Laurence: In terms of your overall point it is not really my position to make a comment on it.

Q15 Mr Jones: It is, because you actually look after the accommodation.

Vice Admiral Laurence: My responsibility is looking after accommodation. The policy for what sort of accommodation we have people living in is set by others; but my job is to look after it. The point I would make about the recent newspaper headlines is that every piece of the Defence Estate has to be looked after. We have to spend money routinely on it. It would be wrong not to spend money on a house simply because it was occupied by a general. We have to do these things across the piece.

Q16 Mr Jones: Is not the question to ask whether you actually provide accommodation. For example, the Secretary of State for Defence himself, and I should think the ministers and certainly Mr Jefferies, does not have accommodation provided at this level, including the general in charge of Northern Ireland who has got a valet provided by the MoD. I accept the fact you are making about existing accommodation, but is it not about time we reviewed priorities and they should be looked at?

Vice Admiral Laurence: We have done two major reviews of the senior officers' accommodation in the last five years—one in 2003 and one in 2005—and on each occasion the number of official residences and

senior officers' accommodation was reduced. We undertook then to keep it under continuous review and we do that.

Q17 Mr Jones: Is that report a public document?

Vice Admiral Laurence: The Roser Report in 2003 I think was a public document, but I would have to check that.

Q18 Mr Jones: If it is, could we have a copy of it?

Vice Admiral Laurence: We will look into that and let you know.²

Q19 Robert Key: Could I return now to the question of future plans for accommodation. The drawdown from Germany is going to take many years to complete. We are already aware of what is going on with Project Allenby, particularly in my constituency. What are the implications of the drawdown from Germany of the provision of accommodation? You presumably have a plan stretching into ten, 15 or 20 years—could you tell us what you are up to in that area?

Vice Admiral Laurence: I will turn in a moment if I may to David Olney who is more up-to-date on this than me. It is a very significant challenge for us. We have over 20,000 troops stationed in Germany. We are in the process of bringing some of them back at the moment. We aspire to bring more back in the next three to four years; but there will still be quite a number left behind. In terms of our overall strategy for this, we aim to make use of vacant properties in the UK as they become available. We have a long-term aspiration to create super garrisons for the Army in the UK. We would like to develop super garrisons in areas which, at the moment, do not have a very big military presence—possibly in the West Midlands which might be the first, and then looking elsewhere round the country, perhaps the East Midlands and the north-west. Our overall strategy is to look for opportunities over the long-term to bring units back from Germany into areas where we are keen anyway to develop a military presence.

Mr Olney: Just to amplify the answer, we have a study on at the moment with the Army looking specifically at the housing requirements as they draw down from Germany, particularly looking at various locations such as Catterick, potentially Innsworth and potentially other sites. That study is looking at: firstly, the condition of the housing stock we have in those areas; what would we need to do with them; secondly, it is looking at options to lease off the market; going to house builders, looking at their plans and working with them to lease off the market; and, thirdly, potentially looking at what new-build we would need to arrive at. Clearly, we have to comply with the planning system, and so these are long-term plans and that is why we are working them up now.

¹ See Ev 30

² See Ev 30

15 May 2007 Vice Admiral Timothy Laurence MVO, ADC, Mr David Olney, Mr Bill Clark OBE
and Mr Mike Martindale

Q20 Robert Key: Of course, contrary to that is the Future Capabilities White Paper prediction that there will continue to be a reduction in the numbers across all three Services. Does that mean future sale of accommodation; or will that accommodation just be snapped up because of the drawdown from Germany?

Vice Admiral Laurence: Again David Olney may want to add to this. The principle is that we keep property that we know we need, and that we have a use for in the future, but any sites that we do not believe will have relevance in the future we dispose of. Say, for example, we have an individual barracks in an area isolated, without any services around it, a small barracks perhaps which is expensive to maintain but would be valuable to the local community or local developers—that would clearly be a high candidate for disposal. If we had a barracks with some family accommodation in an area where we anyway wanted to bring people in, we would probably try to hold on to that and wait for the right moment to bring people back into it.

Q21 Willie Rennie: Robert was listing out a long list of deferrals earlier and you seemed rather relaxed about it. We hear from defence ministers constantly there is a step change in the refurbishment of accommodation but that does not seem to tie up with your response to Robert's list of deferrals?

Vice Admiral Laurence: The aim of the deferrals exercise last year was to target it away from accommodation as far as possible. As far as I am aware we managed to achieve that. Most of the deferrals were to technical accommodation, workshops, hangars and so forth. I am not relaxed about any of that actually. I do not like deferrals; it is just putting off the problem until later; but I think at least we did manage on the whole to protect accommodation.

Q22 Mr Jenkins: While listening to your plans for bringing back individuals and increasing the Estate, I heard nothing in regard to the opportunity of serving members to buy or get on the property ladder. Do you have any plans for, say, earmarking some of the MoD land, giving it or selling it very cheaply to a developer with a view to building houses on that site which would be reasonable, or to a good standard, to allow serving members of the military to buy it? They may not be there, but somebody else would rent it, but they would have a foot on the property ladder; with the condition, of course, that only persons in the serving forces could actually live on that Estate?

Vice Admiral Laurence: Absolutely. There are lots of ideas on that front. David Olney might be the best person to answer that.

Mr Olney: You are absolutely right, we are looking at a number of opportunities to see whether we can do an equity share scheme or purchase to buy, and we are talking, for arguments sake, with housing associations to see how they work it; and we are talking to some banks and insurance companies to look at options there to see whether we can get

investment from that quarter. It is early days but we are exploring a number of avenues to see whether we can get our people on to the housing market.

Vice Admiral Laurence: The overall policy is for a mixed economy of housing to encourage people to buy a house where they want to, and where they have the means to do so.

Q23 Mr Holloway: I think that is very much the point that Mr Jenkins raises. Soldiers that I served with who have now done their 20 years and are just leaving now a lot of them are in all sorts of grief in terms of the property ladder. When do you think some proposals on that might come up?

Vice Admiral Laurence: The policy has been in place now for a couple of years, but there is an inevitable (perhaps “conflict” is too strong a word) balance to be struck between, on the one hand, encouraging unit cohesion and encouraging people to live on the patch, so to speak; and, on the other, encouraging people to buy their own house which brings responsibilities away from the unit. There is a balance to be struck there and I think we are moving forward slowly. I personally think one of the most important factors in all this is to meet the aspirations of our people. If they are wanting to buy houses, if that is what they see as the way ahead, then I think we ought to help them to do so where we can.

Q24 Mr Holloway: They might also be encouraged, because it probably does not occur to a lot of squaddies.

Vice Admiral Laurence: Absolutely.

Mr Olney: As you know, the housing stock is leased back to Annington. Where we do release housing back to Annington they do have a policy of, in effect, first refusal to our former Armed Service. That has certainly happened in a number of cases.

Q25 Chairman: Mr Olney, could we look at a sentence from our brief, and I do not often do this: “. . . there has been some disquiet that the Service families currently in such properties have not automatically been given first refusal on the purchase of their homes”. Is that wrong?

Mr Olney: They do not *automatically* but they are certainly given help and support to acquire property. The recent one which was in the newspaper was Cottishall where there were a number of former servicemen who acquired property.

Q26 Mr Jones: I was speaking last night to Bob Russell, Member for Colchester, who was quite exercised about this. He said what you have just said is not true; families are not given first priority for these homes. That is why you have the situation about the people camping out. By your answer, I am not really clear what this priority is. What does it actually mean?

Mr Olney: Would it be worthwhile if I provided you with a note, which would provide a fuller answer?

**15 May 2007 Vice Admiral Timothy Laurence MVO, ADC, Mr David Olney, Mr Bill Clark OBE
and Mr Mike Martindale**

Chairman: Certainly it would; but if it leaves us in confusion we might need to ask you to come back in front of the Committee, because it is something that we will want to clear up, so if you could give us a note.³

Q27 Mr Jenkins: Could it not include the number of properties actually sold as a total? What the ratio was would be very interesting.

Mr Olney: Could I just clear up that point. We will hand properties back to Annington. I just want to make it clear, we would not sell them.

Mr Jones: We know how it works.

Chairman: Could you give us a note, please. Could you also explain how it is that they are sometimes given the right of first priority but not automatically, and when that difference arises.

Q28 Mr Jones: Chairman, could we have the percentage of homes that have actually been sold; that would be interesting.

Vice Admiral Laurence: We will try to find that information out. I have a feeling it may be difficult to produce, but we will see what figures we have got.

Q29 Mr Jones: Chairman, I am sorry, but if you do not know that information how can you monitor that the actually policy is in place that you just told us about?

Vice Admiral Laurence: It is a fair point.

Mr Hamilton: Mr Olney indicated about selling to housing associations. I might point out that they sell houses; they do not purchase; you cannot buy from housing associations. If you have sold houses in Scotland and you have sold them to housing associations that means effectively that anyone in that house cannot purchase a house because they do not have that policy. If you indicate who you are selling the houses to, you need to also tell us what the policy of that organisation is in relation to the purchases of the council housing. Another thing we should be mindful of is when you are talking to various organisations you should also be mindful that many local authorities prioritise Service personnel when they come back; and, therefore, that should be a factor driven into the issue of selling houses. They should be considering the local authorities who actually prioritise Service personnel who come back in again. It would be interesting to see that.

Chairman: Could you frame that into a question? Would you like a response on that?

Mr Hamilton: I am making an observation when Mr Olney said they are selling houses, including housing associations. If you are selling to housing associations, housing associations do not have the right to buy in Scotland.

Q30 Chairman: Is there a distinction between England and Scotland in that respect, Mr Olney?

Mr Olney: There is a distinction, in the sense that in Scotland we own the houses and, therefore, we do dispose of them. Mr Hamilton is correct, in some cases we do dispose of them to housing associations; and in others we dispose of them individually, whereas in England and Wales the vast majority of the houses are leased.

Mr Jones: Can I turn to something which the Chairman has got form on, and that is the sale of the SFA to Annington Homes.

Chairman: By the way, everything you are giving evidence on you need to know this is all my fault!

Q31 Mr Jones: It was 10 years ago, but could you give us an assessment, has it been successful in delivering the expectations that were in the sale; and what lessons could be learnt? Could you also perhaps give us an overview, and I know this did not apply to Northern Ireland or Scotland, of how Northern Ireland and Scotland are managed?

Vice Admiral Laurence: Let me start with an overview of the Annington's deal, and this is an issue which has been crawled over at some length of course and I know that this Committee and the Public Accounts Committee have looked at. I think with the benefit of hindsight, looking back now, it does not strike me as being a great deal; and the price of the property that was sold has risen very significantly; but what I would say is I think we make the arrangements work well at the moment. The relationship with Annington is good, and the rent we pay to Annington is fair. We maintain the houses through a new contract which is just settling down; it is taking time to settle down but it is beginning to work a lot better. The arrangements are satisfactory. If we had our time again perhaps we would have done this in a different way.

Q32 Mr Jones: It says in the brief that some properties are now being sold by Annington as the leases expire. How does that work? Are different properties on different leases?

Mr Martindale: The Annington transaction is essentially, the MoD sold the long lease on all the land for 999 years, and leased back all the houses for 200 years. Every house is on effectively a 200-year lease. As the MoD decides it has no longer any use for that house it effectively then releases them in batches back to Annington who then sell them, as David explained earlier. Essentially where it refers to the lease coming to an end, it means the MoD no longer has a use for that house, rather than the lease coming technically to an end.

Q33 Mr Jones: In terms of when the house is sold, am I right that a certain percentage comes back to the MoD?

Mr Martindale: To the Treasury through the MoD.

Q34 Mr Jones: Is it correct that by 2011 that deal finishes and goes to 100%?

³ See Ev 30

15 May 2007 Vice Admiral Timothy Laurence MVO, ADC, Mr David Olney, Mr Bill Clark OBE
and Mr Mike Martindale

Mr Martindale: Yes, correct.

Q35 Mr Holloway: Do you have any idea what has happened to Annington's share price since the deal was made?

Mr Olney: It is part of a bank.

Mr Martindale: The asset value has gone up is the answer to your question.

Q36 Mr Jenkins: When you give up the 200-year lease, how much do you get for that?

Mr Martindale: Nothing.

Q37 Mr Jenkins: Do you give it for free?

Mr Martindale: Essentially the Annington transaction was a sale and lease-back transaction. Annington gave the Ministry of Defence £1.67 billion in return for us leasing the houses back for up to 200 years. Essentially when we effectively no longer require the house we hand it back and have no rental obligation beyond that point in time. In a sense, what we get back is the savings on rent and rates.

Q38 Mr Jenkins: I tell you why I find that interesting because I have got a local football club and the local authority bought the ground and they got a 99-year lease; and now they want to move off that ground into a new stadium; but to move off that ground will probably cost either £1 million or £2 million because the council then can redevelop the site and make £3 million or £4 million and the football club will share by giving up their lease. You do not appear to do that. Are they smarter than you, do you think?

Mr Martindale: The Treasury shares in the profits that Annington makes when they sell the house.

Q39 Mr Jenkins: They are giving up their lease now as it rolls out, it is a valuable asset so the company is going to enjoy the benefit of that; but you are not going to share in it at all?

Vice Admiral Laurence: The equivalent for this is say we give up a block of houses somewhere because we no longer need them and Annington decides to sell them; there is a share that comes back to the Government but, sadly, it does not come back to me; it comes back to the Treasury.

Q40 Mr Jenkins: So the Government shares. In the early release of the lease the Government has a share?

Vice Admiral Laurence: Yes, they benefit from the sale of the land if Annington sells it on.

Q41 Mr Jenkins: That is outside your jurisdiction and we would have to ask the Treasury for that?

Vice Admiral Laurence: Indeed.

Q42 Chairman: The Treasury has got more of a hold over the Ministry of Defence?

Vice Admiral Laurence: That was the deal.

Q43 Willie Rennie: This deal, by way of the share going back to the Treasury in 2012, does that mean there is an incentive to ship off the houses before 2012? Is there a rush before that period in order for you to get a share of the value?

Vice Admiral Laurence: We have not regarded it as being an incentive for us to sell. Certainly though it does not hold us back from selling, if you like. If it was the opposite arrangement we might be discouraged from selling, but we are not. As I said earlier, when we discover we have got houses that are in the wrong place, are in a poor condition and are not right for our people then we are quite happy to sell them.

Q44 Willie Rennie: There is no pressure at all? You would not find that round about 2011 a whole lot of houses get shipped off?

Vice Admiral Laurence: I would hope not, but I think the pressure to give our people the best accommodation is much stronger. The balance is really how much accommodation we need. The Germany factor we talked about earlier is probably the biggest determinant in that.

Q45 Willie Rennie: Could you see after 2012 a few houses being sold off?

Vice Admiral Laurence: Again, the calculation for us is essentially: do we want them; and do we want to pay the rent on them, and the cost of maintaining them? If we do need them we will go on doing those things, but as soon as we do not need them and we cannot foresee a future use them there is absolutely no point in us maintaining them.

Q46 Willie Rennie: Does the Treasury put any pressure on you?

Vice Admiral Laurence: I have not received any pressure from the Treasury.

Mr Clark: There are not targets.

Q47 Mr Jones: Apart from wanting to provide good accommodation, what is the incentive to improve these properties if you do not actually own them or, as Willie Rennie said, would not be able to sell them at a future date?

Vice Admiral Laurence: There is one incentive. Over and above the incentive of doing the right thing for our people which is by far the strongest, the other incentive is that when we hand houses back to Annington for disposal they have to be at a minimum agreed standard of condition. If we allow them to drop below that it costs us to put them right before we can release them.

Q48 Mr Jones: Would it not be cheaper, even at this point, to actually buy this contract back, because it is going to be a bad deal in the long-term, is it not, after 2012 when you do not get any sale asset?

Vice Admiral Laurence: I know what my answer to that would be, but I will ask my Finance Director to answer that.

15 May 2007 Vice Admiral Timothy Laurence MVO, ADC, Mr David Olney, Mr Bill Clark OBE
and Mr Mike Martindale

Mr Martindale: I think we have not done an investment appraisal to decide whether the price that Annington would ask is the right price compared with the long-term liabilities we may have. I think Annington's price would be massively in excess of the cash they paid the Ministry of Defence in 1996. I think affordability might be a bigger challenge rather than anything else. Could the Ministry of Defence find that sort of sum of money? In essence, however, Annington can place no pressure upon us to release houses for any other reason. It is entirely our decision to release any houses to them. We only release houses which have no defence purpose. It would strike us as perhaps not a deal we would have done now, in that we maintain maintenance responsibility; if we were doing the deal today we would probably transfer that to the landlord. In a sense, the transaction was in 1996 for very good reasons.

Q49 Mr Jenkins: When you said you handed back the property and it must be to a minimum standard, is that minimum standard higher than Service personnel are living in in some other parts of the Estate? Are you spending money to get rid of property, rather than spending it on the living conditions?

Vice Admiral Laurence: I do not think so.

Mr Olney: I think it would be fair to say that it is possibly the case for those living in the very lowest accommodation, which are very few. We have to bring it up to what is called "good tenable repair". That means that the heating systems work; the wiring systems work; that the decoration is there. It is as though someone could move into a house.

Q50 Mr Jenkins: We are spending money on bringing accommodation up to a decent standard to hand over and out of the Estate, and this is probably a better standard than people are living in on the Estate. I find that perverse. I understand your problem.

Mr Olney: I cannot say hand on heart that every single Service person is living in accommodation which is better than that which we would hand over. I cannot say that hand on heart. The vast majority will be living in accommodation which is as good as accommodation we hand over.

Q51 Chairman: Can you say what proportion of Service personnel is living in accommodation which is not in as good tenable repair?

Vice Admiral Laurence: That is a difficult question to answer. If you would like us to have a think about that, we can certainly do that and come back to you on that.⁴

Chairman: I think it would be helpful to know, because if the second largest landowner in the country has a proportion of people living in accommodation which is, by that definition, substandard we need to know about it, particularly if it is people who are fighting and dying for us.

Q52 Mr Holloway: Returning to Robert Key's list of things which were cancelled or deferred, are we seriously saying we are spending money bringing up to the required standard properties to be handed back to Ferrari-driving residents, like the residents of Sevenoaks, and yet we have got people coming back from Iraq and Afghanistan, in some cases staying in stuff that is deeply substandard? I find that quite bizarre.

Vice Admiral Laurence: Let me just try and bring some rationality to this. The situation is that if we discover that there are properties we no longer need, and they may well have been properties that have been empty for three or four years, perhaps longer, and we want to get rid of them, there is a balance of investment to be taken. On the one hand at the moment we are paying rent for them; and, secondly, we are paying money to maintain them. So there is an outgoing attached to it. We might reach a judgment that that is no longer required and we want to get rid of them, but before we hand them back to Annington we have to spend a certain amount of money dealing with perhaps some defects that would not meet the contract. That is a relatively small amount of money and it is an investment we have to make in order to reduce the liability of having these houses.

Q53 Mr Holloway: Do we leave properties empty that belong to the taxpayer without realising any money for them?

Vice Admiral Laurence: In some cases it might happen, because the site might have been earmarked for a unit returning from Germany. The Army might have been asking us to, "Hang on to that for the moment because we want it". Our instincts in Defence Estates are that whenever a site is vacated to dispose of it; but there are occasions where the customers say, "No, please hang on to it. We might need it", and there is a difficult balance there.

Q54 Mr Jones: One of the big incentives when I was a councillor was the figure you had to look at every month for the number voids you had. Could you provide us with a figure, because I think it is an important point, where you are paying rent on empty properties? Could you provide us with a detailed breakdown; that would be helpful?⁵

Vice Admiral Laurence: The number of voids is an issue we track very, very closely indeed. In fact, we answer questions on that quite regularly. It is a figure which, in my view, is too high; I would like to reduce it. One of the factors in this difficulty of reducing it is the uncertainty about future accommodation and trying to balance whether we want to hang on to accommodation because we might need it, or sell it and then find in five years' time we need it.

Q55 Mr Jones: The committee could perhaps meet every month. It used to be a very telling fact in the city council, when they had the voids figure before the housing committee every month, to have public

⁴ See Ev 30

⁵ See Ev 30

**15 May 2007 Vice Admiral Timothy Laurence MVO, ADC, Mr David Olney, Mr Bill Clark OBE
and Mr Mike Martindale**

exposure to this. It might be an idea to keep publishing this on a monthly basis, which might then concentrate people's minds to get the void levels down—it certainly did on most councils.

Mr Clark: We actually have a key target to hold something around the 10% mark. That is what is called a management margin, which is a void, which we are above and reported that in the annual accounts when we were an Agency, and will report in the 2006–2007 Accounts. There are reasons for being above some of which, as the Chief Executive has said, are because we are holding them at the customers' request and holding sites for possible future deployments; and some are also classed as voids, for example awaiting modernisation, awaiting allocation, or awaiting disposal. We can provide that information quite readily.

Mr Hamilton: I find it rather difficult, there are three MPs sitting here who used to be on local authority councils and therefore know about housing issues, and Kevan is quite right it is one you have got to keep on top of all the time.

Chairman: I was once a chairman of a housing committee.

Mr Hamilton: I am sorry, Chairman. I am not used to knowing about many Tories, that is the problem!

Q56 Chairman: In your comparison, Mr Clark, could say how that voids figure compares with the average of local authorities in the country, because it sounds a very, very high figure?

Mr Martindale: If I could just help the Committee's understanding. Part of the reason we have this 10% margin as Bill explained is that we have 20,000 move-outs and move-ins every year due to the transferring military forces around the country, which I think you will find in most local authorities the number is much smaller in terms of the number of people who move. The Army occupancy of a house is only, say, six months on average, which is why we need so many "voids" as a standard minimum requirement, just to accommodate the move-ins and move-outs as we move the Armed Forces around.

Q57 Mr Holloway: With hindsight do you think that what has happened here has been unsatisfactory and, if so, what lessons have you learned for the future?

Vice Admiral Laurence: In what respect?

Q58 Mr Holloway: The whole Annington Homes thing we have been discussing for the last half an hour.

Vice Admiral Laurence: As I say, as a financial deal I think with the benefit of hindsight we probably would have done it in a different way; but I do not think the way we managed the housing stock is unsatisfactory. I think it is a perfectly satisfactory arrangement albeit I would like to do it better.

Q59 Mr Holloway: How did you find the financial deal unsatisfactory?

Vice Admiral Laurence: I just think with the benefit of hindsight had we held on to the property and gone down the route we have gone down for contractual management we might have found, in the longer term for the public benefit, we would have financially benefited; again, with the benefit of hindsight. At the time the deal looked a good one. We put it on the market; the highest bidder won the deal and there were plenty of bidders for it; and it looked the right thing to do.

Q60 Mr Jones: Could I just ask about the actual contract itself. For example, on the PFI contract there is a review clause and a refinancing you can do on it; is there none of that in this so there is no opportunity to renegotiate?

Mr Martindale: There was a simple straightforward sale and lease-back transaction. That is what it was. As the Admiral has just said, it would not necessarily be how we would do the transaction today. House prices have moved along in, say, the last 10 years.

Q61 Mr Jones: Can I ask about the situation in Scotland and Northern Ireland. Could you just describe how they are managed because they are obviously not part of this contract?

Vice Admiral Laurence: I will ask David Olney to answer that who deals with that on a regular basis.

Mr Olney: As I suggested earlier, the houses in Scotland and Northern Ireland are still owned by the Ministry of Defence, and we maintain them using a regional prime contract in Scotland, and two of our contracts in Northern Ireland. In that sense, they are maintained no differently from that in England and Wales where, in England and Wales, we use the Modern Housing Solutions prime contract to maintain the housing stock. It is exactly the same—it is just three different contractual arrangements to maintain that housing stock.

Vice Admiral Laurence: The principal difference is the ownership.

Q62 Mr Jones: What about disposal of surplus properties in those two areas; are they given priority to Service families?

Mr Olney: We do not give priority to Service families. We put them on the market, as I mentioned earlier, and it is the highest bidder that wins. We abide by Treasury rules and guidance on the disposal of surplus assets, which is to maximise the value of those assets.

Q63 Mr Jones: Could I just go on to maintenance and upgrading of properties. Apparently in last year 2005-2006 you upgraded 600 properties and you exceeded your target by 200%. I am very suspicious when people exceed their targets by 200%. It indicates to me the target was wrong in the first place. What has actually been achieved? If it is 200% it is not a very rigorous target. How do actually assess and actually set these targets in the first place?

Vice Admiral Laurence: The upgrading of a property from one condition to another might be something as simple as putting insulation in the loft, which

15 May 2007 Vice Admiral Timothy Laurence MVO, ADC, Mr David Olney, Mr Bill Clark OBE
and Mr Mike Martindale

might cost a few hundred pounds, to a complete refurbishment costing £70,000. When targets are set, perhaps an assumption was made about the average cost of doing upgrades. My understanding is that in previous years decisions have been taken in consultation with the customers to focus upgrades on some of the cheaper and easier ones to do to move more houses up to the top standard, Standard 1 condition. That of course means that progressively as we go on we are facing more of the upgrades becoming more expensive. The amount of money we spend might be exactly the same each year but the numbers of houses upgraded will reduce. In the early years, in agreement with the customers, the idea was quick wins, get a lot of houses done, a lot of people into better accommodation and then turn our attention to some of the worst property.

Q64 Mr Jones: Most councils in Britain have set the minimum housing standards by 2010. Are you under a similar obligation to bring the Service accommodation, particularly family accommodation, up to a Decent Homes Standard?

Vice Admiral Laurence: The Decent Homes Standard is different from the standards we set. Our own standards are very much more detailed and, in my view, much higher. It is difficult to compare exactly the Decent Homes Standard with the Grades 1–4. My gut feeling is that probably Grades 1–3 are above the Decent Homes Standard, and some of Grade 4 would not meet it; but I think it is a bit of a grey area. In general I think the vast majority of our housing stock is above the Decent Homes Standard.

Mr Clark: Just to amplify on the condition and how it is assessed, for our condition we looked at something like 102 metrics in eight categories to determine what standard it is between Standard 1 and Standard 4. I think the Decent Homes Standard, on my understanding, is much more general and broad.

Mr Olney: It is true to say that the vast, vast majority of our houses do meet the Decent Homes Standard already.

Q65 Mr Hamilton: The Single Living Accommodation, could the programme be speeded up with additional resources, the problem you have outlined already; and, if so, how much would that cost?

Vice Admiral Laurence: The simple answer to your question is, yes, if I was given more money we could speed this process up. The sum of money that we need to spend to bring all of our single living accommodation up to a higher standard is very significant—well over a billion pounds, and it is really a question of how quickly I can spend the money.

Q66 Mr Hamilton: Project SLAM, looking at a figure here, is 2,500 which is the target, you actually exceeded that by 3,750. My calculation (and I am not very good at maths) is that would still take 24

years to get the remaining stock up-to-date; and if you were on target it would take you 36 years, that cannot be right?

Vice Admiral Laurence: If the only means of bringing single living accommodation up to standard was the SLAM programme itself then that is true; but actually we produce much more modernised and upgraded single living accommodation through other projects; through the big Allenby/Connaught, for example; and the Defence Training Rationalisation Programme will produce another 5,000 or so single living accommodation.

Q67 Mr Hamilton: Could you give the Committee the information they would require of when you expect to get to that point of upgrading all of the accommodation?

Vice Admiral Laurence: It is going to take a very long time to get all of our single living accommodation up to the highest standard, to Grade 1. As I say, at the end of the last decade we set the bar extremely high and we are taking a long time.

Q68 Mr Hamilton: The Committee has been away in different places, and I represent Midlothian which has the Glencourse Barracks, which has a very, very high quality after the refurbishment which took place; I have to say, it is excellent accommodation. I already recognise a change in attitude in personnel staying and being retained in the Armed Forces. There are many families I have met over the years where one of the reasons they have left the Armed Forces is because of the poor accommodation for their wives and families. Is that something you are mindful of, and how do you overcome that?

Vice Admiral Laurence: I am very mindful of it. Interestingly enough the continuous attitude surveys that we do say that poor accommodation does not actually feature in the top five reasons people say they leave; but I am absolutely convinced that it is a factor in there somewhere. I am convinced that for personnel and, in particular, their families accommodation is a factor. Although it may not be the highest factor that people point to, it is something we take a great deal of concern about.

Q69 Mr Hamilton: Is it still the case that when you improve the accommodation of a single person that you actually increase their rent accordingly?

Vice Admiral Laurence: If the accommodation goes up into a higher condition level and a higher grade for charge then the amount they pay can go up.

Q70 Mr Hamilton: Just so I am clear on this, if we take an individual's accommodation and move up to a standard which is acceptable you then charge them more rent for giving them the standard they should have in the first place?

Vice Admiral Laurence: I look at it the other way round: when soldiers, sailors and airmen are living in accommodation which is below standard we charge them less rent. They get it very cheap.

**15 May 2007 Vice Admiral Timothy Laurence MVO, ADC, Mr David Olney, Mr Bill Clark OBE
and Mr Mike Martindale**

Q71 Mr Holloway: Does the accommodation of Service personnel serving in the MoD and other places come under your remit, in terms of managing the allowance and all that stuff?

Vice Admiral Laurence: No, I do not think that does.

Mr Clark: The allowance packages are set from the Service Personnel policy branch and they are collected through their pay systems.

Q72 Robert Key: Admiral, insofar as they affect accommodation, could you explain to us the distinction between a Private Finance Initiative and Public Private Partnership?

Vice Admiral Laurence: That is a very good question, Mr Key. May I refer it to my finance Director who will give you a more accurate answer.

Mr Martindale: I think it is best to explain using an example and, hopefully, I will succeed. Private Finance Initiatives essentially are transferring risk away from the Ministry of Defence to the provider of the accommodation in its entirety. Often essentially the accommodation, at the end of its useful life to the Ministry of Defence, goes to the provider of the accommodation. In a Public Private Partnership, such as the MoDel transaction which is a classic PPP, essentially what we have done is we have retained those assets which we require under our ownership, and use funding generated from assets which we do not require to effect the funding improvement to the assets we do require.

Q73 Robert Key: How does the Catterick Project fit into that category? Which category is that?

Mr Martindale: Catterick is not a PFI; fundamentally it is a funding of our own improvements.

Q74 Robert Key: So that is a PPP?

Mr Martindale: Yes, a PPP.⁶

Q75 Robert Key: Is Catterick going to be the model for future projects?

Mr Martindale: We will look at what generates the best value for money solution in each case. We have no particular drive to PFI, PPP or any other sort of arrangement; whichever is the best value for money solution we utilise to improve our accommodation.

Q76 Robert Key: Presumably you have to have a long-term view of this as well? In the long-term which of these kinds of deals is going to give you the flexibility that you would wish to have in 10 or 20 years' time?

Mr Martindale: I think the answer is horses for courses. In essence if we feel we have a long-term requirement to own our accommodation à la Catterick then I think the PPP is the right approach; if we feel the need for our accommodation may be limited then effectively a PFI might be approached. It might be 25 years rather than 100 years.

Vice Admiral Laurence: Could I just add one point from my limited excursions into the minefield of PPPs and PFIs, which is that there are a myriad of different arrangements which fall under the categories. As far as I can see each arrangement we have over this Estate is very slightly different. That is why I think Mr Martindale is quite right to say that we would look at every one on its own merits at the time.

Q77 Robert Key: Are Projects Allenby and Connaught PFIs?

Mr Martindale: Yes.

Q78 Robert Key: What proportion of your housing is now provided through PFIs? If Allenby and Connaught are going to provide accommodation for 20% of the British Army that is clearly PFI. Do you have any view about which system is going to end up providing more?

Mr Martindale: I think there is a separation between housing and accommodation. Allenby/Connaught is providing a huge amount of single living accommodation, and very little houses. We have a few PFIs providing houses on the Estate at the moment—very few—and they provide several hundred houses, no more, of the 40,000 or so houses occupied in the United Kingdom.

Vice Admiral Laurence: You have asked a more general question which is: what do we think about the balance? My own view is that it is a balance we must keep under very close review. The proportion of accommodation which is within the PFIs is increasing. There needs to be a mix, and we need to make sure we are not transferring too many of our accommodation into private ownership.

Q79 Robert Key: Sparing the Chairman's blushes, when the sale to Annington took place the Treasury's fingerprints were all over the negotiations and the deal, breathing heavily down the minister's neck. Presumably each one of your PFI or PPP projects has to be approved by the Treasury. Is that right?

Mr Martindale: Correct.

Q80 Robert Key: They set the rules?

Mr Martindale: Yes, the Government set the rules.

Q81 Robert Key: Perhaps we should be inviting the Treasury to give evidence as well? Could I turn specifically to another area which affects all accommodation, and that is Project Aquatrine which is a huge project but it so far is having an enormous problem because, for example, in terms of water provision you did not know the actual consumption of you the customer when you did the contract, when you started four years ago when the contract was signed up. I think I am right in saying one of the big problems was that Ministry of Defence establishments had no idea how much water they used, therefore how much was leaking,

⁶ The work at Catterick should not be described as a PPP because it is in fact a series of Capital projects funded by the MOD and delivered by the private sector.

15 May 2007 Vice Admiral Timothy Laurence MVO, ADC, Mr David Olney, Mr Bill Clark OBE
and Mr Mike Martindale

therefore how much you should pay the new contractors under Aquatrine, and what progress you are making there?

Vice Admiral Laurence: Probably David Olney is the best person to answer that. You rightly highlight a problem which is, establishing a base line before going into these contracts is very important but also extremely difficult. One of the reasons why we established these contracts is because we do not have a very clear grip, or we did not at the time, of what consumption and maintenance standards were in these areas. David, could you expand on that?

Mr Olney: I think what we are doing with Aquatrine, as you say, is putting a considerable investment on the private finance, because it is a PFI. The three consortia are putting considerable effort into putting additional meters into our Estates so we can substantially reduce the leakage rates. I do not have the figures with me but I know for arguments sake we have made considerable inroads into leakage rates on the Estate.

Q82 Robert Key: That is clearly something for the future. There is one other aspect of this that I think is very important. When it comes to the disposal of surplus assets can you confirm that one of the real problems you face is that there is an absence of electrical health and safety certification in most of the Ministry of Defence Estates because you never had to conform to national standards and, therefore, selling on to the private sector is a dodgy business without any safety certification?

Mr Olney: Are we referring to the Aquatrine?

Q83 Robert Key: No, I am moving on from Aquatrine to the general issue of selling surplus property which does not have certified electrical circuitry and provision.

Mr Olney: There may be an instance, I cannot say, where that does not take place but the vast majority of assets which we own, whether we dispose of them or use them ourselves, will have the appropriate statutory and mandatory inspections and work done on them. We certainly do comply with health and safety. Indeed, one of the main advantages of moving to our recent prime contract initiative has been to improve our record in health and safety. I can assure the Committee that the Estate is in a very, very good health and safety conscious condition.

Q84 Robert Key: Have you had any difficulties though with getting electricity companies to accept responsibility for properties which are provided wired to Ministry of Defence standards?

Mr Olney: I am not aware. I am not aware.

Q85 Robert Key: Then things have changed, and I am glad to hear it! Your total budget is about £3.3 billion a year—something of that order. Is that right?

Mr Martindale: The NAO have estimated the expenditure on the estate to be around £3.3 billion but Defence Estates is much smaller than that. Of course, that budget includes the cost of capital and

depreciation charges on the asset base which the Ministry of Defence owns. So our budget is round about £1–£1.5 billion in Defence Estates.

Q86 Robert Key: What proportion of your budget is tied up in PFIs or PPPs?

Mr Martindale: £100 million of our budget, so less than 10%.

Q87 Chairman: Can we move on to the Housing Prime Contract. Can you tell us, please, how it works and how does it tie in with the Annington Homes Deal?

Vice Admiral Laurence: Again, I think you will get a more accurate answer if I ask David Olney to answer that, in terms of the practicalities of how it works.

Mr Olney: In practical terms, the Housing Prime Contract is there to react to householders' calls to maintain their living standards in their house. It provides, also, the ability to upgrade houses if we inject additional money into it, and it provides the ability—again, if you put money into it—to provide long-term, life-cycle maintenance of the house. What do I mean by “life-cycle”? I mean as assets come to the end of their life we replace boilers, we undertake decorations and we will renew and replace kitchens. So there are three main constituent parts of the MHS contract: reactive maintenance, life-cycle repair (the sort of things you and I would do on our houses—painting and decorating, replacing new kitchens) and upgrading houses to a high standard.

Q88 Chairman: How does it tie in with the Annington Homes Deal?

Mr Olney: It does not tie into the Annington Homes deal at all; it is simply the mechanism we use to maintain our estate in England and Wales. We use that mechanism to maintain property in England and Wales which we own ourselves, because there are still some, as well as the Annington-owned and leased back houses.

Q89 Chairman: In the MoD memorandum there is a rather more favourable outline of how it all has been working out than was produced by the NAO report in March. Do you accept that there were difficulties, delays and problems which caused some serious concern to service families? Why is there a discrepancy between the NAO report and the way that the MoD memorandum paints the picture of the Housing Prime Contract?

Mr Olney: I certainly do accept that the Housing Prime Contract got off to a pretty terrible start. What I would say is that if you were to now look at the performance, some six to nine months later, we have markedly improved that performance. As of this week, for argument's sake, on the help desk, whereas at the start we were answering some 50% of calls within two minutes, that is now 99% of calls answered within two minutes. If you were to look at our emergency, we have three standards of call-out, and we achieved 99% of emergency repairs within the time.

15 May 2007 Vice Admiral Timothy Laurence MVO, ADC, Mr David Olney, Mr Bill Clark OBE
and Mr Mike Martindale

Q90 Chairman: So there is obviously an improvement.

Mr Olney: A marked improvement over the last nine months.

Q91 Chairman: So what lessons have been learnt from how it went wrong in the first place?

Mr Olney: That is a good question. Why did it go wrong? Then we can answer the lessons. Why did it go wrong? One, there was, clearly, a higher backlog of work than we had calculated. It is clear, also, to say that as the old contracts were running out people were saving up work waiting for the new contract to take place, and kick in. Secondly, the IT systems which the contractor put in were not up to speed quick enough. Thirdly, the organisation of a supply chain was not as slick as we would have liked, and I think we underestimated the extent to which you can mobilise such a large housing contract nationally. Clearly, this company maintains local authority and housing association houses elsewhere round the country, so we looked carefully at that. Those were the main reasons for the disastrous start. One of the lessons we have learned, clearly, is to look more carefully at the backlog, which we will do in future; secondly, to ensure that we have really slick IT systems in place beforehand and, lastly, to make certain that the supply chain is far more effective. I would say on the supply chain that, of course, originally we had some 50 different contracts maintaining the housing stock and, with TUPE, to mobilise and re-energise that supply chain in such a short period of time was also a big issue. We have learned a lot, and indeed in learning that is how we have managed to improve the service to families and householders so much.

Chairman: It is very refreshing when people come before us and say that they have had a disastrous start. It would be helpful if MoD memoranda were phrased in that sort of language so that we could know in which direction it might be most helpful for us to focus, but thank you for accepting that and for setting out how it is that you are progressing these issues because they are very important. Moving on to Training and Exercise Areas.

Q92 Mr Holloway: You said there was a change to working with Landmarc for training areas. How has that worked out so far and what sort of problems have there been, if any?

Vice Admiral Laurence: Again, I think we are overworking David but he is the expert on these operational areas. David, if you would not mind saying how it is going.

Mr Olney: Yes, the Landmarc contract transferred to Defence Estates in April 07 (it was previously run by the Army) and I have to say it is working extremely well. The quality of food has improved since its inception; I think we have delivered over four million meals—a considerable number of meals. Its management of the estate is working well. We are looking now to see whether we can improve, clearly, and to transfer more risk to them, as part of

our work to drive more efficiencies and effectiveness out of the system. It is an example of a contract which is working well.

Q93 Mr Holloway: What are the implications vis-à-vis the drawdown of troops from Germany into training areas within the UK?

Mr Olney: That undoubtedly will put pressure on training areas in the UK, and it is a piece of work that we are doing with, in fact, all frontline services to look at the implications of that. The work we are doing is trying to match better the supply and demand of the training estate—ie as we draw down, what will be the future demand? Clearly, if you are going to bring troops back from Germany, places like Salisbury Plain will come under increasing pressure as to managing in a sustainable way.

Q94 Mr Holloway: Will there be implications for the Air Transport Fleet, for example, in increased use of Batus. Will we still be using, for example, the sort out training area?

Vice Admiral Laurence: Strategically, we have got a number of difficulties to contend with. The fact is we cannot, on the mainland UK, do major formation exercises; we have to do that overseas. We will need to look at the areas that we use for the units in Germany at the moment to see if, when the units eventually come back to the UK, we can hang on to the training facilities there, perhaps. That might be another way of doing it. You are absolutely right; this is going to bring some strains to the system.

Mr Olney: It is certainly one of the considerations. We talked about earlier all the work we are doing on looking at bringing troops back from Germany. It is certainly an important factor, as to where they will train and what are the impacts on training land.

Q95 Mr Holloway: Finally, what will happen to, physically, the ownership of the training estates after you have had the Defence Training Review? Will it remain with the MoD or will there be some newer type of arrangement?

Mr Olney: That does not change.

Mr Clark: A change is made to the Defence Training Estate.

Vice Admiral Laurence: It will affect some of the training establishments. For example, St Athan, which will be the main centre, will be under a different arrangement but the actual rural training areas will not be involved in that.

Q96 Mr Jenkins: On the exercise areas mainly, in the last few years have we noticed a downturn in demand for people applying for exercise areas and training areas?

Vice Admiral Laurence: Downturn in demand by service units or by—

Q97 Mr Jenkins: By units, I presume. Yes, service units.

Vice Admiral Laurence: I do not think so. I do not think there has been a general downturn in the use. Obviously, when a number of troops are deployed

**15 May 2007 Vice Admiral Timothy Laurence MVO, ADC, Mr David Olney, Mr Bill Clark OBE
and Mr Mike Martindale**

overseas, when they are overseas they cannot use the UK bases, but there is a great deal of training and preparation for overseas deployments. I do not think the general level of training has decreased.

Mr Olney: Indeed, our training, as the Vice Admiral has said, in support of operations is the highest it has ever been for a long, long time. Key parts of our training estate are heavily used.

Q98 Mr Jenkins: I am trying to clarify something in my own mind because we have been told, on a number of occasions that due to the operational tempo—the turnover in overseas demand—we are doing substantially less training, and this has had a knock-on effect. If we are doing substantially less training, where are we doing that substantially less training, because you have got more—

Vice Admiral Laurence: No, it is a very valid question. Very often the first things that are cut are overseas exercises that we might have planned bilaterally with other countries: the Navy exercising with the United States, the Army travelling to do some exercises in the Caribbean, or something like that. Those tend to be the first ones to go, partly because of the time involved and the pressure on the transport fleet and partly because of the cost. The central basic training in the UK, both for individuals and for units, tends to remain at pretty much the same level.

Q99 Mr Jones: Can I turn to defence rationalisation of the Estate. Clearly, in trying to manage any type of estate there is stuff that becomes surplus to requirements and, also, refiguring the estate to get the best operationally. Is there a logical end-point to this review of estates? Would you tell us a little bit about where you are with it at the moment?

Vice Admiral Laurence: It is an interesting question because, normally, when one sets off on a rationalisation programme you want to know where you start and you want to have a clear end-state. I suspect there will be an element of continuous change about the Defence Estates. I suspect that by the time we have reached what looks like the end-state, at the moment, we will find we want a different end-state. Certainly in my vision for the future of the Estate I see more of the super garrisons that the Army wants to create, perhaps establishing that pattern across the country; the RAF are reviewing their bases and they, too, want to rationalise and want fewer core, major airfield sites, and the Navy has a big decision to take about the number of naval bases that it wants, and a slightly smaller, but nevertheless important, decision on the number of training establishments that it wants. I see that, overall, the number of sites will decrease, the size of sites, in general, will increase, but that is a general picture of how I see it moving over the next 10 to 20 years.

Q100 Mr Jones: That is the big picture stuff and, certainly, the change to the arms plot, for example, is going to influence that, but what about day-to-day disposal? Are you, for example, actively looking at

sites across the UK to see whether, for example, in the large, inner cities, you need the garrisons or buildings? Does that include TA accommodation? Does that come under your remit as well?

Vice Admiral Laurence: It does indeed. We do look at the TA, increasingly. It has only recently become part of Defence Estates, but I think that is very useful because it brings the TA estate much more into consideration with the regular estate, which I personally think is a good thing.

Q101 Mr Jones: Can I give you a suggestion? There is a site that must be worth a fortune to you, mainly down to the foresight of both Gateshead and Newcastle City Councils at the time, who had the foresight into development, and that is HMS Calliope, which sits on the banks of the Tyne. Talking to the leader of Gateshead Council a few weeks ago, they are still in discussion on moving this prime site, and apparently it is the locals who like a very nice bar overlooking the Tyne Bridge that seems to be holding this up. What, in effect, are you actually going to have to do, because that is a prime site which is doing two things: one, it must be worth a fortune for disposal and, secondly, it is holding up development of the quayside on the Gateshead side of the Tyne?

Vice Admiral Laurence: I suspect Calliope is a classic example of where, in order to attract people to join the Armed Forces, whether it be the reserves or the regulars, we like to have our establishments close to centres of population, ideally well located so that they are easily accessible.

Q102 Mr Jones: You have got one across the other side of the river—the Royal Marines' new headquarters.

Vice Admiral Laurence: That is very true. I visited that site myself and it is an excellent headquarters, and there is probably scope for rationalisation there. However, there is always a balance between ourselves wanting to maximise the value of the estate and, perhaps, disposing of assets which we can live without and which are high value, and the customer saying: "No, we want to keep this because it's important to us".

Mr Jones: Can I give you some advice: I would look at it very closely, because the reasons for retaining it, I think, are questionable.

Chairman: I thought you wanted to sell off all the Generals' residences.

Q103 Mr Jones: I do as well! That was just annoying because it is actually stopping some very good development, and there is clearly accommodation locally for—

Vice Admiral Laurence: I know we are looking at this individual issue and I will certainly take it away and have a look at it myself.

Q104 Mr Jones: Can I turn to one disposal, which is Chelsea Barracks. I wonder if you can tell us something about it, and whether or not you could comment generally on the rules that govern disposal,

**15 May 2007 Vice Admiral Timothy Laurence MVO, ADC, Mr David Olney, Mr Bill Clark OBE
and Mr Mike Martindale**

and what you can do with the receipt you get from it. Are they too rigid? Do they need changing? Does the money come back to you? Can you explain exactly what the rules are?

Vice Admiral Laurence: I will start on both the specific and the more general, and I may hand over to Mike Martindale if I get my facts wrong. On the question of Chelsea, the Army decided a couple of years ago that they no longer needed the site. The decision was taken to retain Woolwich, invest in Woolwich and release Chelsea for disposal. That disposal has now proceeded to the stage where we have an understanding with a prime bidder, the deal is effectively done, but it is, though, not completed until January 2008. So the details of the deal must remain confidential. On the general question of disposals, effectively the receipts from disposals come back to the defence budget. Now, it is not quite as simple as that because whenever a spending review is held a calculation is done, a prediction, with the Treasury as to how much we are likely to receive over the next three years, and that calculation is built into the calculations done as to the size of the defence budget. If we exceed those targets, in principle the arrangement is that the money is retained by the Ministry of Defence, but that is, of course, subject to discussion with the Treasury, and I can well imagine that over the Chelsea issue there will be quite an important discussion, bearing in mind that we are in the process of negotiating spending review 07.

Q105 Mr Jones: Do you think they are flexible enough? I know when I looked after Newcastle City Council's property portfolio, as chair of estates and property, one of the things we used to do there is dispose of property. We then used to acquire the property or, perhaps, reinvest some of that money in other areas which improved the quality of your overall assets. Are you allowed to do that? Is it allowing you the flexibility to not just, perhaps, purchase new estate but, also, perhaps, sort out freehold issues and anything else like that, which makes the value of the overall estate more?

Vice Admiral Laurence: Effectively, the receipts from disposals are used by Defence Estates to invest in other parts of the Estate. That is how it works. If we can make higher receipts from selling rather better, my first response to the Ministry is: "I would like to keep that money and invest it in the estate", but of course this is a matter for the Defence Management Board to decide because they may decide that they have priorities to provide protective vehicles for our troops or something.

Q106 Mr Hamilton: You indicated at the beginning and, indeed, reiterated again about relocation into North England. I think you said there is a garrison in that area. Is that then an opportunity to sell some of the substantial land that you have in the South, which is extremely high priced? If you are going to move substantial numbers of people up to the

North, surely it makes sense to move the headquarters if nothing else, and make a nice, tidy profit which could then be reinvested in the North.

Vice Admiral Laurence: Yes, with a caveat. As you know, we have been subject to the Lyons Report and we have been moving people and properties out of the South East of England, and that continues to be our intention. The caveat is, of course, that if we are bringing people back from Germany we are not able to sell sites in the UK that they are vacating; they have to come back into new sites. So it may be that the Germany equation means that we might have to invest in new areas, possibly in the North, possibly in the East Midlands, and not have anything to sell in return. Most of the defence estate in Germany is leased or is used by us but is owned by the Federal Government.

Q107 Mr Hamilton: The land value in the South East is such that you could get substantial amounts of land in the North, surely—and it would go further in Scotland, where you can get a better deal.

Vice Admiral Laurence: Where we do not need properties in the South East we would hope to dispose of them and invest the proceeds elsewhere. Chelsea is an example of that.

Q108 Robert Key: In March the National Audit Office produced their report into managing Defence Estates. On page 25 they have a section called: "The Department does not fully understand the overall cost of its estate". We know that the Ministry of Defence has its own arrangements for the payment of Council Tax. Does Defence Estates or other parts of the Ministry of Defence pay national, non-domestic rates on their property?

Mr Martindale: Yes, they do.

Q109 Robert Key: Do you have different arrangements with each district valuer then?

Mr Martindale: I do not think different arrangements; I think we have the same approach with each district valuer rather than different arrangements.

Q110 Robert Key: Is Ministry of Defence property—for example, vehicle sheds, training workshops and so on—rated differently, at different levels, from commercial property beyond the wire?

Mr Martindale: I believe it is rated in the same way as commercial property beyond the wire. We have valuations in the normal way and we settle by negotiation our rates bill, as do commercial organisations.

Q111 Robert Key: What assessment have you made of the impact on Defence Estates of the Rating Empty Properties Bill, which was published last week?

Mr Martindale: I was not aware of that Bill, I must say, and I could not possibly comment.

Robert Key: I raised the issue in the debate on the resolution of the Bill last Thursday, and neither the Treasury Minister nor the DCLG Minister knew the

**15 May 2007 Vice Admiral Timothy Laurence MVO, ADC, Mr David Olney, Mr Bill Clark OBE
and Mr Mike Martindale**

answer to this, but it appears that this Bill is going to mean that the Ministry of Defence, like everybody else, will no longer get any business rate relief on empty property. I know, for example, in the case of Dean Hill, in my constituency, that that is having a huge impact because it means it is going to be very hard to sell any surplus Ministry of Defence estates which have anything that could be rated as industrial or business premises. If you have not done any work on it, may I please suggest you do because the taxpayer is going to lose out big time?

Vice Admiral Laurence: Thank you for that suggestion.

Mr Martindale: The normal approach to all empty property is to try and demolish it to make sure we have no liability for maintenance or rates.

Robert Key: Which is exactly what the Treasury Minister said the Government wishes to avoid, because we went through a period in the 1970s when the rules on empty properties changed, which led to dereliction of industrial property.

Chairman: Moving on to a completely different subject, sustainable development.

Q112 Linda Gilroy: The National Audit Office report has some good things to say about the performance on sustainability but it also has some fairly significant criticisms. In what way is sustainability being integrated into new building projects such as Project SLAM and the Allenby/Connaught contract?

Vice Admiral Laurence: I will just make some general points and then, again, hand over to David Olney, if I may. We have our own assessment mechanism for environmental standards which is the equivalent of the Government's overall assessment standard, and they are applied to all new contracts.

Q113 Linda Gilroy: Is that DREAM?

Vice Admiral Laurence: This is the DREAM equivalent of the BREEAM. It was one of the first questions I asked when I arrived in post, as to whether the DREAM is easier to meet than BREEAM but, in fact, I am told that it is not; it is a very tough standard.

Q114 Linda Gilroy: How does it differ?

Vice Admiral Laurence: It differs, principally, because the kind of properties that we are maintaining or constructing—for example, aircraft hangars, runways, naval bases and so forth—are very different to the properties intended to be covered by BREEAM. So it is, if you like, a more tailored version of BREEAM for us. Those standards are applied, they are built into contracts, and I think the question that I am looking at is how exactly do we monitor that the contracts are being delivered. David, I do not know if you want to add anything.

Mr Olney: No. What I can give you are some examples of where we have introduced sustainability work into our new builds or refurbished builds. For argument's sake, at Cosford we worked with the

Waste and Resource Action Programme to ensure that some 13% of the materials used on that product are from recycled materials.

Q115 Linda Gilroy: Is that a local aspiration, the Cosford one? I am not familiar with the programme.

Mr Olney: It was to refurbish an existing hangar. We looked at seeing how much we could use recycled materials. At the Garrison at Woodbridge (I do not have the exact figures) we reused a lot of the waste because we had to demolish a considerable number of buildings to rebuild the garrison there. We reused an awful lot of waste on the site, saving hundreds of lorry loads on to the public highways, to name but two. We have got a rainwater catchment system at Yeovilton associated with the air traffic control tower. So there are a number of examples where we are building sustainability into our new construction and refurbishment programmes.

Q116 Linda Gilroy: How do you ensure that the private companies with whom you are working put sufficient emphasis on sustainability?

Mr Olney: Three ways: firstly, there are elements and targets within the contracts. Secondly, when we look at projects we have the DREAM assessment, so that is considered alongside every other technical aspect, and we look at opportunities to introduce sustainable ideas into projects. Thirdly, of course, those same companies are interested and are leaders in this field anyway. So, for argument's sake, Bovis Lend Lease, who are on our SLAM project, have done some good work at Greenwich on sustainable communities in the private sector. So we work with them. Lastly, we have what is called a supplier association where we bring our major contractors together to work in a spirit of co-operation rather than antagonism and we set up a sustainability working group where ourselves, plus all our prime contractors, are looking at sharing best practice and sharing ideas so the whole estate can benefit.

Q117 Linda Gilroy: Admiral, in your introduction, when you said sustainability was one of your four key priorities, you also mentioned the trade-off with affordability. How do you actually build into the relationship with the companies you are working with incentives which ensure that you are then able to feed into what will become increasingly challenging programmes and targets, as we see the Climate Change Bill and various other new measures come in?

Vice Admiral Laurence: I think this is a question of everything boils down to the contract—the way the contract is written—and we have to continuously improve our contracts to build sustainability targets into them. It is one of the issues that I will be looking at very closely to see how well we do that at the moment.

Q118 Linda Gilroy: On carbon emissions, the direction of travel is apparently in entirely the wrong direction. So on energy efficiency, particularly, what is your Department doing?

15 May 2007 Vice Admiral Timothy Laurence MVO, ADC, Mr David Olney, Mr Bill Clark OBE
and Mr Mike Martindale

Vice Admiral Laurence: The good news is that since the NAO report the figures for 2005–06 have been published and the direction of travel was downward again, so we have reversed the trend since the figures in the report.

Q119 Linda Gilroy: What has contributed to getting it in the right direction of travel again then?

Vice Admiral Laurence: A great deal of effort has been put in over the last two or three years; trying out pilot schemes—the pilot scheme at RAF Kinloss was mentioned in the report, and lessons have been learnt from that. We have been doing a series of audits, as I think the report also mentions, initially with the Carbon Trust and then elsewhere. In order to really embed this across the organisation we have imposed, in the latest planning round, a 15% energy efficiency cut in budgets over the next four years, and that itself, I think, will be the major factor in focusing people's attention on reducing consumption of energy.

Q120 Linda Gilroy: There has been some criticism in the NAO report about being very slow in relation to implementing the Defra "Quick Wins" programme. The Kinloss example itself has not been speedily followed by others using that as an example. Why do you think that is? Is it because there has been lack of targets that are now established that you think will drive that?

Vice Admiral Laurence: Again, David may wish to comment on this, but there has been a lot of work going on behind the scenes; there has been a lot of discussion about what will work and how much—for every investment of £100,000—benefit you are going to get, both in terms of cost reductions and energy consumption reductions. I think we are at the stage now where we really are beginning to roll this programme out across defence. I accept the criticism the NAO report made that, perhaps, not enough had been done at that stage, but I think we are going to see a great deal of progress on this in the next year or two.

Q121 Linda Gilroy: Mr Olney, can you tell the Committee exactly what the project RAF Kinloss was? I understand that it was a very good return—pretty well a one-year payback—but was that a typical example or was it just a very wasteful building and very wasteful use, which might not be replicated across the estate?

Mr Olney: The Kinloss project was to put in place an energy management system which cost £100,000 and resulted in savings of £343,000 in its first year of operation. The lesson we have learnt from that is that, clearly, by measuring what you are consuming better you can understand why and where you are consuming it and take steps to reduce it. The sorts of things we did were automatic switching of lights off at the end of the day and turning down the heating systems on aircraft hangars which were not going to be utilised. We have now rolled that out across 10 other sites. For argument's sake, at Fort George we found that the heating system could be better

controlled. That has cost us £300,000, we will save 12% in energy use per annum and £33,000 per year in maintenance costs. So, again, you can see a very quick payback. We have now taken those 10 and have calculated that the top 220 MoD sites consume 70-odd% of our energy bill, and we are now working to put in place similar measuring systems across those sites—it is not going to happen overnight—so we can benefit from the Kinloss and Fort George lessons. In addition to those, we have done other work, like putting photovoltaic street lights at Wilton, solar power has gone into sites, and the Neptune new single living accommodation and mess will have the largest photovoltaic array in Europe, which will aid our energy efficiency. I think you can say, maybe, a slow start but one which is gathering pace and momentum as we take these initiatives forward.

Q122 Linda Gilroy: In terms of the end-users, particularly in the single living and family properties, is account being taken of the need to engage the end-user in understanding how to take the benefit of putting in any energy efficient measures, equipment or insulation? It is a classic example that you put it in and people get the benefit in heating and open the windows!

Mr Olney: I very much take the point and it is absolutely vital, as we learnt from Kinloss, that we engage with the people who have to use that estate, as opposed to us who maintain it, because it is their use of it which contributes to the energy bill as much as the way we maintain it. We work very closely with the RAF energy unit and the various energy advisers in the other TLBs.

Q123 Linda Gilroy: Turning to listed properties which, again, is an area that the NAO report was critical on, saying that you did not know the condition of 77% of the listed buildings. Is that still the situation?

Vice Admiral Laurence: That was a historical point, and I think our knowledge of the condition of the listed estate is much better than that. I have to say I cannot remember what the—

Q124 Linda Gilroy: Can you let us have a note of that? I assume you would not consider that to be acceptable.

Vice Admiral Laurence: If those figures were still true I would be very disappointed. I think it is much better than that.

Mr Olney: The knowledge of the buildings at risk, which I think is where the criticism really arose, was we have some 15% now of those buildings at risk where we are uncertain of the condition by the end of this month, and our target is to have zero percentage in unknown condition by March 2008.

Q125 Linda Gilroy: I think you did have a target to know what condition all of the listed buildings were in, or 85% of them, by March 2007. It would be useful to know if that has been achieved as well.

15 May 2007 Vice Admiral Timothy Laurence MVO, ADC, Mr David Olney, Mr Bill Clark OBE
and Mr Mike Martindale

Vice Admiral Laurence: We will clarify that and come back to you.

Q126 Mr Hamilton: Can I ask a question in relation to that? I take it that applies across the board to Scotland, Wales and Northern Ireland, because that is English Heritage we are talking about here. If you are going to give us the figures could you also give the figures for the other nations?

Vice Admiral Laurence: We will.

Chairman: The reason I said, at the beginning, that I had the impression the Ministry of Defence was actually improving in its sustainable approach to land was that in my own constituency, and I can be forgiven for this, the management of the training areas around the Fleet pond has been transformed in the last couple of years. You have clearly been listening to the local environmental groups that have been very exercised about it. I would like to thank you for that. Unless there are any further questions?

Q127 Mr Jenkins: I am thinking about the Housing Prime Contract, and I noticed in 2005–06 the cost went from £100 million to £120 million because they negotiated the £20 million with you due to people being in the houses when they maintain them. I am wondering: how do I know we are getting value for money in this contract? Would I be justified in taking this and comparing it with a local authority with the same number of units and judging like for like, insofar as I know what the schedule of works are? How do you monitor the fact that you are not being “ripped off” on this contract?

Mr Olney: There are a number of ways. Firstly, of course, the MHS won it in competition, so we have an element of competition to ensure value for money because they had to compete along with a number of other companies.

Q128 Chairman: You would say the same about Annington Homes, of course?

Mr Olney: The second point is, you are absolutely right, we do have an audit and assurance regime which looks at the work that MHS have done on a sample basis. With our staff we look at industry norms and comparisons to see whether it is

reasonable for those sums to have been expended, and we have a performance recovery system should that not be the case. So we do have an audit and assurance regime.

Mr Clark: If I could just add to that, the estate performance measurement system, which is covered quite extensively in the NAO report, will also eventually capture all the data on the Housing Prime Contract, which will allow us to monitor the movement from the base condition, which is being assessed this year, to the new condition, the target condition, set out in the contract. We are doing that across all Prime Contracts, including the five regional Prime Contracts, and eventually across the whole of the MoD estate.

Q129 Mr Jenkins: As you refurbish your estate I can expect the cost of maintenance to be negotiated, by year six and year seven, £20 million under the £100 million rather than £20 million over it, can I?

Mr Olney: There is certainly an incentive on the contractor to reduce the cost of maintaining the estate and an incentive on ourselves.

Mr Clark: Perhaps I can add, Mr Jenkins, that we also have a value-for-money target as one of our key targets to achieve 30% value for money across all Prime Contracts by 2011. Again, the Housing Prime is part of that.

Mr Martindale: To reassure the Committee, Mr Jenkins, we also have open-book accounting on all our major contracts, so you can look at what costs the contractor is incurring in maintaining it to ensure they are not—I think you used the phrase earlier—“ripping us off”, in the sense that we can have access to what they are paying to the subcontractors. So we make sure that we have access to their accounts, effectively, to reassure the Committee and ourselves, more importantly, that we are getting value for money.

Q130 Chairman: Thank you all very much indeed. I wish more of the people we question could come before us within two weeks of coming into their job, because it seems to have been an extremely valuable session. Thank you very much indeed.

Vice Admiral Laurence: Thank you.

Written evidence

Memorandum from the Ministry of Defence

INTRODUCTION

1. The Ministry of Defence (MOD) is one of the largest landowners in the UK with a diverse estate measuring some 240,000 hectares (1% of the UK mainland). The built estate measures approximately 80,000 hectares comprising naval bases, barracks and camps, airfields, research and development installations, storage and distribution centres, communications facilities, family quarters and town centre careers offices. The rural estate measures some 160,000 hectares of training areas, small arms, test and evaluation and aerial bombing ranges. This includes 175 Sites of Special Scientific Interest for which MOD has direct management responsibility, the largest number in Government Ownership. The department also owns 772 listed buildings and 1,057 scheduled monuments.¹ The overseas estate consists largely of garrisons in Germany, Cyprus, the Falkland Islands and Gibraltar. There are also major training facilities in Canada, Cyprus, Germany, Norway, Poland and Kenya, with other facilities in Ascension Island, Belize, Brunei, Nepal, Singapore and the United States. The total defence estate is valued at around £18 billion.

2. The defence estate must support the military task set out in the Defence Strategic Guidance and adapt to meet evolving needs. It is consequently kept under review in order to ensure that it is the right size and quality to support the effective and efficient delivery of defence capability in line with acknowledged best practice. The Secretary of State launched the refreshed Estate Strategy² in 2006 which sets out the principles by which the defence estate will be managed and developed in order to support operational training and to create a place where people want to live and work.

3. In 2003, a new organisational structure was created to manage the vast majority of the defence estate. The structure essentially separated the supply and demand functions. It is thus for the Service and other Top Level Budgets (TLBs) to set and fund their future estate requirements in output terms (demand), and for Defence Estates (DE) to meet these in the optimum and most cost-effective way (supply) with funds for the maintenance and delivery of projects transferring to DE. DE merged with the former Defence Housing Executive in 2004 to take responsibility for the management of Service Families Accommodation in UK. It also became a TLB in its own right in April 2005. The former Army Training Estate and other single-Service training estate organisations were incorporated within DE from April 2006 to form the Defence Training Estate. At the same time, DE became the single balance sheet owner for land and buildings and this is reflected in their accounts. In light of these changes, DE ceased to be an Agency in April 2007.

4. In parallel, contractual arrangements have been revolutionised including the Prime Contracting Initiative, examples of which are set out below. Prime Contracting is the application of the principles of Smart Acquisition to estate procurement. Implementation of Prime Contracting is at the core of the MOD's drive to improve the value for money it obtains from expenditure on both the construction and maintenance of the estate. This is achieved through improved management and efficiencies in planning, supply chain management, incentivisation, continuous improvement, economies of scale and partnering. Contractual arrangements for the Overseas and Volunteer estate are also being transformed along similar lines with a strong emphasis on partnering.

5. These initiatives have meant that for the MOD as a whole, the last 6 years has been one of huge change for the estate both in the structure and responsibilities of DE and other TLBs, and the way land and property owned by the MOD are managed.

DE—ROLE AND GOVERNANCE

6. The Defence Management Board (DMB) chaired by the Permanent Under Secretary (PUS), is the Department's executive management board and provides senior level leadership and top-level management of MOD. The Defence Estates Committee (DEC), chaired by the 2nd PUS acts on behalf of the DMB to oversee development of policy for the estate, the implementation of estate strategy and policy, DE's performance, and the relationship between DE and estate users (Customer Estate Organisations through Customer Supplier Agreements). The DEC considers each year the totality of estate programmes and investment across the MOD to inform the annual planning round. The Minister (Armed Forces) has the opportunity to chair the DEC if matters of policy are being discussed, with the Under Secretary of State and Minister for the Veterans being responsible for day-to-day estate issues

7. DE derives its objectives from the MOD Departmental Plan ("owned" by the DMB) which reflects the Public Service Agreement between MOD and the Treasury. The Service Delivery Agreement agreed between MOD Centre and individual TLBs informs the DE Corporate Plan for the management of the estate. Attached at Annex A is a report on the performance of DE against the Key Targets for 2005–06, taken from

¹ One listing or schedule may cover more than one building or monument.

² In Trust and On Trust—The Strategy for the Defence Estate.

its Annual Report and Accounts for that year (the latest audited accounts). In addition, at Annex B, is an analysis of additions for 2005–06 covering assets under construction/land and buildings. Copies of the DE Corporate Plan for 2007–2012 which set out the Key Targets DE is required to deliver, are also attached.

8. Parts of the estate management remain outside DE's responsibility. These include works undertaken by other TLBs, for instance certain PFIs such as Allenby/Connaught, the Defence Training Review and the three Naval Dockyards. These "legacy" projects have been managed from inception by the relevant TLBs and their transfer to DE at this stage would not add value. It is stressed, however, that DE is fully integrated with the relevant project teams to ensure that all the inter-dependencies are properly managed.

FINANCIAL PERFORMANCE

9. DE, in line with all other parts of the MOD, agrees annual budgets with the Department in line with HM Treasury's control framework. These are in respect of Direct Resource, Indirect Resource and Capital expenditure net of the market value of land and buildings to be sold during the year. Resource consumption is based on accrued expenditure and not on the amount of cash spent during the year.

10. During 2005–06 Defence Estates had combined Direct Resource and Capital budgets of £1.15 billion. Actual outturn exceeded the agreed budgets by £38million. Of this £26 million arose due to the inability to complete on the disposal of a site by the year end due to contractual issues. The sale was completed in 2006–07. The further £12 million overspend, which resulted from incomplete in-year transfers from other MOD budget holders, was forecast and did not result in the department overspending against either its Treasury or Parliamentary Controls. The Indirect Resource outturn was within the budget agreed with the department.

ESTATE RATIONALISATION

11. A key part of the Estate Strategy is to have an estate consisting of fewer larger sites appropriately located and making the best use of resources whilst remaining fully capable of meeting the military need. For some years, the MOD has been disposing of land and buildings reflecting changes to military needs. For example, a number of high value sites and buildings (including Duke of Yorks Headquarters and Chelsea Barracks) have been or are being disposed of in accordance with Treasury policy. Since 1999, the Department has disposed of land and buildings with a value of £1.69 billion pounds. This included reducing the MOD estate in London from 7 to 3 office buildings in the last 4 years. Future investment will be focused on those sites identified as anchor locations³ (eg High Wycombe, Catterick).

12. In 2005, the Department identified and funded a further series of rationalisation measures which would result in streamlined organisational structures and the release of parts of the estate for re-use or disposal. Those completed are:

- Merger of FLEET and 2nd Sea Lord HQs at Portsmouth (achieved April 06)
- The creation of Air Command through the collocation of Strike Command and Personnel & Training Command HQs at High Wycombe

Those still in planning are:

- The collocation of the former Defence Logistics Organisation (now part of Defence Equipment and Supply) at Abbey Wood, Bristol and Bath
- The planned collocation of HQ LAND and Adjutant General HQs at Andover (Project HYPERION) in 2009
- The rationalisation of the Chief of Defence Intelligence's estate

13. Other potential but yet to be approved rationalisations include the Midlands Medical Accommodation project which includes the relocation of HQ Defence Medical Education and Training Agency from Gosport and Keogh Barracks (Aldershot) to Lichfield, and the provision of SLA, SFA, messing and other facilities.

14. Other rationalisation projects include: Colchester PFI; Project Allenby/Connaught PFI (both transforming their respective Garrisons) and the MOD Estate London (MODEL)

15. PROJECT MODEL represents a significant rationalisation of the MOD's estate in Greater London, consolidating the facilities occupied by UK forces onto modern, integrated, fit-for-purpose facilities at Northolt. The Project is funded through disposal receipts from the sale of sites rendered surplus to requirements, and involves an innovative procurement strategy: "Prime Plus Contracting", which seeks the involvement of industry as an integrator of the four key project outputs: construction works, disposal of sites, finance and re-location of personnel. It releases 100 hectares of brownfield land for redevelopment.

³ Anchor locations are defined as those large sites that have an indefinite operational future, have capacity or potential for development, and will be the main foci for future operational activity and investment.

LONG TERM ESTATE DEVELOPMENT PLAN

16. The Defence Estate Strategy 2006 outlined a commitment to produce a long-term (20 year) strategic plan for the development of the estate by the end of 2007. This plan, known as the Defence Estate Development Plan, is currently being drafted with customer engagement from the individual TLBs and is scheduled to be completed by December 2007. The intention is to review the Plan biannually to ensure that it continues to meet evolving requirements.

17. There is an aspiration to develop Defence Communities in environments where civilian and military personnel and their families want to live and work both now and in the future, whilst recognising the sustainable development needs of others. In this context, the Army is considering “Super Garrisons”—distributed geographic entities that seek to concentrate formations and units in a coherent, efficient and effective manner thus improving military output. The model has already been developed in Aldershot, Catterick, Colchester and around Salisbury Plain but there is also an aspiration to develop a West Midlands Super Garrison based upon the RAF Stafford site and potentially RAF Cosford.

18. The Royal Navy already effectively has Super Garrisons centred around the three naval bases at Portsmouth, Plymouth and Faslane. The Royal Marines are progressively consolidating units in the Southwest of England. The equivalent for the RAF is a long term rationalization onto fewer, larger “hub” airfields. The most advanced of these is the development of RAF Brize Norton as the prime Defence Air Port of Departure (and it will become the Air Transport and Air to Air refuelling hub). Meanwhile the Joint Helicopter command is examining the benefit of a Support Helicopter Main Operating Base (Project Belvedere) with potential implications for airfields at Lyneham, Dishforth, Wattisham, Gutersloh, Benson and Odiham.

MAINTENANCE OF THE ESTATE

Prime Contracting

19. The Department let five Regional Prime Contracts between 2003 and 2005, covering the five geographical areas of Scotland, South West, South East, Central and East for the delivery of maintenance and construction of the built estate in Great Britain. Following the transfer of housing to DE in 2004, DE took on the responsibility for placing a national Housing Prime Contract to replace regional contractual arrangements. These Prime Contracts provide single points of responsibility for the management and delivery of projects and integrated estate services on most MOD establishments, and in total replaced over 600 individual contracts. In addition the LANDmarc contract covering the maintenance of the Army training estate is now managed by DE.

Service Accommodation

20. There has recently been a greater focus of Parliamentary and media attention on standards of Service Accommodation (both Families and Single Living). The position is that much is already at a high standard but more needs to be done to bring all accommodation up to the highest appropriate standard. The problems relate to a housing stock dating in large part from the 1950s and 1960s and to a legacy of under-investment, because the occupiers of the estate often used cuts in maintenance funding as a balancer or regulator of their budgets. Programmes to improve the standards of both kinds of accommodation are in place and are outlined below.

Service Family Accommodation (SFA)

21. The provision of housing for personnel and families is determined by the Defence Living Accommodation Strategy (DLAS). This aims to meet changing needs and aspirations through a ‘mixed economy’ comprising quality public funded SFA in the right locations to support mobility and choice for those individuals who choose greater stability. Initiatives to assist choice include: the long service advance of pay scheme, under which eligible individuals can apply for up to £8500 as a loan to assist with house purchase; and the joint Housing Advisory Office, the role of which is to brief and educate personnel about future housing opportunities.

22. DE is currently responsible for some 49,000 Service family homes in mainland Great Britain. Most of those in England and Wales were sold to Annington Homes Ltd in 1996 and leased back by MOD. MOD retained the responsibility for maintenance and upgrade. Annual rent to Anningtons is around £140 million per year.

23. DE manages SFA in mainland UK (overseas SFA is managed by the appropriate Top Level Budget holder). There are around 20,000 moves in and moves out of SFA each year. Accommodation charges, recommended by the Armed Forces Pay Review Body, are deducted from the pay of Service personnel, and DE receives these sums.

24. We accept that the initial service offered by the Housing Prime Contract was not up to the standards anticipated or required. This was caused by a large number of outstanding cases inherited from the old system, and by other causes which have now been rectified. 97% of emergency calls are currently being responded to within 3 hours of being notified where there is an immediate health and safety risk. In every case any make-safe process will be completed within 24 hours. This compares very well with the old system. Moreover, 82% of urgent calls are currently being responded to within 5 working days, and within 20 working days for routine repairs. The helpdesk is now operating very well, with all calls being answered in less than 2 minutes, and reported missed appointments are now down to around 1%. We are working hard to improve the performance in this critical area of service delivery. The average repair time taken to fix boilers/heating systems has also reduced since April 2006, despite the fact that more calls were received and no occupant is left without alternative heating while the problem is fixed. Finally, customer satisfaction levels have also improved with the latest statistics showing a 94% level of satisfaction (29% excellent, 49% good and 16% satisfactory).

25. Housing stock condition is categorised from Standard 1 for Condition (the best) to Standard 4 (the worst). Definitions of each category are at Annex C. Over the last 6 years, the percentage of housing stock at Standard 1 has risen from 41% to 59%. It is worth noting that Standard 1 for Condition is higher than the Decent Homes Standard set by the Department for Communities and Local Government. In addition, a further 36% is at Standard 2 with the rest at Standards 3 and 4. There is an ongoing programme of upgrades agreed with customers, with a minimum of 600 planned for this financial year. A refreshed longer term SFA upgrade programme will be submitted for Ministerial approval later this year. A total of £35 million is also planned to be spent on life-cycle replacements, for example boiler replacements and internal and external decoration.

Single Living Accommodation (SLA)

26. SLA is being progressively upgraded through a number of contracts. The Single Living Accommodation Modernisation (SLAM) Project has so far delivered over 6,000 new bedspaces with a further 3,000 to be delivered by the end of this financial year. The second phase of this Project was announced by the Prime Minister on 11 January. This will provide a minimum of 3,800 upgraded bedspaces.

27. Running in parallel with Project SLAM and working to comparable timescales, are a number of separate and existing projects to modernise SLA: in Scotland partially through the Regional Prime Contract, Project CHALLENGER in Northern Ireland, the Programme to Upgrade and Modernise Accommodation (PUMA) in Germany and separate projects for Gibraltar and Cyprus, as well as projects such as Allenby/Connaught and Colchester PFIs.

28. Upgraded SLA usually provides single en-suite rooms for trained personnel of all ranks. These greatly improved living conditions are expected to have a beneficial impact on recruitment and retention of servicemen and women with a consequent enhancement in their operational effectiveness. The new accommodation has received widespread approval from Service personnel who occupy it; 37% of those in the new accommodation say it will influence their decision to remain in the Services.

29. In total, across MOD just over 20,000 new or upgraded single living bed spaces have been delivered between 2001–02 and the end of the present financial year. And a further 20,000 will be delivered over the next three years.

PROJECT AQUATRINE

30. Project Aquatrine is one of the Government's most significant Public Private Partnership projects that has transferred the responsibility for the operation and maintenance of MOD's water and wastewater assets and infrastructure throughout Great Britain to three private sector providers.

31. The project comprises three 25-year Private Finance Initiative arrangements, known as Packages, worth £2.3Bn in total covering Great Britain. The Project has enabled the transfer of environmental risk to those in the private sector who are best placed to manage it and enabled the MOD to focus more on its core activities.

THE VOLUNTEER ESTATE

32. The UK Volunteer Estate (VE) comprises facilities in which the Territorial Army, Royal Naval Reserve and Royal Marines Reserve and the Royal Auxiliary Air Force (RAuxAF) can be trained. It also encompasses facilities used by the MOD sponsored youth organisations, Army Cadet Force, the Air Training Corps and the Combined Cadet Force. The VE is spread throughout the UK, its concentration matching population density and is maintained by 13 Reserve Forces' and Cadets' Associations (RFCAs) who receive funding for estate work through customer budgetary structures.

33. From 1 April 2007, DE has become responsible for maintaining the VE to meet the operational requirements of customers, but will continue to use the RFCAs to deliver estate services to the VE. This does not apply to the RAuxAF who are predominately based on RAF stations maintained by RPCs. DE is

working with the new 'Director Volunteer Estate' within the Council of RFCAs to bring about the necessary changes to the RFCA 'supply chain' which will give them flexibility and empowerment whilst establishing an appropriate level of assurance for DE. The benefits of the changes are: to achieve stable funding for the VE; allow for a greater degree of planning by the RFCAs; a greater consistency in the service customers receive; and enable the VE to be managed on a national basis so that resources go to areas of greatest need.

MEASURING ESTATE CONDITION

34. Due to the wide variety and nature of the numerous contractual arrangements previously in place to maintain the MOD estate no single measure of estate condition was previously available. With the introduction of Prime Contracting and the creation of DE this has facilitated in the development of the Estate Performance Measurement System (EPMS) and the Estate Planning Tool (EPT).

35. The EPMS is being developed to provide a central performance management system, which allows performance data to be shared across both DE and the customer community. EPMS measures performance across six key, customer identified, areas; Estate Condition, Programme Effectiveness, Efficiency, Customer Satisfaction, Safety and Sustainability.

36. The web-enabled EPT provides a central database to store and analyse data on estate condition. EPT captures condition data using a single physical condition grading methodology and allows this information to be analysed to inform improvement and future investment. A cornerstone of EPT and EPMS is 'Target Condition'. This is the required condition for an asset, as agreed by the customers, and is captured and held in the establishments' Integrated Estate Management Plans (IEMPs). The Target Condition for an asset takes into account the assets importance in supporting military capability, safety, sustainability and any future plans for the use of the asset. At present the single physical condition grading methodology and EPT are only in use for DE maintained estate (excluding family accommodation) although we are looking to broaden the scope into accommodation and non-DE maintained areas

37. An additional Accommodation Module is being developed for EPT to allow condition data to be readily accessible for both Service Family Accommodation (SFA) and Single Living Accommodation (SLA). The EPT will also capture factors for the Scaling and location of accommodation.

SUSTAINABLE DEVELOPMENT

38. The development, occupation and use of the defence estate can have a significant impact on the environment. However, MOD has continued to build on its reputation as a good steward by developing strategies, procedures and processes to identify and manage environmental and sustainability impacts in support of Government policies and targets. These management approaches are being integrated into the contractual arrangements of private partners by DE working with the suppliers individually and through Supplier Associations, to ensure that the Department's best practice requirements are supported through its procurement activities (at Woodbridge Airfield, for example, 98% of all waste material was recycled during an £80M rebuild). As a major landowner, MOD has considerable environmental responsibilities and challenges to face.

39. The Government's approach to Sustainable Development is set out in its new strategy 'Securing the Future', launched 7 March 2005. It is committed to ensuring that sustainable development is at the heart of policy making and estate management of all its central departments and executive agencies. MOD achieved the target placed on all departments to produce a focused, sustainable development action plan by December 2005.

40. The MOD fully supports the development and implementation of "Sustainable Operations on the Government Estate", launched in 2006, the main vehicle for improving, assessing and managing the performance of the Government estate covering all the key environmental and social impacts and setting challenging targets.

41. DE supports 2nd PUS as the Department's Sustainable Development Champion and as chair of the new cross-Government Sustainable Development Operations Board which is supported by a cross-Government Sustainable Operations Working Group chaired by a DE Director at official level. Since 2000 a sustainability appraisal has to be completed for every policy, programme or project. DE has developed a suite of tool-sets and strategies to help to deliver this commitment. The Environmental and Sustainability Appraisal Tool Handbook and the Defence Related Environmental Assessment Methodology provide Project Managers with a series of checklists for identifying significant environmental impacts of future developments. These are widely perceived as setting standards of best practice in Government.

42. Environmental Management Systems that comply with International Organisation for Standardisation (known worldwide as ISO) 14001 are being introduced at all major MOD sites. These require site managers to identify impacts of site occupation, to set targets to reduce significant impacts and to monitor and report progress through an Annual Management Review and a periodic MOD Audit process.

43. Integrated Land Management Plans are used to assess and manage impacts at all principal training areas. These 5-year rolling plans ensure that defence-related activities at the site take account of the requirement for nature conservation, woodland protection, heritage management and public access. Smaller sites are adopting less detailed plans known as Integrated Rural Management Plans.

44. External Stakeholder Liaison on environmental issues is carried out through a series of consultation committees. An annual Statutory Bodies and non-Governmental Organisation Conference is supported by a Liaison Committee for the Environment which in turn has Advisory Sub-Groups in England, Scotland and Wales.

45. A network of some 180 voluntary Conservation Groups support the Department by monitoring habitats and species, providing input to management plans and even practical work in support of nature conservation and archaeology on the rural estate. Sanctuary Magazine and associated Sanctuary Award records and recognises their efforts as well as promoting MOD's environmental and heritage policies.

ENERGY MANAGEMENT

46. Energy supply is essential to support MOD operations but it is recognised that increasing energy consumption and costs and climate change will have significant impacts for the Department. The MOD consumes two thirds of the energy used by Government and spends around £28M a year on non-operational energy. It has some 4,000 sites of which 220 account for 76% of all energy consumed by MOD. These sites are now being targeted to identify opportunities to improve energy efficiency and reduce consumption.

47. In April 2006, the Estate Utilities Board (EUB) was formed at the direction of the DEC, to deliver a comprehensive programme of work to drive down energy and water consumption across the whole estate and to explore different avenues and opportunities with site-based teams and industry partners. The EUB has developed a non-operational energy management strategy out of which will fall site-specific energy action plans. A programme plan has been established and works streams developed, to identify savings and drive through efficiency.

48. In moving towards a carbon neutral office estate by 2012, the MOD is using the agreed Office of Government Commerce (OGC) definition of the MOD civil estate and work continues to agree the exact list (building by building) with OGC. Plans to deliver carbon neutrality for the office estate have yet to be fully developed, but will probably be achieved through a combination of energy efficient measures, increased use of renewable technologies and offsetting. While more work is required, it is expected that carbon reduction projects currently being undertaken on the estate could offset emissions that cannot be eliminated. By 2005–06, the department had achieved around 6% reduction in carbon emissions based on 1999–2000 levels.

HERITAGE

49. The MOD owns many older buildings and fully recognises the importance of heritage for the nation and how the historic environment can enhance the working environment. This cultural resource supports the ethos and heritage of MOD.

50. The Department's heritage portfolio represents over half the Government's historic environment assets, and in the UK includes over 800 historic buildings, in excess of 9,000 archaeological monuments (of which more than 900 are scheduled) and nine Registered Parks and Gardens. Areas of the estate also fall within 6 World Heritage Sites and a number of defence sites have been designated as or are located within Conservation Areas. The Overseas estate also contains important historic features, such as classical remains in Cyprus and historic buildings in Gibraltar (a candidate World Heritage Site).

51. The Department endeavours to be imaginative in examining the options for the re-use of historic buildings when set against operational priorities and other alternatives.

DEFENCE ESTATES—KEY TARGETS—2005–06

2.14 The performance targets laid out in the table below are consistent with the targets set out in the Defence Estates Corporate Plan 2005-2010.

KT1—To improve the defence estate in a sustainable manner to improve its fitness for purpose and condition.

| | | |
|--|--|---|
| 1a. Improve Single Living Accommodation (SLA) to Grade 1 (Project SLAM and SLA Parallel Projects (PP), including overseas). | Project SLAM—3,570 SLAM bedspaces were delivered in year against a target of 2,500. SLA Parallel Projects—3,055 bed spaces were delivered against a target 5,300. | Target exceeded—The Defence Estates SLAM Programme delivered an additional 1,070 bedspaces, exceeding the target by over 40%. Target not achieved—The number of bedspaces delivered by the TLBs has failed to meet the target ⁴ . |
| 1b. Improve Service Families Accommodation (SFA) by completing the upgrade of properties to Standard I for Condition (SIFC) as part of the programme to upgrade all core stock required for the longer term. | Delivery of minimum number of upgraded properties (600). | Target exceeded—1,705 upgraded properties complete at end of Qtr 4. (Exceeding target by 184%). |
| 1c. To improve and maintain the defence estate. | The target condition for the built estate has been established with customers. This now forms a baseline against which the performance of Regional Prime Contracting (RPC) will be measured in future. | Target achieved—in line with prime contracting roll out programme. |
| 1d. Sites of Special Scientific Interest (SSSI) in Satisfactory Condition (95% by 2010). | 79% of SSSIs have met the criteria for satisfactory condition. | Target exceeded—Target of 75% of MOD sites in England. |

KT 2—To provide an estate of the right size through the consolidation of assets.

| | | |
|---|---|--|
| 2a. Provide an estate of the right size through implementing agreed Estate Rationalisation (ER) milestones. | Evidence of performance is reflected in the contribution to the achievement of a number of estate related projects, for example the progress of TLB Co-locations. | Target achieved—Progress towards estate of the right size resulting in a rationalised estate with financial receipts obtained through site disposal. |
| 2b. Achieve Accrued Estates Disposal Receipts (Gross) | Achieve accrued Estates Disposal Receipts (gross) of £250m. | Target exceeded—Receipts of £257.5m (excluding assets transferred to the Private Sector). |

KT 3—To improve customer satisfaction and service delivery.

| | | |
|---|--|------------------|
| 3a. Decrease customer dissatisfaction with the quality of property provided as SFA. | Housing Directorate has now completed the development of the new survey which will be rolled out in 2006–07. | Target achieved. |
| 3b. Decrease customer dissatisfaction with service delivery to SFA occupants | Housing Directorate has now completed the development of the new survey which will be rolled out in 2006–07. | Target achieved. |

⁴ Due to later starts to Colchester and Allenby/Connaught PFIs.

| | | |
|---|---|-----------------|
| 3c. Increase customer satisfaction with <i>Defence Estates</i> service delivery to Customer Estate Organisations (CEstOs) | The measure for 2005–06 was overall achievement of Customer Service Agreement (CSAs) to be ? 90%. The CSAs measure delivery against performance targets but contain an element of customer satisfaction. For 2006–07 a separate measure of customer satisfaction will be developed. | Target achieved |
|---|---|-----------------|

KT 4—Achieve key milestones for implementation of key MOD Estates Change Initiatives.

| | | |
|--|---|---|
| 4a. Regional Prime Contracts | RPC (Central) Contract Awarded November 2005 against a target of September 2005. RPC (East) Contract Award November 2005 against a target of October 2005. | Target not achieved—Due to protracted contract negotiations, but in Service Date of April 2006 achieved with Contract Award within Project tolerance of August to December 2005 Target not achieved—Date of Contract award not met but no impact on planned go live date of June 2006. |
| 4b. Defence Housing | Housing Prime Contract (HPC) awarded 14 November 2005. Progress made against streamlined Housing Directorate structure. | Target not achieved—Due to extended contractual negotiations target was August 2005. |
| 4c. Project Alexander | Deferred Scope Implementation introduced across Northern Ireland (NI), Germany and UK training estate. Completion of Phase 1 has been achieved. | Target achieved—Implementation achieved by April 2006. Target achieved—All assets now transferred with 2 new organisations up and running, Customer and Supplier Organisations with Commercial and associated finance to manage the assets in place accordingly. |
| 4d. Defence Training Estate Rationalisation Study (DTERS). | | |

KT 5—Deliver value for money efficiencies.

| | | |
|---|--|--|
| 5a. Deliver 30% through-life value for money output efficiencies through the introduction of Prime Contracting. | Following the successful conclusion of pilots for the Estate Performance Measurement System (EPMS) at 9 MOD locations, it was agreed to roll-out a single asset grading methodology, introduce Integrated Estate Management Plans (IEMPs), and demonstrate Value for Money using the developed model and associated performance indicators, across the defence estate. | Target achieved—Demonstrated 3% through-life Value For Money (VFM) efficiency target for 2005–06 in Prime Contracts against baseline. |
| 5b. To deliver output efficiencies from Project SLAM. | £5.04m. This figure is taken directly from the Departmental Efficiency Programme. | Target achieved—Delivered profiled efficiency. |
| 5c. To deliver output efficiencies from Project Aquatrine. | £11.04m. This figure is taken directly from the Departmental Efficiency Programme. | Target achieved—There is already improvement with significant investment in infrastructure taking place. |
| 5d. To deliver the savings from the introduction of the Housing Prime Contract (HPC). | Initial restructuring of “soft” housing service is underway but further economies are being examined. Restructuring will be complete by April 2007. | Target not achieved—Due to delay in awarding HPC. The transfer of responsibility for all repairs and maintenance to Services Family Accommodation (SFA) to Housing Prime Contractor completed March 2006. Some Housing Directorate staff remain to be re-deployed. |

| | | |
|--|--|---|
| 5e. To deliver the savings from restructuring and the merger of DE and Defence Housing Executive. | New Housing Directorate Head Office structure in place and nine regional structures have been streamlined into two—North and South. Housing Directorate services managed within reduced budget allocation. | Partially achieved—£2.1m merger savings achieved. £500k unable to be realised due to late completion of final structure. |
| 5f. To reduce the management margin of vacant housing to 10% by November 2005 (ie the proportion of working stock that is vacant, excluding housing earmarked for disposal in the next 12 months). | By November 2005 the management margin was 13%. If, however, the proportion of SFA held vacant awaiting deployments and/or rationalisation decisions by the Services is excluded, the margin reduces to 6.8%. The corresponding figures at 31 March 2006 were 13.9% and 7.9% respectively. The number of empty properties will reduce from 1 April 2006 as Gurkha families take up SFA following changes to their terms and conditions of service. | Target not achieved—Given the continued uncertainty in respect of many Service deployments and rationalisation studies there is a need to retain a large number of vacant properties (c3,000) to meet potential future requirements. The target of 10% will not be achieved until firm decisions have been taken and implemented. |

Annex B

DEFENCE ESTATES

ANALYSIS OF ADDITIONS—2005–06

ASSETS UNDER CONSTRUCTION/LAND & BUILDINGS

| <i>Projects over £1m</i> | <i>£'000</i> |
|--|--------------|
| Single Living Accommodation Modernisation | 143,998 |
| North—Woodbridge Barracks | 51,978 |
| North—Neptune SLA | 32,411 |
| South—Brize Norton Runway, taxiways | 20,313 |
| North—Glencorse SFA | 15,542 |
| Overseas—Project Expenditure | 9,385 |
| North—Aldergrove C site works | 8,469 |
| South—Marchwood Housing | 8,364 |
| North—Core Services Regional Prime Contract | 7,880 |
| Europe—Proj expend | 6,418 |
| South—Squadron Lines RM Poole | 6,083 |
| North—Conningsby sq Accom | 5,434 |
| South—ATC Tower | 5,315 |
| Housing—Middle Wallop | 4,749 |
| South—Pirbright New MRS | 4,234 |
| South—Ashchurch | 3,816 |
| South—Military Courts Centre Bulford | 3,690 |
| North—Ballykinler FQs Work | 3,496 |
| South—RM Poole | 3,465 |
| North—Prime Contract One | 3,273 |
| North—Cottesmore | 3,196 |
| South—Pirbright JR Kitchen | 3,131 |
| North—Conningsby Accom for E flight 202 Sqd | 2,916 |
| North—Chilwell | 2,838 |
| South—Bowman Classrooms | 2,731 |
| South—Falklands Jetty | 2,720 |
| South—Chickrell Trg Camp additional capacity | 2,432 |
| South—Lympstone Galley | 2,391 |
| North—Beith Roof IWC6 | 2,369 |
| North—Chicksands | 2,221 |
| South—South Cerney | 2,046 |
| North—WYG Kineton Felix | 2,016 |
| South—Dalton Barracks | 2,008 |
| North—DCU MPH | 1,941 |
| South—Project EMMA | 1,853 |
| South—Alexander Bks | 1,782 |
| South—RNAS Culdrose | 1,719 |
| South—Hyde Park Barracks Stables | 1,641 |

| | |
|--|--------------|
| <i>Projects over £1m</i> | <i>£'000</i> |
| North—East DTEG Services | 1,573 |
| South—Accom Phase 1 Kitchen | 1,551 |
| North—Prime Contract One —Ballykinler JRSLA | 1,445 |
| South—Controlled Humidity Environment Chal 2 | 1,434 |
| North—Coulport RIMS Doors | 1,258 |
| South—South Yard Enclave | 1,196 |
| South—Dry Scuff | 1,175 |
| South—Project STAR | 1,098 |
| | 400,994 |
| Projects under £1m | 16,115 |
| <i>Aquatrine PFI Residual Interest</i> | |
| Package A | 3,223 |
| Package B | 1,388 |
| Package C | 3,054 |
| | 7,665 |
| TOTAL ASSETS UNDER CONSTRUCTION ADDITIONS | 424,774 |
| ACQUISITION OF THE SOMERSET SITE, BRISTOL | 20,994 |
| TOTAL ADDITIONS | 445,768 |

Annex C*Service Families Accommodation: Standard for Condition Definitions of Categories*

Standard for Condition is calculated from 102 different attributes organised into the following eight categories: Health and Safety, Sanitary, Kitchen, Energy, Efficiency, Building Fabric, Electrical, Security and Bedroom Standard. Standard 1 properties achieve a standard of 1 in all eight categories.

A property assessed as Standard 2 achieves a standard of 1 or 2 in each category, with a standard of 1 usually reached in at least five categories. Examples of required improvements are: a thermostatic shower, new kitchen, or an upgrade to loft insulation.

A property assessed as Standard 3 only achieves a Standard of 3 in at least one of the eight categories. Usually a Standard of 1 or 2 is reached in at least half of the categories. Examples of required improvements are: a complete re-wire and consumer unit, new kitchen, bathroom, and an upgrade to insulation of lofts and plumbing.

A property at Standard 4 is typically assessed as Standard 4 in five or fewer categories. Standard 4 properties will typically require a new bathroom, electrical system, kitchen, insulation upgrade, and health and safety review.

17 April 2007

Memorandum from the Defence Manufacturers Association

1. Over the past four to five years, the MoD has steadily moved towards greater use of industry support solutions as it seeks to reduce its overheads and find greater operational effectiveness. More recently there have been moves to contract for availability or capability where this is achievable within industry and does not directly affect frontline military capability. To enable the most proficient contracting for availability or capability, commercial decisions on investment need to be taken in the three areas of acquisition, its through life management and the infrastructure needed to deliver the availability or capability.

2. In 2004, the Defence Manufacturers Association established an “Infrastructure Group” for members who have a particular interest or involvement in the provision of the infrastructure needed to support a capability, both in the UK and overseas. The Group has 33 members currently including DML, KBR, Carrillion, Rolls Royce, Nexor, Sodexho, Turner Facilities Management and VT.

3. Over the past three years, this Group has achieved an excellent rapport with, and support from, the Chief Executive of Defence Estates, Vice Admiral Peter Dunt, CB, who has personally briefed the members regularly and listened to Industry’s suggestions and feedback. In addition, the Chief Executive has made members of his executive Board available to attend meetings, which has led to greatly improved consultation with Industry and a more coherent approach to the management of the estate than hitherto. The group has also been instrumental in bringing together MoD officials from Defence Estates, the DLO and DPA (prior to the formation of the DE&S) to bring focus to programmes that span more than one area of business.

The group continues to emphasise the need for ever closer liaison between DE and DE&S on estate and infrastructure issues related to equipment programmes, and this is particularly important if the Infrastructure “Line of Development” is to be properly included in TLMC planning. Recent discussions have centred on how the MoD can be more transparent with their longer term planning (Non-Equipment Investment Plan), so that in turn the Industry can be forewarned of forthcoming requirements and plan accordingly and this issue too is showing significant improvement.

4. Not all infrastructure and construction projects are managed by Defence Estates, as an example, the Allenby/Connaught PFI project. We know that this is an issue regularly debated within the MOD. Industry’s views are mixed and relate to their individual experience and relationships between companies and the MOD “manager”. Generally companies are concerned only that projects are managed professionally and effectively. In this area, as much as any in MOD acquisition, the timeliness of decision making is important. The general view is that, however managed, decisions are very slow to be made for reasons often outside the control of Defence Estates. Some projects are many years in the gestation. The scale and complexity of the development of the defence estate over the next two decades as a result of currently planned projects, relocation of units from Germany, the Defence Training Review and major equipment project with infrastructure implications (eg CVF) is considerable. It will require timely decision making and close dialogue with Industry if the right investment decisions are to be made and resources made available by the companies concerned.

5. We very much hope that the helpful dialogue that has developed through the creation of our Infrastructure Group will continue and that trust and confidence will continue to grow under the new Chief Executive.

1 May 2007

Memorandum from the Council for National Parks

1. The Council for National Parks (CNP) welcomes the opportunity to submit written evidence to the Committee’s inquiry into the Scrutiny of Defence Estates. CNP is the national charity that works to protect and enhance the National Parks of England and Wales, and areas that merit National Park status, and promote understanding and quiet enjoyment of them for the benefit of all.

2. Military training is an activity which demands various resource commitments. We suggest that estate rationalisation across England and Wales provides an opportunity to reduce the adverse impacts of military training on National Park purposes.⁵ This process could usefully be informed by an independent review of military training and National Parks.

3. The Ministry of Defence has a statutory duty to have regard to National Park purposes,⁶ including during the process of estate rationalisation. We strongly recommend that the Committee considers this duty in the context of circular 12/96⁷ to ensure that no new, renewed or intensified defence use of land in National Parks results from the rationalisation of the defence estate. Instead, the rationalisation process should be used by government to scrutinise existing training, infrastructure and resource commitments within National Parks in order to identify opportunities to rationalise the estate whilst meeting current training needs. This would help avoid situations such as that at Dering Lines in the Brecon Beacons National Park, where a planning application has been submitted for a change of use to allow military training on a permanent basis. This is despite alternative training facilities being available outside the National Park at Sennybridge and the proposal appearing to emanate from an opportunistic land purchase rather than a carefully considered case of military training need.

4. To reiterate written evidence submitted by CNP to the Committee during its inquiry into UK Defence: Commitments and Resources, we consider that there are opportunities in certain National Parks for a reconfiguration of military training areas that could continue to meet current and future training needs while saving resources. The most prominent example is in the Dartmoor National Park where there is clear evidence⁸ of a large disparity between permitted use of land for live firing training and the actual use for this purpose. Between 2002 and 2005, across the three Dartmoor ranges (Okehampton, Willsworthy and Merrivale) an average of 530 days were permitted for live firing each year but only an average of 274 days per year was actually used. Live firing on the three ranges reduces public access to the area, has an adverse impact on tranquillity and damages the Park’s landscape because of infrastructure such as look out huts and moorland tracks.

⁵ Section 5 of the 1949 National Parks and Access to the Countryside Act, as amended by Section 61 of the 1995 Environment Act.

⁶ Section 11A of the 1949 National Parks and Access to the Countryside Act, as amended by Section 62 of the 1995 Environment Act.

⁷ Para 56, Circular 12/96, DoE, 1996.

⁸ Council for National Parks (2007) A Continuing Need? Military Training and the Dartmoor National Park.

5. However, it should be noted that live firing also takes place within the Brecon Beacons, Pembrokeshire Coast, Northumberland and the Peak District National Parks where similar opportunities could be sought.

6. As part of the rationalisation process, whilst identifying “anchor locations” and “seeking to consolidate dispersed units onto its existing garrisons such as Catterick,”⁹ CNP suggests the Committee is mindful of the indirect adverse impacts that this might have on National Parks, for example through troop movements or pressure for housing.

7. Some military training activities, for example, live firing and low flying, can have an adverse impact on tranquillity, a key feature of the special qualities of National Parks. The government has stated that “In those areas of Parks that are tranquil, it is right that there should be a presumption against activities that would undermine that tranquillity”.¹⁰ The importance of tranquillity has also been recognised in research recently published by the Campaign to Protect Rural England.¹¹ It has prepared a tool to measure tranquillity which could be used to inform decisions which may affect tranquillity, and could be a useful aid to the rationalisation process.

8. The context for the Committee’s inquiry is set by a number of factors, including a strategic aim to “have an estate of the right size . . . of fewer, larger sites in the UK and overseas, appropriately located . . .”,¹² considerations of greater use of land abroad for military training requirements and the aspiration of Defence Estates to rationalise UK training operations (one recent example being Project Belvedere, the rationalisation of the Joint Helicopter Command across the UK). This leads CNP to maintain its recommendation¹³ that an independent review into military training and National Parks should be undertaken. This would readily feed into existing and future Defence Estate strategic plans to rationalise, which themselves appear to be geographically unlimited, and would help ensure that opportunities for rationalisation which would benefit National Parks are given high priority.

9. We hope that this submission is helpful to the Committee. Please do not hesitate to contact me should you require clarification of any of the above or any further information.

10 May 2007

Memorandum from Bob Russell MP

I understand that the Defence Select Committee is currently holding an Inquiry into housing accommodation provided by the Ministry of Defence for the families of Service personnel. This is a matter which has long interested me, dating back to 1996 when the entire MOD housing stock was sold by the then Government to Annington Homes.

I therefore wish to make a formal submission of evidence to the Committee, and with this letter I enclose various Parliamentary Written Questions and Answers plus *Hansard* extracts of comments which I have made on this matter this year.¹⁴ Over the years I have made several other contributions on this subject.

I am prepared to attend a meeting of the Committee to comment further, and to answer questions.

The question of ownership by Annington, and the massive loss to the public purse firstly through the original sale price and in subsequent property disposals carried out by Annington, is something which I believe the Defence Select Committee may care to investigate as part of its Inquiry.

There are also questions to be asked about the involvement of the MOD—and the continued contribution from the public purse towards a huge property portfolio owned by a private company—into the maintenance of housing stock whose increasing value is not of benefit to the public but to a private company, particularly when sales by Annington are increasingly to the company’s advantage.

If the MOD had retained ownership of the houses, it would still be required (as it currently is) to pay for maintenance BUT when property disposals occurred (either houses or land for non-MOD developments) then the proceeds could be used to enhance the property maintenance and upgrade programme for houses occupied by the families of members of HM Armed Forces.

⁹ Page 17, Defence Estate Strategy 2006 In Trust and on Trust.

¹⁰ Page 25, Review of English National Park Authorities, Defra, July 2002.

¹¹ <http://www.cpre.org.uk/campaigns/landscape/tranquillity>.

¹² Page 7, Defence Estate Strategy 2006 In Trust and on Trust.

¹³ Council for National Parks (2007) Wild but Not Free: Military Training in National Parks.

¹⁴ Not printed.

Is it the case that the public purse will end up spending more money on maintaining and modernising houses—which it does not own—than the capital receipt which the Government received when it sold the MOD housing stock to Annington in 1996?

I believe that the Government should buy back the MOD housing, using the same formula to value the stock as that used in 1996.

I hope that the attached, including a brief article from the BBC headed “Who is responsible for military homes?”,¹⁵ is of interest to the Committee’s Inquiry. Thank you.

7 June 2007

Supplementary memorandum from the Ministry of Defence

Q1 One of the targets set by Defence Estates for 2006/07 was to roll out a new survey to Service personnel and families, developed by the Housing Directorate. Did this happen, and, if so, to what improvements in service delivery has it led?

A1 The MOD has redesigned its Housing Customer Attitude Survey (CAS) which is far more focused and no longer includes non-estate issues, including levels of long term detached duty and operational commitments. The most recent CAS, which was conducted in late 2006, included overseas occupants and reflects the drive to develop consistent worldwide housing standards, charging and reporting mechanisms. The findings of the CAS should be available shortly and will be sent to the Committee.

Q2 What lessons has DE learned from the targets set out in the previous Corporate Plan, and are the targets in the current Corporate Plan sufficiently challenging?

A2 The 2006–07 Corporate Plan was directly informed by the achievements against the performance achieved against the 2005–06 targets, as reported in the Annual Report and Accounts for that year. Some of the targets are part of rolling projects such as the Single Living Accommodation Modernisation programme, and the number of bedspaces to be delivered will be based on past performance. An example of lessons learned from the performance in 2005–06 was to ensure that targets for the placing of complex contracts, eg on Regional and Housing Prime Contracts needed to be more realistic in order to meet the associated efficiency targets. The targets are also influenced by the outcome of the Departmental financial planning rounds and are then included in the annual Service Delivery Agreement which is closely monitored. Our view is that, within the funding available the targets are challenging but achievable, however they are not regarded as a “cap” and if we can find ways of achieving more, we will do so.

Q3 One of the key risks in the current Corporate Plan is “Incomplete and/or inconsistent implementation of Health and Safety systems”. Why is this a risk, what are you doing to mitigate it, and how have the key risks changed since the previous Corporate Plan?

A3(a) *Why is this a risk?* Tens of thousands of visiting workers and contractors attend MOD sites every day to undertake work. MOD has a legal responsibility for the health and safety of both visitors and contractors whilst they are on MOD premises. The Department has prescribed Management Arrangements to enable it to discharge its statutory obligations. Evidence gathered by DE and its contractors has shown that these arrangements are not being consistently applied across the defence estate, particularly where there are a number of different occupants of a site, and where several contractors may be working at the same time. Consequently staff and contractors may be being put at risk.

A3(b) *What is being done to mitigate this risk?* The System to co-ordinate activities on multi-occupier sites is under rigorous examination, using Scotland as a lead area. The aim is to identify barriers to effective operation and improve the implementation levels. Based on the lessons learned from Scotland a programme is being developed to extend the activity to other areas of the defence estate.

A3(c) *How have the key risks changed since the previous Corporate Plan?* The importance of secure Management Arrangements for Health and Safety is now reflected as a key risk in the DE Corporate Plan. While performance has always been monitored internally, including it as a key risk demonstrates our commitment to driving improvement across the business.

¹⁵ Not printed.

Q4 Can you supply a breakdown by rank of Service personnel in different Standards of accommodation?

A4 Service Families Accommodation (SFA) is provided in accordance with the published Tri-Service Accommodation Regulations. The percentage of houses in each Standard for Condition for each Type of SFA, along with the Service ranks entitled to it (so far as this information is held centrally), is shown in the following table:

ACCOMMODATION ENTITLEMENTS AND PROVISION BY STANDARD FOR
CONDITION—ALL SERVICE OFFICERS

| <i>SFA</i> | <i>Royal Navy</i> | <i>Army</i> | <i>RAF</i> | <i>S1fC</i> % | <i>S2fC</i> % | <i>S3fC</i> % | <i>S4fC</i> % |
|----------------|--|-----------------------|--|------------------|------------------|------------------|------------------|
| Type 1 | Admiral, Vice Admiral | General, Lt Gen | Air Chief Marshal, Air Marshal | 29 | 46 | 25 | 0 |
| Type 2 | Rear Admiral, Commodore, Capt RN | Maj Gen, Brig, Col | Air Vice Marshal, Air Commodore, Gp Capt | 46 | 41 | 12 | 1 |
| Type 3 | Commodore, Capt RN, Cdr | Brig, Col, Lt Col | Air Commodore, Gp Capt, Wg Cdr | 54 | 40 | 6 | 0 |
| Type 4 | Lt Cdr | Major | Sqn Ldr | 53 | 42 | 4 | 1 |
| Type 5 Special | Lt Cdr | Major | Sqn Ldr | 36 | 53 | 5 | 1 |
| Type 5 | Lt RN and below | Captain and below | Flt Lt and below | 57 | 40 | 2 | 1 |

Note: All figures are rounded to the nearest whole percent. Some Type 5 Special SFA is not categorised, so the percentage figures do not add up to 100.

OTHER RANKS

The types of SFA offered to other ranks is affected by their number of dependants. Given the size of the population, the information is not readily available but will be submitted as soon as possible to the Committee.

Q5 Can you provide copies of the 2003 (ROSER) and 2005 (LUNN) reviews of senior officers' accommodation?

A5 Copies of both reports are attached.¹⁶ These have been redacted in accord with the Data Protection Act to remove references to individuals and addresses of individual Official Service Residences as release of the latter could have security implications.

Q6 Can you provide a note on whether Service families are given first refusal on the purchase of their homes if the MoD decides they are no longer required; the numbers (and proportion) of such houses sold to their sitting tenants; and to whom other houses are sold?

A6 There is a difference of approach between those properties owned by Annington Homes Ltd (AHL), and those retained by MOD (for instance in Scotland). In the booklet, "The Right Foundation", supplied by MOD to all SFA occupants on completion of the sale in 1996, AHL made a statement in which it voluntarily offered to help Service personnel to become home-owners by allowing Service and ex-Service discounts on the properties it would sell (taking account of market factors and length of service) and would offer attractively priced mortgages for Service families. Whilst it was not possible to structure a mortgage package, AHL typically offers service quotas on site ahead of the general public and specific discounts on certain sites plus added incentives for years served, as well as access to all the special offers available to the general public. Since 5 November 1996 when the company started to date (1 May 2007) 30% of private sales have been to Service or ex-Service buyers with a total discount of £12.3 million. More than 50% of AHL's purchasers in the last five years have been key workers and more than 30% first time buyers. AHL have striven to provide Service quotas on medium to large volume sales whereby Service personnel or their representatives get first choice, ahead of the general public, on 50% of the properties for sale on a first come first served basis provided they are in the queue by 12.00 noon on the launch day. This occurred recently at Coltishall where there was a Service quota of 24 homes out of 48 which resulted in 17 sales to Service buyers. As a condition of the AHL sale, the Treasury gain a share of the profit above the original selling price on all assets disposed of. The share agreement ends in 2012.

¹⁶ Not printed.

In disposing of surplus property itself, MOD is constrained by Treasury Guidelines (set out in Government Accounting Chapter 24) under which the property should firstly be offered to other Government Departments and Public Bodies through English Partnerships' "Register of Surplus Public Sector Property". MOD must also consider whether the property should be offered back to the former owners under the "Crichel Down" rules. Otherwise properties are generally sold on the open market in order to gain best value for money for the taxpayer (ie market value) under the Treasury rules.

In order to achieve best value, properties disposed of directly by MOD are sold with vacant possession. When properties are sold by MOD, Service personnel are not given first refusal. However, further assistance to current and former Service personnel is available through the Joint Service Housing Advice Office (JSHAO), which offers advice and guidance in sourcing accommodation. The Office also operates a scheme with a number of Housing Associations in England and Wales which give nomination rights to help apply for social housing in areas where there is no local connection, but where Service personnel would wish to reside. Various incentives are also available to Service personnel to assist them buying on the open market (eg MOD Long Service Advance of Pay Scheme, the Key Worker Living Scheme and the Government's First Time Buyer Initiative).

While MOD accommodation sales do not therefore offer preferential treatment to Service personnel, there are specific and inclusive schemes which do give Service personnel advantages over the general public. MOD is constantly looking for opportunities to expand the options available to personnel and to assist in creating bespoke packages to suit Service personnel, such as shared equity schemes.

Q7 Can you tell us the percentage of Service personnel living in accommodation which is not deemed to be in "good tenatable repair"?

A7 "Good tenatable repair" is not a term used by MOD. It does, however, appear in the agreement with AHL as a measure of the condition of surplus SFA returned to them by MOD, usually having been unoccupied for a period. By their nature, no Service personnel are living in such accommodation.

In relation to MOD's own standards for condition, 102 families (some 0.2% of the total SFA world-wide) are living in houses in the UK at the lowest standard for condition (four). All of these houses are a high priority for upgrading.

Q8 Can you provide us with the number of voids in Service accommodation, and how the percentage compares with local authorities?

A8 In the MOD, the categorisation "void" does not necessarily imply that a property or bedspace is immediately available for occupation. The term is used in a variety of circumstances when a property is not currently being used for its intended purpose, including: being deliberately used for an alternative purpose such as an office; as a management margin to allow for movements of personnel and units; being held awaiting an estate rationalisation decision; or awaiting modernisation, disposal or demolition.

The position on voids is as follows:

Single Living Accommodation (SLA)

There are currently 34,181 void bedspaces. SLA voids are not necessarily whole blocks of bedspaces; more often they are individual spaces located across many locations. In such cases, disposal or demolition is not a practical option. The following table shows the detailed breakdown of void SLA:

NUMBER OF VOID SINGLE LIVING ACCOMMODATION

| | |
|--|---------------|
| Vacant bedspaces for routine movement of personnel ¹⁷ | 23,340 |
| Number of vacant SLA allocated for deployment, or unit moves | 7,670 |
| Number of SLA awaiting demolition/disposal | 3,171 |
| Number of SLA awaiting/undergoing modernisation | 1,144 |
| TOTAL NUMBER OF VOID SLA | 35,325 |
| Percentage of Total Stock (Worldwide) | 21% |

In general the management of SLA voids is exercised by local commanders to meet individual service needs. The figure changes daily as units and personnel are posted and transferred and is dependent upon current and future deployment and rationalisation decisions. When such decisions might be expected to be made in the short/medium term, it is often prudent not to dispose of or demolish accommodation only to have to re-provide capacity later.

¹⁷ Excludes some 11,000 training bedspaces for which occupancy rates vary on a frequent basis depending on training through-put.

Service Families Accommodation (SFA)

Voids allow housing to be maintained and upgraded and allow MOD to “queue” houses for people, rather than queue people to houses as is usually the case with local authorities. In addition under the terms of our contract with AHL, disposal of properties that are not required has to be carried out in viable commercial packets at sites rather than in small numbers across the estate.

The following table provides a breakdown of vacant and void SFA, as at mid-May for GB and August 2006 for NI, Germany and Rest of the World, the latest dates for which comprehensive figures are available.

NUMBER OF VOID SERVICE FAMILY ACCOMMODATION

| | <i>GB</i> | <i>NI, Germany¹⁶ and RoW</i> |
|---|--------------|---|
| Number of vacant SFA under offer to applicants | — | 623 |
| Number to allow for routine movements of personnel | 5,222 | 2,253 |
| Number of vacant SFA allocated for deployment or unit moves | 2,594 | — |
| Number of vacant SFA for sale/release | 649 | 210 |
| Number of SFA awaiting modernisation | 466 | 1,507 |
| Number of SFA awaiting demolition | 10 | 8 |
| TOTAL NUMBER OF VOID SFA | 8,941 | 4,601 |
| Percentage of Total Stock | 18% | 23% |
| Percentage of Total Stock (Worldwide) | | 19.8% |

The 2,594 properties that are being held against future deployment decisions in the UK are kept under review to ensure that the number being retained is no higher than absolutely necessary. If this figure and the number of properties awaiting disposal and demolition are deducted from the overall figure, then the total number of voids reduces to 5,688 voids or 11.7%, which is closer to the management margin agreed with the National Audit Office (10%).

Way Forward

Further work is now in hand to ensure that we are achieving an appropriate level of voids. The Department needs to keep a much higher “management margin” than, for example, a local authority because of the very significant turn over of personnel and because of our determination to have houses available when people need them, and not to make people wait for houses, as local authorities have to do. We have discussed with the Department of Communities and Local Government how the MOD figures compare with local authorities but, because of different management information systems, it has not been possible to make a direct comparison.

Q9 Can you clarify the percentage of listed buildings for which you are responsible of which you now know the condition, and what your target is for knowing the condition of all listed buildings for which you are responsible?

A9 The condition of 85% of MOD’s listed buildings is known. The Department is working towards knowing the condition of all its listed buildings by the end of the current financial year.

The condition of MOD listed buildings at the end of May 2007 is as follows:

CONDITION OF LISTED BUILDINGS
ON MOD ESTATE

| <i>Category (a)</i> | <i>Number (b)</i> | <i>Percentage (c)</i> |
|-------------------------|-----------------------|---------------------------|
| Good | 391 | 50 |
| Fair | 184 | 24 |
| Poor | 83 | 11 |
| Unknown | 125 | 15 |

The Department is required to report on the condition of its historic buildings within its Biennial Heritage Conservation Report.

¹⁸ The MOD hires and maintains a number of federally owned properties (in Germany) that have been included in the above figures given they constitute an enduring financial liability.

Under commitments to Sustainable Development in Government, and Common Minimum Standards, Departments are required to adopt the DCMS "Protocol for the Care of the Government Historic Estate" (published in 2003). The Protocol requires Departments to prepare biennial conservation reports. The first MOD report is due to be published in Summer 2007.

It is a requirement that copies of the report are sent to the MOD Sustainable Development Minister and the Government Historic Estates Unit (within English Heritage). These reports are used by English Heritage to compile its Biennial Conservation Report for the Government's Historic Estate.

28 June 2007

Further supplementary memorandum from the Ministry of Defence

Thank you for your letter of 12 June 2007, regarding comments made to you about Service Families Accommodation (SFA) during your recent visit to Pirbright.

The 50 unoccupied (void) houses in Manor Crescent, Pirbright, had been held as a possible option for use as part of accommodation needs in support of the Defence Training Review. Final decisions on the way forward are expected soon, but one option is that under the deal with Annington Homes Ltd (AHL), they will be returned to AHL for the Company to take disposal action.

As you will have seen during your visit, the properties in Manor Crescent are located in the middle of a Service estate, in a semi rural area, and for this reason they were deemed to be at low risk of vandalism. However, the breaking of a few windows led to a decision to board up the houses. Unfortunately, this appears only to have provoked a more sustained attack of vandalism. Every effort was made to establish the perpetrators, which included the use of increased patrols by Military Police and MOD Police, but to no avail. CCTV has been installed and the Surrey Police used the site for dog handling training in order to improve security.

We are aware of two incidents of squatters having taken over empty Service Families Accommodation (SFA) at Pirbright, both of which occurred in the early part of last year. In one incident, the squatter managed to access a small number of properties; in the other, it was a single residence. Measures have now been taken to prevent any repeat of this occurrence including changing door locks.

The properties are now being patrolled by the Military Police, and Guard Dog signs have been placed in the vicinity to deter any further vandalism. Under the agreement with AHL, dilapidation repairs will be carried out to restore the properties to an appropriate condition to return them to AHL.

I hope that this provides the information you required.

22 June 2007
