



House of Commons
Committee of Public Accounts

Service Family Accommodation

Ninth Report of Session 2016–17



House of Commons
Committee of Public Accounts

**Service Family
Accommodation**

Ninth Report of Session 2016–17

*Report, together with formal minutes relating
to the report*

*Ordered by the House of Commons
to be printed 29 June 2016*

The Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine “the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit” (Standing Order No. 148).

Current membership

[Meg Hillier](#) (*Labour (Co-op), Hackney South and Shoreditch*) (Chair)

[Mr Richard Bacon](#) (*Conservative, South Norfolk*)

[Harriett Baldwin](#) (*Conservative, West Worcestershire*)

[Deidre Brock](#) (*Scottish National Party, Edinburgh North and Leith*)

[Chris Evans](#) (*Labour (Co-op), Islwyn*)

[Caroline Flint](#) (*Labour, Don Valley*)

[Kevin Foster](#) (*Conservative, Torbay*)

[Mr Stewart Jackson](#) (*Conservative, Peterborough*)

[Nigel Mills](#) (*Conservative, Amber Valley*)

[David Mowat](#) (*Conservative, Warrington South*)

[Stephen Phillips](#) (*Conservative, Sleaford and North Hykeham*)

[Bridget Phillipson](#) (*Labour, Houghton and Sunderland South*)

[John Pugh](#) (*Liberal Democrat, Southport*)

[Karin Smyth](#) (*Labour, Bristol South*)

[Mrs Anne-Marie Trevelyan](#) (*Conservative, Berwick-upon-Tweed*)

Powers

Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No. 148. These are available on the Internet via www.parliament.uk.

Publication

Committee reports are published on the [Committee’s website](#) and in print by Order of the House.

Evidence relating to this report is published on the [inquiry publications page](#) of the Committee’s website.

Committee staff

The current staff of the Committee are Dr Stephen McGinness (Clerk), Dr Mark Ewbank (Second Clerk), George James (Senior Committee Assistant), Sue Alexander and Ruby Radley (Committee Assistants), and Tim Bowden (Media Officer).

Contacts

All correspondence should be addressed to the Clerk of the Committee of Public Accounts, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 4099; the Committee’s email address is pubacom@parliament.uk.

Contents

Summary	3
Introduction	4
Conclusions and recommendations	5
1 The maintenance contract	8
The quality of maintenance	8
The performance of CarillionAmey	9
The Department's management of the National Housing Prime contract	10
2 The model for providing accommodation	12
A new model for providing accommodation	12
Capturing and acting on the views of service families	13
Calculating rental charges	14
The effect on morale and retention of personnel in the services	15
Appendix: Illustrative examples for written evidence	16
Formal Minutes	18
Witnesses	19
Published written evidence	19
List of Reports from the Committee during the current session	20

Summary

The Ministry of Defence and its contractor CarillionAmey are badly letting down service families by providing them with poor accommodation, and often leaving them for too long without basic living requirements such as heating, hot water or cooking facilities. It is unacceptable that such problems with service housing have continued for many years. In certain cases, frustration with the failure to undertake small-scale repairs may be driving some highly trained personnel to leave the military, wasting the investment made in them. It appears to have taken the Secretary of State's intervention to secure improvements from the contractor, CarillionAmey, although we await confirmation that progress is real and can be sustained. In the coming months, the Department must decide whether to retain the contractor, based on evidence of an improved and sustainable level of service. Regardless of that decision, the Department has an opportunity with the announcement of the Future Accommodation Model at the end of 2016 to better tailor its housing to the needs of service families in the 21st century. We plan to scrutinise progress later in the year as part of a wider inquiry on defence infrastructure.

Introduction

Because of the requirement that service personnel are mobile and the remote nature of many of the locations in which they serve, all regular service personnel are entitled to subsidised accommodation. Those meeting specific criteria, relating primarily to marital status and number of dependent children, are entitled to Service Family Accommodation. Service families greatly value their subsidised accommodation, and consider it an important aspect of military life. The Armed Forces Covenant contains a Government commitment that service personnel and their families are to be provided with good quality accommodation, in the right location and at a reasonable price.

The management of some 50,000 Service Family Accommodation units in the UK is the responsibility of the Defence Infrastructure Organisation within the Ministry of Defence, which is responsible for delivering the estate that the Department needs to enable its military personnel and civilian staff to live, work, train and deploy at home and overseas. It does this primarily through contracting with private sector providers to build, upgrade and maintain its estate. The private sector provider with responsibility for maintaining Service Family Accommodation, through the National Housing Prime contract, and for administering the charging system for that accommodation is CarillionAmey. In April 2016, the Department introduced a new system for determining the rental charges that Service Families pay for their accommodation, called the Combined Accommodation Assessment System.

Conclusions and recommendations

1. **Service families have been badly let down for many years and are not getting the accommodation service that they have a right to expect.** Satisfaction with the accommodation the Ministry of Defence (the Department) provides, and the quality of maintenance services, has fallen significantly in the last year. Some families have been left for many months without heating, hot water or cooking facilities, and others have been dissatisfied with the quality and cleanliness of properties when they have moved in. Despite this, often they have been unable to refuse to take the accommodation they have been offered. CarillionAmey acknowledges that it was not organised to deliver the required level of service from the beginning of the National Housing Prime maintenance contract. It was only after the Secretary of State's intervention in February 2016 that CarillionAmey hired more members of staff, invested more in training, delivered a new IT system and put in place plans to improve the quality of its sub-contractors' work. CarillionAmey told us that it is not yet making a profit from the contract, but anticipates that it will do so in the future.

Recommendation: *The Department must ensure that CarillionAmey, or any replacement contractor, meets or exceeds its contractual obligations as regards estate maintenance, and that the contractor is organised to sustain this level of performance for the remainder of the contract.*

2. **The performance of CarillionAmey has been totally unacceptable and it is right that the Department is considering terminating the contract.** Carillion admits that it has failed to deliver the service for which it was contracted and which service families expect. From the start of the contract in November 2014 up until April 2016, CarillionAmey failed to meet many of the Key Performance Indicators in the National Housing Prime maintenance contract. The Department and CarillionAmey agreed a plan to ensure that the indicators are met by June 2016, but assertions that the plan was effective and that CarillionAmey's performance has improved, are still based on unaudited figures and therefore not yet proven. The Department will make a decision in summer 2016 about whether to terminate CarillionAmey's contract, once independent auditors have validated the reported performance improvements

Recommendation: *The Department should write to us promptly on conclusion of its deliberations about whether to continue the contract with CarillionAmey and set out the evidence on performance supporting its decision.*

3. **The Department has repeated failings that this Committee has seen only too often in other government contracts. In particular, it too easily assumed CarillionAmey had the capacity to deliver, did not do enough to make sure the contract would meet user needs, and agreed a penalty regime that is ineffective in incentivising performance.** CarillionAmey won all of five of the Next Generation Estates maintenance contracts for which it bid because it was the lowest bidder. The Department agreed a contract of £626 million for one of these contracts, the National Housing Prime, which saved £192 million in comparison to the previous contract. The Department claims that it did look into the contractor's ability and capacity to deliver at this price, but acknowledges that in the future it may need to obtain stronger assurance about contractors' operations and their ability to deliver. The three family federations, which represent the views of service families, were

not consulted when the contract was being agreed. The Department acknowledges that the contract only enabled it to retain a maximum of £10 million of the £115 million paid to CarillionAmey to date, and it is looking at options for penalising CarillionAmey further.

Recommendation: *When letting future contracts, the Department must ensure it has done enough to test contractors' ability and capacity to deliver the services at the price agreed, that it has captured and taken account of the views of service users, and that the proposed Key Performance Indicators in the contract are clearly backed up with robust financial penalties and incentives.*

4. **The Department's current model for providing accommodation for families is not flexible enough to meet the reasonable needs of service families in the 21st century.** The Department is developing a 'Future Accommodation Model'—considering different options for how to bring housing and accommodation policy into the 21st century and allowing families to have more freedom over where they live. Different families have different housing needs: for example, living on a military base is important to many, but to others living in proximity to their extended family is of greater importance. The current model also bases entitlement on marital status and rank and does not reflect the diversity of today's service families. Many service families own a home, but the proportion varies across the services, and the Department is looking to encourage greater levels of home ownership across all services to help with the transition to civilian life. The Department committed to considering different approaches for providing Service Family Accommodation, including those used successfully elsewhere, such as Arm's Length Management Organisations, housing trusts, or using new legal powers to enable service families to build their own homes on land owned by the Department.

Recommendations: *As part of its considerations about the Future Accommodation Model, the Department should think imaginatively about different approaches for providing housing, including setting up Arm's Length Management Organisations and using new legal powers to support families collectively buying MOD land and building their own homes.*

Many families may eventually want to own a home close to their extended family. As personnel move frequently it may be that some will own a home but still need to rent close to, or on the base of, the service personnel member of their family, and home ownership will therefore not necessarily reduce the demand on services accommodation as much as the Department expects. It should consider this in its full analysis of the needs of modern families.

5. **The Department does not have effective arrangements in place for capturing and acting on the views of service families.** The service families federations were not consulted during the specification of the National Housing Prime maintenance contract. There were differences between service families and the families federations about CarillionAmey's performance in maintaining Service Family Accommodation in recent months and we are unconvinced that the federations fully reflected families' views of CarillionAmey's performance. The Department does not have a complete view of the impact of poor accommodation on recruitment

and retention. The Department confirmed that service personnel are able to voice their concerns regarding accommodation to their constituency MPs outside of their chain of commands without fear of being disciplined.

Recommendation: *The Department should set out for us what it will do to improve the way it engages with service families when setting policies and agreeing contracts that will impact upon their lives.*

6. **Whatever the stated benefits of the new Combined Accommodation Assessment System, there is a widespread perception that many properties have not been assessed fairly under the process.** The Department introduced the Combined Accommodation Assessment System to improve fairness and transparency over the calculation of rent that service families pay for their accommodation. Many families accept that they will need to pay more rent than in the past, and the new system has led to rents increasing for 81% of families. The Department assessed the appropriate rent banding for individual properties using a combination of surveys and the extrapolation of survey results. The Department began surveying properties in January 2015 but only 80% of properties have been surveyed to date and the Department committed to surveying all properties. Representatives of service families also raised some concerns about how the surveys were undertaken and the perceived fairness of some banding decisions. Between February 2016 and mid-April 2016, the Department received 1,675 appeals to banding decisions, but, as at 25 April 2016, had only processed 377, with just 24 resulting in a change.

Recommendation: *Once it has cleared the backlog of appeals to new rent bandings, the Department should write to us and set out the results of the appeals process, as well as the lessons it has learned about how it communicated and managed the process of surveying properties.*

7. **We are concerned that the Department is underestimating the effect of poor and unsuitable accommodation on morale and on attitudes to remaining in the armed services.** Service Family Accommodation is highly valued by service families. The Department sought to deliver significant savings from how it maintains such accommodation. As a result, families are facing an increase in their rent at the same time as a deterioration in the maintenance services that they receive, all against a backdrop of pension contribution increases and pay restraint. The impact on family life is the most cited reason why people leave the services and accommodation is a contributory factor. When making short term decisions on cost savings, there appears to be insufficient attention paid to the possible impact on expensively trained service personnel and the consequences for their retention, which represents very poor value for money.

Recommendation: *In its Treasury Minute response to this report, and then more fully in the articulation of its Future Accommodation Model, the Department should explain how it is assessing the impact on recruitment and retention levels of any changes to its accommodation provision for service personnel.*

1 The maintenance contract

1. On the basis of a memorandum by the Comptroller and Auditor General, we took evidence from the Ministry of Defence (the Department) and Carillion Defence and Security on Service Family Accommodation.¹ We also took evidence from the Army Families Federation, the Naval Families Federation and the RAF Families Federation, as well as Mrs Liz Phoenix, a housing professional and wife of a serving Royal Marines Colour Sergeant. We also received written evidence from a number of service families drawing attention to various concerns with accommodation; the Appendix provides illustrative examples.

2. Because of the requirement that service personnel are mobile and the remote nature of many of the locations in which they serve, all regular service personnel are entitled to subsidised accommodation. Those meeting specific criteria, relating primarily to marital status and number of dependent children, are entitled to Service Family Accommodation. As at 1 March 2016 the full time trained strength of the UK Armed Forces was 140,570. There are around 50,000 units of Service Family Accommodation, of which 40,572 properties were occupied by service personnel and their families. The majority (78%) are owned by Annington Homes and leased back by the Department, with the remainder owned by the Department directly, provided through a PFI deal, or sourced from the open market.²

3. The management of Service Family Accommodation is the responsibility of the Defence Infrastructure Organisation within the Ministry of Defence. It oversees the estate that the Department needs to enable its military personnel and civilian staff to live, work, train and deploy at home and overseas. It does this primarily through contracting with private sector providers to build, upgrade and maintain the estate. The provider with responsibility for maintaining Service Family Accommodation and administering the charging system for that accommodation is CarillionAmey, through the National Housing Prime contract.³

The quality of maintenance

4. We received extensive written evidence from service personnel and their families about the poor quality of the maintenance service they have received for their homes. Appendix A summarises five illustrative examples. These individual experiences were amplified by witnesses representing service families who reported cases of people living in mouldy, damp and unheated homes, and experiencing rat infestations.⁴ In addition, satisfaction levels with the response to maintenance requests, and the quality of maintenance undertaken have fallen from 46% and 40% in 2014 to 32% and 29% respectively in 2016.⁵ Many of the concerns about service housing being raised now have also been identified in past reports by the National Audit Office.⁶

1 C&AG's memorandum, [Service Families Accommodation](#), 8 June 2016; CarillionAmey was represented at our oral evidence session by the Managing Director of Carillion Defence and Security, who is responsible for Carillion's activity with, amongst other bodies, the Ministry of Defence, Army, Navy and RAF.

2 [C&AG's memorandum](#), paras 1.3, 2.3 and Figure 2

3 [C&AG's memorandum](#), paras 1.9, 2.1

4 [Qq 4, 10](#)

5 [C&AG's memorandum](#), para 2.7 and Figure 6

6 [Q 202](#)

5. Under the National Housing Prime contract CarillionAmey assumed responsibility for providing families with ‘move-in, move-out’ services, which had previously been carried out by the Department.⁷ A key aspect of this service is to ensure the cleanliness of properties before families move into them. Mrs Phoenix told us that some families had moved into properties that were ‘disgustingly filthy’ but often had no choice but to take them. This was confirmed by written evidence submitted by several families who had moved into dirty and poorly maintained homes.⁸ We heard from the Army Families Federation that accommodation officers did not receive the training they needed in order to be able to judge an appropriate ‘move in, move out’ standard. There was also confusion about the ‘walk away’ scheme, which enables families to opt to pay CarillionAmey a fee relieving them of the obligation to clean the property. The Army Families Federation told us that the scheme was sold as a cleaning scheme, but was actually an insurance scheme to ensure that those leaving would not face any further charges. CarillionAmey did not then necessarily use the money for cleaning the property if it considered that the property was at an adequate standard of cleanliness.⁹

6. CarillionAmey told us that the main reason behind its poor maintenance performance was that the systems it had brought in to manage over 30,000 maintenance queries each month had not operated as required. It had also needed to bring in a large number of people from around the country into the organisation and train them. It had anticipated these demands but acknowledged that it had not got things right.¹⁰ Subsequently, it had hired new staff, invested more in training, made progress in implementing the new IT system and was working to improve the quality of its sub-contractors’ work. It told us that its investment in the service had been far greater than expected and it had not yet made a profit on the contract, although it anticipated doing so in the future. It stated that it was focused now on delivering a service to families and sustaining performance at key performance indicator level.¹¹ The Department told us that it was pleased that improvements in performance had taken place, but not that it had taken the Secretary of State’s involvement for this to happen.¹²

The performance of CarillionAmey

7. During 2015, CarillionAmey’s performance fell below the contracted level. With the exception of March 2015, in each month between December 2014 and January 2016 CarillionAmey failed to meet its key performance indicator of completing 95% of its tasks within the agreed response time.¹³ CarillionAmey accepted that it and the constituent companies Carillion and Amey had let service families down, and apologised for this ‘significant failure’ and for putting families through discomfort in the last 18 months.¹⁴

8. In February 2016, following the Secretary of State’s meeting with the chief executives of CarillionAmey’s parent companies, Carillion plc and Amey plc, the Department and CarillionAmey agreed a three-month improvement plan running from the 1 March to 31 May 2016. The plan included meeting an agreed level of performance against key

7 [C&AG’s memorandum](#), Figure 10

8 [Q 11](#); see also Appendix to this report

9 [Qq 12–13, 16](#)

10 [Q 75](#)

11 [Qq 160–162](#); [C&AG’s memorandum](#), 4.14, 4.15

12 [Qq 195, 196](#)

13 [C&AG’s memorandum](#), Figure 14

14 [Qq 59, 60, 74](#)

performance indicators on a monthly basis, and an agreement on extra resource to be provided by CarillionAmey and the Department.¹⁵ CarillionAmey told us that it took the improvement plan extremely seriously and believed that it was working.¹⁶ The Department said that it did not yet have a full set of data against the key performance indicators because it was only eight days after the end of the reporting period (end of May 2016). It said that the data that it did have showed that, out of a total of 38 key performance indicators, CarillionAmey achieved seven in February 2016, 29 in March and 34 in April.¹⁷ The Department has since written to us to provide details of CarillionAmey's performance against its key performance indicators at the end of May 2016 which showed that it met all but two of the indicators.¹⁸

9. The Department will make a decision about whether to continue with its contract with CarillionAmey in summer 2016, and the Minister for Defence Personnel and Veterans has stated publicly that if performance has not improved the contract will be terminated.¹⁹ The Department told us that data on CarillionAmey's performance over the period of the improvement plan would be independently audited, and that it would continue to monitor CarillionAmey's performance on a weekly basis after the end of the plan.²⁰ It said that it would make a decision based on the results of the audit by August. It said that it was difficult to be precise about the potential costs associated with terminating the National Housing Prime Contract but that it would keep the option of termination and the potential costs under review.²¹ However, it believed there had been an improvement in performance in the last couple of months.²²

The Department's management of the National Housing Prime contract

10. From 2014 the Ministry of Defence began replacing its contracts for delivering capital infrastructure projects and hard facilities management services with a mixture of prime contracts and capital works frameworks, collectively known as Next Generation Estates Contracts. CarillionAmey won five of the six prime contracts, all of those for which it bid. The National Housing Prime contract, which is one of the contracts that CarillionAmey was awarded, is a fixed price contract worth £626 million over five years.²³

11. The Department estimates that the contract will save it around £192 million in comparison to the cost of previous contracts.²⁴ It told us that CarillionAmey's submission for the contract was the cheapest, but that it bid against the same set of standards as other companies and the contract was subject to competition.²⁵ The Department maintained that it had examined the capacity of CarillionAmey to deliver, but acknowledged that it

15 [C&AG's memorandum](#), para 4.16

16 [Q 71](#)

17 [Qq 86–90](#)

18 Written evidence from the Ministry of Defence

19 [C&AG's memorandum](#), para 4.17

20 [Qq 88, 93](#)

21 Written evidence from the Ministry of Defence

22 [Q 81](#)

23 [C&AG's memorandum](#), paras 4.3, 4.5, Figure 9

24 [C&AG's memorandum](#), para 4.5

25 [Qq 79, 80](#)

needed to be very thoughtful in future about assuring the capability of a contractor to perform to the expected standards, and may have to audit contractors' operations "in a slightly more intrusive way".²⁶

12. We were surprised to hear that none of the three families federations were consulted or involved in specifying the user requirements in relation to the National Housing Prime contract.²⁷ In March of this year we reported that Departments are not always holding contractors to account for meeting the needs of users, and that there is a risk that the users' voice is not heard. At the same time we recommended that Departments need to be clear with their contractors that they will be held to account for meeting users' needs and being responsive if issues come to light during the running of contract.²⁸

13. The contract allows the Department to retain a proportion of the fee payable if CarillionAmey does not meet the initial milestones in the contract and 95% of the key performance indicators. Between November 2014 and the end of March 2016 the Department had paid £115.3 million to CarillionAmey under the contract. Of these payments, the Department had retained £10.4 million (8%) as a result of late completion of tasks, of which it had subsequently released £6.4 million (6%).²⁹ When we queried why the Department had not held back a larger amount it told us that it was unable to under the contract. However, it was investigating through its legal services whether there was another mechanism it could either use or build into a future contract.³⁰ This was not the first time that this Committee has seen ineffective penalty regimes in government contracts.³¹ CarillionAmey noted that there were two parts of the contract that incentivised it to perform: the penalty if it did not meet its key performance indicators; and the fixed price of the contract, which meant that it got the same for the job regardless of how many times its contractors turned up. It was therefore incentivised to be as efficient as possible.³²

26 [Qq 97, 192, 193](#)

27 [Qq 24–27, 49–51](#)

28 Committee of Public Accounts, Thirty-Second Report of Session 2015–16, [Transforming contract management: progress review](#), HC 711, 23 March 2016

29 [C&AG's memorandum](#), para 4.13

30 [Q 99](#)

31 Committee of Public Accounts: Thirty-Second Report of Session 2015–16, [Transforming contract management: progress review](#), HC 711; Forty-Seventh Report of Session 2013–14, [Contracting out public services to the private sector](#), HC 777; Twenty-First Report of Session 2013–14, [The Ministry of Justices' language services contract](#), HC 620; and Fifty-Fourth Report of Session 2013–14, [COMPASS: Provision of asylum accommodation](#), HC 1000

32 [Q 171](#)

2 The model for providing accommodation

14. The Armed Forces Covenant contains a Government commitment that service personnel and their families are to be provided with good quality accommodation, in the right location and at a reasonable price.³³ We heard that the three Armed Forces had different levels of reliance on Service Family Accommodation. Naval families tended to settle where they have extended family and support because serving personnel were often at sea. Many RAF families already owned their own home. Army families tended to move often and saw Service Family Accommodation as providing the security of somewhere to be based.³⁴

A new model for providing accommodation

15. The Ministry of Defence (The Department) considers that its current model of providing accommodation directly is becoming less attractive to service personnel and their families, increasingly unaffordable for the Department, and less effective at meeting its operational and business needs. Entitlement rules on marital status and rank also do not reflect the diversity of today's service families. The Department told us the current model has some advantages, including being a good financial deal, but needed to evolve, and its housing and accommodation policy brought up to date. It was developing a new approach to accommodation, aiming to make initial decisions at the end of 2016.³⁵

16. The Department told us that to help with the transition to civilian life, the Department very strongly encourages service families towards home ownership. It did not think it was a good strategy for members of the Armed Forces to leave the military at the end of their career without anywhere to live.³⁶ The Tri-service Continuous Attitude Survey showed that there are varying levels of home ownership across the services.³⁷ Since its launch in April 2014, the Forces Help to Buy Scheme had helped more than 6,400 military personnel to purchase a property, at a cost to the Department of over £100 million.³⁸ Service personnel could use the scheme to purchase a property wherever they liked and were not restricted to purchasing near to where they served.³⁹

17. While the Army Families Federation wanted to see aspects of the Department's accommodation model survive, they also wanted families to be offered greater choice. It told us that if the Department withdrew Service Family Accommodation altogether, many service personnel would consider leaving the services, warning that the 'Future Accommodation Model' poses a real risk to retention. A recent poll of army families had found that 80% of respondents said that living in a military 'patch' with other families was important to them, and the Army Families Federation considered that locating families together made settling in easier.⁴⁰ The Department assured us that when determining its Future Accommodation Model, it would be looking to give service personnel freedom

33 [Q 57](#)

34 [Qq 38, 40](#)

35 [Qq 57, 144, 204](#); [C&AG's memorandum](#), para 1.8

36 [Qq 57, 187](#)

37 Ministry of Defence, [Tri-Service Families Continuous Attitude Survey 2015](#), 30 July 2015

38 [Q 57](#); [C&AG's memorandum](#), para 1.7

39 [Q 186](#)

40 [Qq 4, 5, 40, 54](#)

of choice, and would keep what is appropriate for the place and region concerned; for example, not disposing of accommodation in some of the more remote areas if it was the only choice available.⁴¹

18. We were assured by the Department that no decisions had yet been taken on its Future Accommodation Model, although it had a number of options under review.⁴² The Department told us that it would look at whether or not there were advantages in different models for Service Family Accommodation we raised, such as those based on housing trusts or Arm's Length Management Organisations (ALMOs).⁴³ It also committed to considering how provisions under the Self-build and Custom Housebuilding Act 2015 and the Housing and Planning Act 2016 could be used to help service personnel gain plots of land on which to build dwellings.⁴⁴

Capturing and acting on the views of service families

19. The National Housing Prime contract for the maintenance of Service Family Accommodation includes some measures to enable the Department to hold CarillionAmey to account in relation to the views of service users. CarillionAmey assesses customer satisfaction with their maintenance works by examining 5% of jobs.⁴⁵ It also measures complaint levels. CarillionAmey told us it spent a “significant” amount of time with the family federations and the services, working with them to identify what is needed to secure improvements.⁴⁶ In addition, the Department uses data from the Armed Forces Continuous Attitude Survey and anecdotal evidence from a variety of sources, including social media and family federations, to build up a broad view of how CarillionAmey is performing.⁴⁷

20. The family federations told us that fewer families had contacted them regarding the maintenance service provided by CarillionAmey in the last couple of months. The Army Families Federation added the caveat that complex repairs, involving multiple contractors and follow-on appointments, were still not working well.⁴⁸ Mrs Phoenix told us that she was surprised that the federations believed they were seeing improvements, adding that this was not the picture she gained from other wives and from service personnel.⁴⁹

21. The family federations told us that they meet formally with the Minister for Defence Personnel and Veterans every six months, although in practice they speak with him more frequently than that.⁵⁰ They also have regular ‘stocktake’ meetings with the Defence Infrastructure Organisation and CarillionAmey, as well as continuous dialogue on the issues brought to them by service families.⁵¹ However, the RAF Families Federation representative thought that the federations trod a “fine line” between representing families’ views to the Department and trying to influence policy. He added that the federations were listened to when “it was convenient and we are saying the right things” and that it

41 [Q 57](#)

42 [Q 203](#)

43 [Q 144](#)

44 [Q 200](#)

45 [Q 67](#); [C&AG's memorandum](#), para 4.12

46 [Q 72](#)

47 [Qq 67, 191](#); [C&AG's memorandum](#), para 4.12

48 [Qq 2–4, 7, 32](#)

49 [Q 10](#)

50 [Qq 46, 47](#)

51 [Qq 31, 33, 34](#)

was a “constant challenge” to maximise the influence they each had. The federations had seen some success with influencing change, including having a plan to tackle mould in place, largely as a result of their input.⁵²

22. We were concerned that the families of serving personnel would not feel able to go outside of their chain of command to raise accommodation or welfare issues with their elected representatives, and questioned the Department about whether service families were allowed to raise such issues with their local MP. The Department confirmed that service families and personnel are able to do this without the fear of being disciplined.⁵³

Calculating rental charges

23. Service personnel pay a monthly charge for their accommodation. This is significantly below the market rate to reflect the requirement on them to move regularly and the fact that families often have little choice as to where they live. The Department introduced a new system for determining the rental charges that service families pay from 1 April 2016, called the Combined Accommodation Assessment System (CAAS). It had concluded that elements of the previous system were leading to unfair and inappropriate charges, with only 40% of families paying the right amount and 55% being undercharged. Under the new system 81% of service families will pay more rent, 2% will see no change and 17% will see a reduction. Surveys of the property’s condition were used to determine which rental charge band properties would be assigned. Individual properties are allocated to one of nine bandings using a combination of surveys and extrapolation of survey results and these bandings are used to determine the rental charges.⁵⁴

24. We heard that the Department had sold CAAS to service families on the basis that it would be a fairer, clearer and more transparent grading system. However, many people had complained against the grading assigned to their property and there were concerns that rows of identical properties were graded differently.⁵⁵ In written evidence, some service families also raised concerns regarding the inconsistencies between the results of their survey and that of their neighbours.⁵⁶ The Army Families Federation told us that the impact of the CAAS had accounted for some of the rise in the number of army families contacting the Federation in 2015, compared to 2014.⁵⁷

25. The Department told us that 80% of Service Family Accommodation properties had been surveyed to date, but it was working towards surveying 100% of properties. It had confidence in the information coming from the surveys because two independent, professional surveying companies are undertaking them. Service families are able to appeal against the decision on which banding their property had been allocated to. Between February 2016 and mid-April 2016, the Department received 1,675 appeals to banding decisions, but, as at 25 April 2016, had only processed 377 due to their complexity, with just 24 resulting in a change. The Department told us that the appeals were taking much longer to resolve than it had expected because of the level of detail within each appeal. The Department saw the high level of detail as a positive sign that people really understand CAAS.⁵⁸

52 [Qq 31, 44, 45](#)

53 [Qq 157, 158](#)

54 [C&AG’s memorandum](#), paras 3.1, 3.4, 3.8, 3.10, Figure 7

55 [Q 36](#); [C&AG’s memorandum](#), para 3.5

56 Appendix 1

57 [Q 4](#)

58 [Qq 178, 179, 182](#); [C&AG’s memorandum](#), para 3.12

The effect on morale and retention of personnel in the services

26. The Department subsidises the cost of accommodation, with service families paying on average 12% of their salary on service accommodation charges, compared to those outside the services who on average pay between 20% and 40% of their salaries on accommodation costs. Having access to Service Family Accommodation is highly valued by personnel and their families; the Army Families Federation told us it was much appreciated as part of the service package.⁵⁹

27. Service families are, however, facing increases in their rental charges at the same time as increases in pension contributions and ongoing pay restraint. We raised concerns that these factors, coupled with the poor quality of maintenance and uncertainty around future accommodation, were a risk to retention.⁶⁰ In written evidence provided to us, there were examples of how Service Family Accommodation influenced views on remaining in the services.⁶¹

28. Both the Department and CarillionAmey accepted that the poor maintenance service provided to date had had an impact on service families.⁶² The Department told us that the impact on family life was the most quoted reason why personnel leave the services. It added that this was not just about accommodation, as there were other reasons for people leaving. The Defence Board and the MOD's People sub-committee consider voluntary departures at every meeting, to discuss what is happening with retention rates, why people are leaving and what the Department can do about it.⁶³

59 [Qq 4, 40, 57](#); [C&AG's memorandum](#), paras 1.3, 3.1

60 [Q 54](#)

61 [Appendix 1](#)

62 [Qq 60, 159](#)

63 [Qq 154–156](#)

Appendix: Illustrative examples for written evidence

1) We received written evidence from service families highlighting various concerns related to their accommodation. In this Appendix we provide some illustrative examples.

Poor cleanliness when moving in

2) A service family described how they returned from overseas to their allocated house to find that the property was dirty and had been poorly maintained. They reported that CarillionAmey was reluctant and slow to respond to complaints, and its representatives did not appear to be aware of its own quality standards. Examples of poor maintenance included fractured and detached drainage pipes beneath the kitchen sink; the gas hob fractured and unusable; oven dirty and light broken; shelves missing; exterior walls caked in grass clippings; paved areas covered in weeds, flower beds unturned and bushes overgrown; entrance area filthy; and an active wasps nest in the shed. The serviceman commented that “it was immediately evident that it had not been correctly prepared for the move-in”.

Poor customer service

3) The wife of a serviceman compared her experience of several moves within Service Family Accommodation. The first, under the previous provider, was described as a very positive and accommodating service. More recently, she said she had experienced a very poor level of service from CarillionAmey. Despite hours of phone calls and complaints, the technicians had not solved problems. Her family was living in damp and mouldy accommodation and had not been offered an alternative home, despite some being available locally. She commented that “On moving day, the house was still dirty; carpets heavily stained, the oven dirty, evidence that mould had been painted over but not treated, the smell was overwhelming.[...] I have lost count of the number of hours spent trying to project manage the many faults that continue to exist with this house. For 8 weeks I spent 1–2 hours a day on the telephone trying to progress the issues. I was told on 24 occasions that someone would call me back but my calls were not returned. [...] CarillionAmey have tried to close the complaint I raised in September 2015 regarding the state of the house. I have had many visits from technicians and management who listen to my concerns and yet do not progress the issues”.

Families left without basic facilities

4) A service family was left without hot water and heating for several weeks, despite telling CarillionAmey that they had a 7-week-old baby and a 4 year-old. The contractor was slow to repair the boiler, and failed to co-ordinate plumbers and roofers to install the new one. The serviceman advised that “The impact on our family has been huge. We have been constantly worrying about keeping the baby warm, we have not been able to clean bottles properly when there has been no hot water, our elder son has been having tepid/cold showers, it has been constantly cold in what is a poorly insulated house, it has not been good for my wife who has had to sit around waiting for people and constantly phone up for progress reports and I have had to take time off work for this whilst also spending hours on the phone trying to rectify the problem”.

Prolonged disruption to family life

5) A serviceman told us that a lack of routine maintenance to his family's property resulted in significant structural damage which took over a year for CarillionAmey to repair. When the repair work was finally being carried out, the family did not have adequate facilities to live in and they were not offered alternative temporary accommodation. He was told they would not have an upstairs toilet or bathroom for the duration [2–4 weeks] and it was implied that his wife should wash the family, including a disabled child, in the understairs toilet. Major works were to be carried out while the family were living in the house, despite warnings of heavy contamination with brick and plaster dust. The serviceman told us that appointments were often missed or resulted in no work being conducted due to a lack of authority or resource. All repairs were made to the minimum tolerable standard. The subcontractors conducting work were generally skilled but had to use the lowest grade parts, materials and finishes possible. He considered the time allowed to conduct a repair was also generally inadequate, and a long winded and inefficient approvals process often led to repeat visits to assess, survey, approve and conduct work.

Concerns about how properties have been assessed for rent

6) A service family told us that they received what they considered an inconsistent banding in comparison to their neighbours and found out through an Freedom of Information request that the CAAS survey was never conducted on their house. They considered that this lack of a survey resulted in them paying much more for a home that was in worse condition than those adjacent to it. The serviceman reported that on speaking to his neighbour, he discovered that his house had been graded a B, whereas their house had been graded a D. He told us that this was confusing given that the houses were virtually identical and commented "On Condition, our house is the only house in the group which has been rated as a Decent Homes+ for condition, all others have been rated as Decent Homes which automatically reduces them by two rental bands. This is despite other houses having new boilers, renovations and new layout kitchens".

Formal Minutes

Wednesday 29 June 2016

Members present:

Meg Hillier, in the Chair

Deidre Brock

David Mowat

Chris Evans

Steven Phillips

Mr Stewart Jackson

Karin Smyth

Nigel Mills

Mrs Anne-Marie Trevelyan

Draft Report (*Service family accommodation*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 28 read and agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Appendix agreed to.

Summary agreed to.

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

Ordered, That the Chair 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.

[Adjourned till Monday 4 July 2016 at 1.30pm]

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

Monday 8 June 2016

Question number

Louise Simpson, Evidence Director, Army Families Federation, **Bill Mahon**, Director, RAF Families Federation, **Anna Wright**, Director, Naval Families Federation, and **Mrs Liz Phoenix**

[Q1–56](#)

Stephen Lovegrove, Permanent Secretary, Ministry of Defence, **Colin Wood**, Interim Chief Executive of the Defence Infrastructure Organisation, **Lieutenant General Richard Nugee**, Chief of Defence People, and **Richard Lumby**, Managing Director, Carillion Defence and Security

[Q57–205](#)

Published written evidence

The following written evidence was received and can be viewed on the [inquiry publications page](#) of the Committee's website.

AFA numbers are generated by the evidence processing system and so may not be complete.

- 1 CarillionAmey (Housing Prime) Ltd ([AFA0031](#))
- 2 Ministry of Defence ([AFA0030](#))
- 3 Ministry of Defence ([AFA0032](#))
- 4 National Audit Office ([AFA0029](#))

List of Reports from the Committee during the current session

All publications from the Committee are available on the [publications page](#) of the Committee's website.

Session 2016–17

First Report	Efficiency in the criminal justice system	HC 72
Second Report	Personal budgets in social care	HC 74
Third Report	Training new teachers	HC 73
Fourth Report	Entitlement to free early education and childcare	HC 224
Fifth Report	Capital investment in science projects	HC 126
Sixth Report	Cities and local growth	HC 296
Seventh Report	Confiscations orders: progress review	HC 124
Eighth Report	BBC critical projects	HC 75

Public Accounts Committee

Oral evidence: Service family accommodation HC 77

Monday 08 June 2016

Ordered by the House of Commons to be published on 08 June 2016

Watch the meeting: <http://www.parliamentlive.tv/Event/Index/2932dbab-3518-49a3-8202-bff434bbcb8f>

Meg Hillier (Chair), Mr Richard Bacon, Deidre Brock, Chris Evans, Caroline Flint, Kevin Foster, Mr Stewart Jackson, Nigel Mills, David Mowat, Stephen Phillips, Mrs Anne-Marie Trevelyan

John Thorpe, Executive Leader, Adrian Jenner, Director of Parliamentary Relations, and Jeremy Lonsdale, Director, National Audit Office, and Marius Gallaher, Alternate Treasury Officer of Accounts, were in attendance.

Witnesses: Louise Simpson, Evidence Director, Army Families Federation, Bill Mahon, Director, RAF Families Federation, Anna Wright, Director, Naval Families Federation, and Mrs Liz Phoenix, gave evidence.

Chair: Welcome to today's meeting of the Public Accounts Committee. We are here to look at the NAO's memorandum on service families' accommodation. It is an interesting Report. It seems to us that service families are facing what might be described as a housing "perfect storm", with rents going up for 80% of families and the quality of the service they receive going down. In fact, in the armed forces' own continuous attitudes survey, only 50% of families said they were happy with their accommodation and 29% said they were satisfied with the maintenance work in their homes.

I am delighted to welcome our first panel, who are going to put a bit of flesh on the bones of those numbers. We have Mrs Liz Phoenix, a Marine wife of 21 years' standing—and many other things, but that is the best description in this context. Tell me if I am wrong. We have Louise Simpson from the Army Families Federation, Bill Mahon from the RAF Families Federation and Anna Wright from the Naval Families Federation. So we are covering all bases, so to speak.

Our hashtag today is #forceshomes. Anyone following us on Twitter will be able to use that. The first panel will be up to half an hour and then we will have the second panel, which I will introduce separately. I ask Anne-Marie Trevelyan to kick off.

Q1 Mrs Trevelyan: As the Chair mentioned, the latest continuous attitudes survey, which came out just a few weeks ago, indicates that morale is below 50% for a great number of our armed forces family, but 76% are really proud of the service that they give to our nation. The most worrying statistic is that in only 45% of cases would they recommend that someone else join the service. When we drill down, the top factor given in the survey is that 61% feel the impact on family life is too great.

With service accommodation having only a 50% satisfaction rate and with the new employment model landing in tandem, as the Chair said, with rent rises and pension changes—a big whack—the impact is really substantial. I would be grateful to hear from all of you about how you feel the latest data from this survey feed through to what you are hearing, and whether that concerns you. Anna, perhaps you would like to kick off for us.

Anna Wright: I think that the maintenance contract for service family accommodation seems to be the main issue that families are concerned about, with the lowest percentages of satisfaction. It started very poorly 18 months ago, but has got better. It is significant that it got better after the Secretary of State got involved earlier this year and more resource was put into it from DIO and CarillionAmey.

Q2 Chair: We know what DIO is, but not everyone watching does. I should have asked at the beginning that you avoid jargon and spell out initials.

Anna Wright: Okay. Defence Infrastructure Organisation and CarillionAmey both put more resource in, in terms of extra engineers, appointments on Saturdays, extra helpdesk staff. I think it is significant that since that happened earlier this year we have seen fewer complaints and issues being raised at the Families Federation. It could be that 18 months on they have learned a lot and some of the systems and processes are better, but I certainly think it is significant that the resourcing has been a factor.

Q3 Mrs Trevelyan: Bill, have you seen an improvement in the past few months in terms of the families coming to you with frustrations?

Bill Mahon: In the past couple of months we have seen a definite improvement. As Anna said, CarillionAmey did not get off to a great start. Unfortunately, they promised excellent customer service and they promised that things would be better. I think it is probably fair to say that most of our families who have experienced CarillionAmey's services feel let down.

Q4 Mrs Trevelyan: When you say better, do you mean in relation to the previous Modern Housing Solutions contract, which Carillion ran?

Bill Mahon: Yes—in relation to the previous contract, the new contract offered excellent customer service. That hasn't really materialised and I think we have reached a point now where CarillionAmey's reputation is pretty shredded among our people. For those who have been involved—not everybody needs their house maintained all the time—there is a sense of frustration and anger about the way that some of them have been treated. Some of them have been treated appallingly.

On the converse, there is no doubt that things are getting better. Since the added resource has been brought in and since Mr Carillion and Mr Amey went to see the Secretary of State, we have noticed an improvement in performance, for sure. I think the challenge now is to make sure that that performance is sustained for the rest of the contract—that is the key thing, I think. Whether they can recover their reputation is really up to them, but I think that sustaining the performance, sustaining the KPIs and so on is fundamental there.

Louise Simpson: We are still seeing double our inquiries from 2014. Some of those have been taken up by the families talking to us about the impact of the CAAS—combined accommodation assessment system—whereby 81% of families have seen their rent increase. Regarding repairs and maintenance, we are seeing fewer inquiries about simple, easy repairs, but we are still finding that complex repairs, where it involves multiple contractors and follow-on appointments, are still not working well.

There are two points that I would like to make here. First, we are talking about CarillionAmey's reputation. It has not helped that at the same time that they have been experiencing these problems, they have also been blamed for CAAS, which actually was nothing to do with them. I think that we have done poorly there—it has been quite poor for them, being involved in that when they are actually not involved. Families really need to understand that the two things are very separate issues.

Secondly, the content that we feel around service families' accommodation is not to say that we don't appreciate service family accommodation. We have just done a quick poll, where we had over a thousand families respond, and 80% of them said that patch life was incredibly important to them. So I would like the quality and the repairs of quarters to be noted, but also how much it is appreciated as part of the package. That is very important to Army families.

Q5 Chair: And is it particularly because of being geographically located close to other families? Is that the particular point?

Louise Simpson: Yes. It is mobile families—being located with other families makes the settling-in so much easier. That explanation needs to be noted.

Q6 Chris Evans: This question is to Mr Mahon, really. What I find quite amazing is that you say that since the Secretary of State called in Carillion and Amey, things have improved. They were only called in in February 2016. It's now June 2016. Are you trying to tell the Committee that things have improved rapidly like that? If that is the case—if they get things done that quickly—then Carillion should really be working on a number of Government projects.

Bill Mahon: My understanding of that meeting was that CarillionAmey were given until the end of May to start to reach the KPIs that were contracted, and our information from them is that they have either reached those KPIs or they are very close to achieving them.

Q7 Chris Evans: But you said that your families are seeing improvement. You are actually telling us that, in the first week of June after that meeting in February, your families are seeing a significant improvement.

Bill Mahon: I think we are seeing a reduction in the number of families coming to us with issues and problems—

Q8 Chris Evans: But does that mean they are seeing an improvement?

Bill Mahon: I think many of them are seeing an improvement in the quality of service, yes.

Q9 Chair: Mrs Phoenix, you live in this accommodation—actually, out of interest, do you live in—?

Mrs Phoenix: Yes, I do.

Q10 Chair: Just to be absolutely clear. What's it like from your perspective?

Mrs Phoenix: I'm quite surprised, actually, that family federations are actually saying that they are seeing improvements, because that is not the picture that I am seeing from other wives and from serving people. We are still seeing people with mouldy and damp homes, rat infestations. The big one is no heating for weeks on end, even months on end, due to parts not being received, no shows or even engineers turning up, banging on the boilers with spanners and walking away, leaving people with no heating and no hot water. Families are being left with no cooking facilities. It's up to CarillionAmey to ensure that the properties have white goods and cookers in them.

Q11 Chair: Sorry, are you saying people are moving into properties without white goods?

Mrs Phoenix: Sometimes the cookers are not working or they are in such disrepair that they cannot be used. CarillionAmey staff are telling forces families to go out and buy McDonald's or pizzas, and I find that totally disgusting. These are the things that need to be said. The annoying thing is that in February, when all this was brought up with the Defence Secretary, we were told that things would improve. I'm sorry, but in my personal view and the view of other families, there have not been improvements.

One thing I want to say as well is that when you move into service family accommodation, it has to be at a set standard. That standard is set by the MOD. Families are moving into properties that are disgustingly filthy—when I say filthy, I mean flea infestations and dog hairs on carpets. These are absolutely horrendous situations that people are moving into. Sometimes the delivery guys are outside the properties, waiting to move their furniture in, and they have no choice in the matter: they have to take these properties, but then, when they phone up asking for help—asking “Why are we having to take this on?”—they are being told, “You've got no choice. There are no other properties available. Move in and we'll see what we can do.” But when it comes to the end of your time and you are moving out of that service family accommodation, it has to be spot on—it has to be perfect. Basically you have to hand over a cleansed golden palace. How is that fair to forces families? It is totally wrong, but these things are still happening and there has not been any improvement.

Chair: Thank you. We particularly appreciate your being willing to come and give evidence, because it was difficult to find forces families willing to come and give evidence directly. We appreciate the federations' coming too, for that reason.

Q12 Mrs Trevelyan: Mrs Phoenix's comments take me on to the march in, march out issues. It would be very interesting to know how you feel it goes, because now obviously you can opt out and you pay CarillionAmey a fee—I think there are two or possibly three levels of fees that you pay for them to do a deep clean or clean the curtains, rather than having to do it yourself. But it seems to me that that is not happening in too many cases, because, as Mrs Phoenix describes, when the next family arrive to march in, they are not finding what they should. I remember friends in quarters, particularly Army quarters, and it was absolutely rigorous. The estate warden did not even let you leave until there wasn't a crease in the carpet and you could see your face in every window. That failure is causing a real problem, but is it worse in some parts of the service than others? Is it regional?

Louise Simpson: May I take that? We have done a lot on the move in, move out process. We ran a survey last year due to the volume of inquiries we were getting. It is quite a cyclical thing, because most of our families move over the summer. While I will say that we have seen a definite drop in inquiries about move in, move out, at this time of year we would expect to see that, because there are not as many families moving. We had some wonderful stories to tell about moving in and finding a chicken in the oven and things like that, so there were clearly huge problems. That is our favourite story, but at the start of the contract there were clearly issues around the move in, move out. The accommodation officers did not receive the required training that they needed in order to be able to judge an appropriate move in, move out standard. That is being resolved: we have been working very closely with them, and we are confident that that knowledge is more out there and that the guidelines are being followed, but this summer will be the key to finding out whether or not that is happening.

I will just say that if everybody left a sparkling, beautiful quarter, then everybody should be moving into a sparkling, beautiful quarter. It is what happens in between. If you have left a horrible house, you should be charged and fined for that, but that money should then be reinvested in that property to make sure that it is up to standard. That is a fundamental.

Q13 Mrs Trevelyan: In the Army and in terms of where your families are based, you are across the nation in a way that the other services are not. Are we seeing particular areas where CarillionAmey's staff are less good at it? If you buy the service from them to opt out of doing the march out yourself, the responsibility is immediately on CarillionAmey to actually meet that need. Is it regional? Is it general?

Louise Simpson: I think it was general, across the board. There were also confusions about the "walk away" scheme, as it is called, because it was sold as a cleaning scheme, but it is actually an insurance scheme: you pay that money, which means you will not face any further charges. So when CarillionAmey were doing a move-out, they were not necessarily regarding that as a cleaning fee; they were looking at it and going, "Yes, that seems about right," and the money was going elsewhere.

Q14 Mrs Trevelyan: So a total lack of interest in those who were going into the property afterwards, as far as the CarillionAmey service was concerned.

Louise Simpson: I think CarillionAmey would disagree with that, but certainly families were moving into some shocking quarters.

Q15 Chair: Do Bill Mahon and Anna Wright have any comments on whether there was a regional variation?

Bill Mahon: Yes.

Anna Wright: Yes. I would agree with Louise Simpson.

Chair: You agree with Louise Simpson, okay.

Q16 Stephen Phillips: As I understand it, you pay a fee and then you do not get a fine if it is not in the tip-top condition that you are supposed to leave it in. Are you saying that you now pay that fee and CarillionAmey do not then do the work to make the accommodation of an acceptable standard for families moving into it subsequently?

Louise Simpson: That is what was happening over the summer—

Stephen Phillips: Last summer?

Louise Simpson: Yes. There was just a confusion about what that whole process was about. When I moved out of my scheme, I paid the walk-away fee. I do not feel that I left it in a hideous state, but when the next person moved in, she contacted me to say that it clearly had not been cleaned—there had been a six-week gap. So there was definite confusion about what that money was for. Families fundamentally believe that that was the money they were paying to have their quarters cleaned to perfection, to pass the move out standard.

Q17 Stephen Phillips: From what you are saying, and from what Mrs Phoenix said earlier—Mr Mahon and Ms Wright, you may want to comment on this—it sounds as if the money was going to CarillionAmey, which was not doing the work, and then the families who were moving in were moving into substandard, dirty accommodation, which had not had a deep clean. They were then subsequently expected to pay another fee, or to leave the property in a much better condition than that in which they had found it. Does that sound right?

Chair: A nod from Louise Simpson.

Louise Simpson: Yes, but that is last summer.

Q18 Stephen Phillips: Mr Mahon, Ms Wright, I am quite interested in this point, and you may or may not want to say something.

Bill Mahon: We have evidence of instances when we have seen that happening, yes. Not every time, but on occasion yes.

Q19 Stephen Phillips: Geographically across the whole of the RAF estates, or—

Bill Mahon: Yes, I would say so. I would not say that there was a particular hotspot in our case. Some regions, on the face of it, would seem to be better than others, but I do not think that a particular region stood out more than any other—

Q20 Stephen Phillips: May I just ask you about that, because as a Lincolnshire MP I have a lot of light blue in my patch and around it? Any particular problems in Lincolnshire?

Bill Mahon: No. The whole thing is across the piece. As I said, I do not think there would be any particular hotspot that we would identify for the RAF. From what we are hearing about, yes, we have evidence of that sort of thing occurring. Quite often I suspect it is down to CarillionAmey not having the resource available to check the house prior to move-in. It is often the issue when the family turn up. We had an example of a family coming back from Cyprus—the car was on the drive, the children in it, the removals van with all their kit from Cyprus was at the end of the drive, and the other removals van from the UK storage facility with the rest of their belongings in was at the other end of the drive, but the house was a disaster. Frankly, people in those sorts of situations are left with little choice but to take the house on the promise that the problems will be resolved quickly. Sometimes that happens; sometimes it does not. We think that in the majority of those cases the root cause is probably that there has not been the resource within the company to keep up with the workload and to do the checks that it should be doing before the family arrive.

Q21 Mrs Trevelyan: It is an interesting question, because people have moved in and out of service family accommodation forever. That is what all the forces do: every couple of years, they move to somewhere else, and someone else moves in. This is not new. How did it previously work, so that when you turned up it was spick and span? What used to exist in the system that no longer exists now?

Anna Wright: You used to have a local accommodation officer who would come in, march you out and check that everything was clean.

Q22 Mrs Trevelyan: They took responsibility for the property.

Anna Wright: They marched you out and checked that everything was clean.

Q23 Mrs Trevelyan: They didn't let someone have a party in it for six weeks before the new family arrived. Where have they gone? Why does CarillionAmey not maintain that understanding and connection with the property?

Louise Simpson: That bit used to be done by DIO; then, at the next renewal of contract, the allocation and management of the property was given to CarillionAmey. It was a brand new team on

the ground. I think it had hoped that the DIO team that had been doing the job would stay and do it, but it lost pretty much the majority of it, so it was a brand new team starting in January 2015. There was very little corporate knowledge about the way it worked. We used to have estate managers. People may well have had a party in there for six weeks, but when you moved into the house it would be sparkling.

Q24 David Mowat: I am interested in the process of letting the contract. When the MOD let the contract to CarillionAmey, it called it a “keep me safe, keep me legal” process and drove out hundreds of millions of pounds of savings in the new contract. Were any of your three organisations involved in specifying what presumably was a lower service requirement that CarillionAmey was encouraged to bid on? Were you involved in that process, or was it done to you and you accepted what you got, or you didn’t? Were you involved in a dialogue with MOD, because it obviously used this to drive millions of pounds of savings and one would have thought it might have spoken to you about what was possible and what wasn’t?

Bill Mahon: From my perspective, the short answer is no. We were briefed on what the contract was going to contain, but we were not involved and I would not have expected to be.

Q25 David Mowat: In the briefings on the contract did anyone say at any time that it had a lower service level requirement of the contractor than the previous contract?

Bill Mahon: Not to us—not to me anyway.

Q26 David Mowat: Or that the contract would deliver hundreds of millions of pounds of savings vis-à-vis the previous contract?

Bill Mahon: No.

David Mowat: That dialogue did not take place.

Q27 Chair: Mrs Phoenix, was there any consultation with families? I know you are one family, but are you aware of anything?

Mrs Phoenix: Not that I am aware of.

May I add that the walk-away scheme is still advertised on CarillionAmey’s website and it states within the boundaries of its advertisement that it is a clean? It charges families up to £400 to walk away from their property, on a per room basis. If this is insurance, which is what it is saying, why is it charging families per room? I need to put that across. It is taking up to £400 from forces families and when new families walk in, they walk into—

Q28 David Mowat: I guess that £400—is that something the MOD commit Carillion to charge under the contract that the MOD negotiated?

Mrs Phoenix: I am assuming so, but I wouldn't know about that side of things. Basically, the charges are all there on the CarillionAmey website for everyone to see. It is the walk away scheme and it is still being advertised.

Q29 David Mowat: I presume it can charge only what the MOD says it can charge.

Mrs Phoenix: Obviously I don't know what the contract says in respect of that.

Anna Wright: That would come out of the disturbance allowance. Families get £1,000 to move and it would go towards that cost.

Q30 Mrs Trevelyan: In terms of the decent homes standard setting for properties, I have had a huge number of examples with really depressing photographs of properties that would in no way fit my local council's decent homes standard, but in which people are living or have moved into in the last few months, again after everywhere should have been assessed and deemed suitable. How are you able to support and make progress with these homes, which are just not of decent homes standard? Mould in children's bedrooms is not acceptable when your children have asthma and you are told you can't be moved even when there is an empty home up the street that doesn't have mould in it. How can you practicably, as supporters of these families, get effective change from CarillionAmey to fix these problems? They are fundamental breaches in decent homes standards as far as I can see, but they are not being fixed.

Louise Simpson: We will work with DIO, the people responsible, if we feel that an appeal isn't right. We will contact it and ask it to look at it again. We are all lobbying DIO to make sure that this is done correctly.

Q31 Mrs Trevelyan: And that is done at a regional level? What is the sort of structure that you are working within, in practical terms?

Anna Wright: We have regular stocktake meetings with DIO, and we gather the evidence and we present it to them and have a dialogue; and it is a continuous dialogue.

Bill Mahon: This is an ongoing thing that we have been working together on since the inception of this contract, and with the previous contract holder as well, and we capture the evidence that families give to us, and we take it to both DIO and CarillionAmey on a continuous basis, and demonstrate to them, show them the issues and problems that some of our families are having. They developed a mould action plan, largely as a result of the Federation's input to them, which has started to have an impact; there is no doubt about it. I am not saying for a moment that there are not houses with damp and mould still. We were also able to change their attitude towards damp and mould, which in the past had always really centred around "Well, it's a lifestyle issue." We have been able to turn that on its head, and the organisation, the company, recognise that it is not always a lifestyle issue; sometimes it is the way the building has been put together in the first place.

We have been bashing away at them, certainly on this contract, for the last 18 months on things like damp and mould, things like the quality and standard of kitchens and bathrooms, and so on, and we keep presenting that evidence to them, both on a regional basis and, as Anna says, at a national level through stocktake meetings that we hold with them, and with the single services as well, who were also presenting evidence to them at the time of the issues that we are hearing about.

Q32 Mrs Trevelyan: Do you think there is enough responsiveness from their side, or could they do a lot better?

Bill Mahon: I think as we said at the start we are beginning to see an improvement. I think there is still a long way for them to go, and we should not be complacent at all. There is still a long way to go; but I do think you have to acknowledge that over the last two months, certainly in terms of people coming to us, we are seeing, and hearing from, fewer families than we did.

Q33 David Mowat: Do you present this evidence of failure to CarillionAmey, or do you present it to the MOD people who are responsible for managing the contract?

Bill Mahon: Both. The NHP stocktake meetings that we hold, we hold in the MOD with the DIO, with the MOD, with the families federations and with the single services, and with CarillionAmey there as well.

Q34 David Mowat: Right, so the MOD people managing the contract presumably could use this evidence as non-performance, and that affects payments and all sorts of things.

Bill Mahon: They see the same evidence, yes.

Q35 Chair: Obviously, as Mr Mowat has raised, one of the reasons for the contract was to look at saving money. Is it, in your view, a cost-cutting exercise—they are just trying to skimp—or is it just bad management; or is it a mixture of the two?

Anna Wright: I just think it is a bit coincidental that when more resource was thrown at it a couple of months ago we are now getting less complaints. Now I don't know whether that is coincidental—

Q36 Mr Bacon: When you say “a bit coincidental” you mean “a bit too coincidental for comfort”—is that what you mean? The gesture does not get into the record—is that what you were saying?

Anna Wright: Yes, it is.

Bill Mahon: I think 20:20 hindsight is a wonderful thing, isn't it? But you kind of feel: save £192 million on the new contract—wouldn't it be really good if they had saved £100 million and put £92 million back into it? We might not be having some of the problems that we have got now.

Chair: Louise Simpson.

Louise Simpson: I have nothing more to add.

Chair: Mrs Phoenix.

Mrs Phoenix: There is a lot to say in respect of the combined accommodation assessment system. The way it was sold to us was it would be a fairer, clearer, more transparent grading system. In respect of social media, there is a Facebook account set-up for forces families, to help people who have had their grading letters and who are now finding that their rents are increasing. Rents are increasing even though their properties are in disrepair.

One thing that we have picked up on as part of that group is how many people are actually appealing against the grading that they have got. We are seeing high levels of inaccurate survey data. If I go back to the old system, we were told the reasons why we needed change was that not all properties were surveyed, incorrect information was held and the system was open to manipulation by those setting the charges. Obviously, we needed change. That is how it has been fed back to the families.

It was said that it was not a money-making exercise in respect of the new grading, but if we then look at that new grading, not all properties have been surveyed; incorrect information is still being held—families who are appealing are making freedom of information requests about their properties; and rows of identical properties are being graded differently, so in some cases, upgraded properties that have had new kitchens and new bathrooms are being graded lower than properties that are in disrepair. It is clear that it is not fair and not transparent. The system is still open to manipulation.

That evidence shows that the whole system is flawed. As a result of the fact that properties have not been surveyed, 85% of the rents have increased for forces families. Rents have increased for 85% of people living in service family accommodation. Only people who appeal are getting a professional survey done on their property.

Q37 Chair: Caroline Dinenage, the MP for Gosport, has written to us, and she says: “While concerns were raised about Modern Housing Solutions, the situation is certainly worse since CarillionAmey took over.” She says she has experienced a sharp increase in SFA-related cases in the space of eight months. It sounds like you all have as well.

I want to go back to a point you raised, Louise, about members of the forces very much prizing as part of the offer being collocated and having a home to march in and march out of—I think that is the right phraseology. There has been some discussion over a long period about what type of accommodation should be provided, with increasingly some families not wanting to live in forces accommodation. I know the MOD is looking at this now. Do you all have views about whether this model still works? Given that the MOD is looking at what the future should be, is there a better way of doing this? I will start with Mrs Phoenix.

Mrs Phoenix: My background is housing. I have done housing stock transfers for councils and housing associations, and I have also done decent home surveys. My opinion is that it would work if the right people were in place to manage these properties. From what I am seeing in a professional capacity as a housing officer, if I was working for a civilian company—a housing

association or a council—looking out at what is happening with service family accommodation at the moment, that contract would be pulled. It would be put up for tender again and a new company would be taken on, because it is absolutely ridiculous how families are being treated and how these properties are being left to go into disrepair. At the end of the day, this is going to cost more money for the Government.

Q38 Chair: So you agree with Louise Simpson that people want to live in this accommodation and would not prefer to have a housing allowance and live somewhere else.

Mrs Phoenix: Because we move so often, we need the security that we have somewhere to go. Family harmony is important to service families, because you really need to be together. That is not just for the sake of the wives, husbands and partners living at home; it is also for the serving person. It is important they have somewhere they can go back to at the end of the day and chill out and enjoy life. At the moment, you find that a majority of families are not getting that. They are coming home and not getting the harmony they deserve.

Q39 Mr Bacon: Have you suggested to the MOD that there is enough weight of evidence that they should pull the contract on the basis that the providers are in breach of contract?

Mrs Phoenix: I have mentioned that. The reason the Defence Secretary was brought up is that I went to the press back in February.

Chair: We need to be careful what territory we are getting into here. Mr Bacon was not—

Mrs Phoenix: That is the only reason that that happened.

Q40 Chair: We have a bit of background that we won't play out now. We need to move on shortly, but can I just ask the families federations about the model? Is this model going to survive? Do you want it to survive? Do your families want it to survive, or is it time for a change?

Louise Simpson: The MOD do not want this model to survive. It is expensive. It is unaffordable. For Army families, I think it is incredibly important that aspects of this model survive and that, at the end of the day, choice is offered, so that families who would prefer to take themselves off into private rental or into their own homes are supported through that. But I believe the majority of mobile families would want to stay together, and I think you will have a real retention issue if you remove that.

Bill Mahon: In the RAF, and probably to an even greater extent in the Navy, more of our families already own their own house, so the reliance on or importance of service families accommodation in the current format seems less. It is important to those who use it, but fewer of us use it. Clearly, the MOD is looking at other options at the moment for the future accommodation model. What those options will consist of, we do not know at the moment, but I am aware they are looking.

Anna Wright: I agree with Bill. We have very different lifestyles in the three services. For the Navy, but not the Royal Marines, it makes sense to a lot of families to settle where they have extended family and support, so they can have a job—78% of naval spouses say that they are able to

work—and have that support around them. It doesn't make a lot of sense to move to Portsmouth or Plymouth if the ship is going to be deployed for nine months anyway, so quite a lot of us are in the community already. Only 5,000 families use SFA.

Q41 Mr Bacon: I was in Shrivenham recently teaching at the military college. I was told while I was there that people are increasingly getting their own houses and commuting while staying in one settled place. Defence Ministers told me at parliamentary Question Time recently that they would consider the implications of the Self-build and Custom Housebuilding Act 2015, which requires local authorities to keep registers of people who would like to develop and build their own dwellings on service plots. The new Housing and Planning Act 2016, which became law last month, will require local authorities to provide service plots for that, commensurate with the demand evidenced on the register.

Given that the Ministry of Defence has lots of land, which was the burden of my question to Defence Ministers, have any of your organisations been approached by the MOD to point out that opportunities could exist for service personnel to gain service plots of land on what is at the moment MOD land, with a view to providing dwellings for service personnel or veterans? Have any of you ever been asked about that?

All witnesses: No.

Q42 Mr Bacon: I have one more question for Mrs Phoenix, but anybody else can answer. You mentioned cookers not working. Does anyone have a number? Across the estate, do we have any notion of how many cookers, to take that one narrow example, are not working? Do you know?

Mrs Phoenix: No, I don't know those figures.

Q43 Mr Bacon: But it would probably be in a small number of thousands, would it?

Mrs Phoenix: Most likely. Obviously, they have got a cyclical amount of time when they naturally break down and things like that. To give an example, the hob in my house is 17 years old, and it has not broken down or anything, but the cooker is a little bit younger, and it does not work efficiently. You are just waiting for it to break down. We have had cases recently where glass has shattered on cookers, because they are that old that the glass has just deteriorated, and they have been left for six or seven weeks. We are seeing that on a regular basis now, in respect of the cooking facilities—they are breaking down, and people are not having those facilities for six or seven weeks.

Q44 Mr Bacon: Are they mostly gas or electric?

Mrs Phoenix: They are usually gas hobs, unless you're in area where it's electric ovens.

Chair: We are into quite a lot of detail here; I am not sure it is the most relevant. One more point from me, and then Anne-Marie Trevelyan will have a quick point to finish off. We do need to move on, although this is fascinating and we could talk about it for much longer. I wanted to ask the families federations whether you feel you have clout with the MOD and CarillionAmey. Obviously,

you advocate for families who come to you, but are your views taken seriously, and how well are you consulted when these sorts of change take place? We will start with Anna Wright.

Anna Wright: I do feel as if we are heard in terms of taking evidence to both DIO and CarillionAmey. Things are fixed and addressed. Processes have changed over the 18 months as a result of our feedback; the mould is a case in point. In terms of being asked about policy or the new contract, I wasn't in post at that time, but I understand that this federation was not consulted about that.

Q45 Chair: Thank you. That is very helpful. Bill Mahon.

Bill Mahon: I would say the same. We tread a fine line between representing what families are telling us across the piece and presenting that to the MOD and then trying to influence policy. We can't make policy—we are not in the MOD and we are not part of the services—but we try to influence that policy to get the best deal that we can for our families. If I am blunt, we are listened to when it is convenient and we are saying the right things. I don't think we are listened to all of the time. It is a constant challenge for all three of us to try to maximise the influence that we have.

Q46 Stephen Phillips: How are you listened to? Are there regular meetings with Defence Ministers?

Bill Mahon: Yes.

Q47 Stephen Phillips: Would all three of you attend?

Bill Mahon: We see Mark Lancaster formally every six months.

Chair: To be clear, Mark Lancaster is the Minister responsible for this matter.

Bill Mahon: Yes, for Defence Personnel and Veterans. We see Mark formally every six months and all three of us probably talk to him more often than that. We talk to the top of the shop in the MOD on a regular basis. The General is sat behind me; we speak to him, and spoke to his predecessor, all the time. We have good contact with the Ministry of Defence and with Government as well, not only the MOD Ministers. We have engaged this year with Ministers in the Department for Work and Pensions, the Department for Communities and Local Government and so on, as we have with organisations like NHS England, the NHS itself, the Department of Health and the Department for Education.

Q48 Chair: You have access but not necessarily as much influence.

Bill Mahon: Not as much influence as we would like, of course.

Q49 David Mowat: Just for clarity, you are not used as a part of the contract process. When they were specifying the detail of the new contract with Carillion, they didn't come to you and say,

“What do you think about this? Would that work?” and things like that? That wasn’t part of your role?

Bill Mahon: No. I would not have expected them to, to be honest.

Q50 David Mowat: Why not?

Bill Mahon: Because it is a formal contract negotiation; it is a formal contracting piece. We are not part of the formal MOD structure—

Q51 David Mowat: It is interesting that you say that though. You are the representatives of the users of this contract and what often happens when these contracts, which are very detailed, are being specified, is that they will come to the users and the representatives of the users and say, “What do you think of this? Would this work? What needs to happen? What do we need to put in here? Is this an area that we can save money?” or, “That’s an area where we can’t save money.” That dialogue would often happen in the outsourcing of a contract. I am interested that you say so quickly that you wouldn’t have expected to be part of it.

Bill Mahon: To my knowledge that didn’t happen with this contract.

Q52 David Mowat: I heard that. I also heard you say that you wouldn’t have thought it appropriate for you to be involved.

Bill Mahon: I am talking about the contracting process. They may well have come to us before they got into that, but that was before our time. That was a while ago.

Q53 Caroline Flint: My understanding was that Carillion had responsibility for maintenance of service families accommodation before the new contract, so do you think there is any excuse for them not to understand the needs of service families?

Bill Mahon: No.

Louise Simpson: No. When they took the contract over we were expecting the allocation of accommodation to fall over, because new contracts do tend to be problematic, so we were all very surprised that it was the repairs and maintenance side of things. Essentially, at the end of the day, we are sitting around the same table as the people who were delivering it before. I think it has been very surprising.

Can I just say—I wasn’t given a chance to answer the previous questions—that we certainly feel as an organisation that we should be involved at the very earliest stage? We work really hard to try to make policy makers understand that talking to us and allowing us to talk about the families’ experiences will help shape a better, more efficient contract. We try to do that whenever we can. We did give a briefing when the new contract was being looked at about what it is like to be an Army family, to try to help them understand that. We work very hard as an organisation to get in as early as possible. The MOD are working on the families action plan for the families strategy and they have

engaged with all of us at the earliest opportunity to try to shape something that really does meet the needs of military families.

Chair: Thank you very much. I'll bring in Anne-Marie Trevelyan for the last point.

Q54 Mrs Trevelyan: Just your view, if you are willing to give it. We spend £11 billion a year paying for all our military personnel and their wages and costs. We spend a lot more on the metal capital, but that doesn't work at all without the human capital. Do you think that the maintenance contract we have, the way the banding process is being rolled out and the attitude of the MOD at the moment towards future accommodation is a real retention risk for our most valuable armed forces? If that is the case, it would be really helpful to hear that, because they cannot speak for themselves. You are their voices.

Bill Mahon: Yes, I think it's a risk. I think it is a factor, but it is not always the main factor. People leave for a variety or combination of reasons, but I think this is a significant risk, yes.

Louise Simpson: We did a small, in-house survey. We have a research panel where we asked families to tell us what they would think if SFA were withdrawn. The majority came back to say they would consider leaving the service because of that. I certainly think the future accommodation model poses a real retention risk.

Anna Wright: There is a risk, with retention being such a challenge at the moment. This needs to be looked at really carefully. I think it is less of an issue for the Navy than for the Army, because we only have 5,000 in quarters, so if it does change it will not be the massive cultural change that it will be for the Army.

Q55 Mrs Trevelyan: In family accommodation. What about in single-living accommodation, which we are not particularly looking at? Presumably a lot of the younger naval staff are going to be in single-living accommodation?

Anna Wright: It would be essential to get that right.

Q56 Mrs Trevelyan: You start there, and if you get married, you move up into the next lot, don't you?

Anna Wright: Absolutely.

Mrs Trevelyan: Thank you for your honesty.

Chair: Thank you very much. We went on longer than expected, but for good reason, because it has been very useful to us as we progress to our next panel—the people who are making decisions about the future of housing for our armed forces. The uncorrected transcript, which Hansard produces, will be up on our website in the next couple of days, so you will be able to find that. We will also send you a copy of the report, which we would expect to be out probably by July. We hope to get it out quite quickly, but we have timetable issues. We will send you a copy of that. You are welcome to stay for the next panel if you wish. Thank you again, on behalf of the Committee, for coming and giving evidence.

Examination of Witnesses

Witnesses: Stephen Lovegrove, Permanent Secretary, Ministry of Defence, Colin Wood, Interim Chief Executive of the Defence Infrastructure Organisation, Lieutenant General Richard Nugee, Chief of Defence People, and Richard Lumby, Managing Director, Carillion Defence and Security, gave evidence.

Chair: This room was built for speakers, so the acoustics are not great. I remind our witnesses to speak up, because it can be a problem for people to hear, particularly those behind you. I welcome our second panel. Colin Wood is the chief executive of the Defence Infrastructure Organisation, the oft-quoted DIO, as it is often called. We have Lieutenant General Richard Nugee, who is the Chief of Defence People at the Ministry of Defence. We welcome back to Stephen Lovegrove, who is a permanent secretary at the MOD but only a week ago appeared in front of us in his former role. I think this is your first outing as permanent secretary?

Stephen Lovegrove: Variety is the spice of life.

Mr Bacon: We will hold you responsible for everything.

Chair: You have to remember, Mr Lovegrove, that as long as you are working in the civil service, we can call you back on anything you have ever done, so we could have quite a time. Finally, we have Richard Lumby, who is the managing director of defence and security at Carillion, which manages the contract we are discussing today.

I highlighted at the beginning some of the issues of this hearing. It is worth emphasising that Caroline Dinéage, the Member of Parliament for Gosport, whom I quoted earlier, highlighted the issue of the regulations for private landlords being stricter, giving civilian tenants greater rights and protections. One of the things that has come out of the evidence we received outside the NAO Report is the sense of injustice. The issue is not that the system is different, but that they get fewer rights than they would if they were civilians. Given what they and their families give to our country, that is something we should bear in mind. Over to you, Anne-Marie Trevelyan. I should just remind you that the hashtag is #forcshomes, if anyone is following it.

Q57 Mrs Trevelyan: It would be helpful if we could start off with an overview. May I ask all of you, within your roles, how you see the MOD and your relationship with its long-term aims for the provision of service family accommodation? The recent data show that 47% of military families own their own home somewhere in the UK, but 72% of them live in service family accommodation. As we heard earlier—particularly, but not exclusively, with the Army—the need to be on base, behind the wire, and to have your family with you is a really important part of the morale requirement for all those armed forces personnel. How do you see that long-term vision for it? Perhaps you could start, Lieutenant General.

Lieutenant General Nugee: Thank you. We absolutely acknowledge the importance of quarters where appropriate. We have always—certainly recently—very strongly encouraged home ownership, because every member of the armed forces eventually leaves and goes into civilian life. To leave at the age of 55 without a house and with nowhere to live is not a particularly good strategy. We have encouraged, from a very early age, all our soldiers, sailors and airmen to buy their

own houses. We have put in place a forces help to buy system to help them go through that. We have spent well over £100 million on encouraging people and providing some financial support to allow people to buy their own houses.

Where is the way ahead? We are not only going to continue to encourage people to buy their own houses. My family is no different from many other military families; I have had the most fantastic support from my wife, who lives with me in quarters. In fact, we own our own house now—I am following my own advice. I have always found that having the family together is a really important element. It is slightly different for the Navy, as you have heard.

However, we are looking to bring the housing and accommodation policy into the 21st century to allow our service people slightly more freedom as to where to go and what to live in. The idea of an allowance, which will give them the freedom to go on to the open market and look for a property that suits them, is something that we would encourage. We get out of a number of the rules and regulations that we have put in place for service families accommodation by allowing them to go on to the open market where appropriate. We are talking to the families federations, and I would strongly encourage the policy that was mentioned earlier on health and wellbeing and the families strategy. I was responsible for that in my last job, and we firmly brought the families federations in very early to help with that. I strongly hope that that is the case for the new policy.

We are looking to give them freedom of choice, rather than to tell them, “This is the only quarter available for whatever circumstance; therefore, you have to move into that quarter.” I think the way ahead is to offer choice. If there are only quarters in the area in some of our most remote locations, we are not going to get rid of quarters and throw people out on to the street—of course we are not. We are going to keep what is appropriate for the place and the region that we have our soldiers, sailors and airmen living in.

Stephen Lovegrove: I will not repeat what Lieutenant General Nugee said. Previous witnesses have borne eloquent testimony to the fact that the accommodation offer is incredibly important to our armed forces personnel. The Department acknowledges and recognises that and we will be working to ensure that our responsibilities are honoured. Maybe one of the easiest ways to get into it is through the armed forces covenant. That covenant contains a commitment to provide good quality accommodation in the right location at a reasonable—in fact quite heavily subsidised—price. That is something that we want to see happen.

Looking at the estate, as I can now with relatively fresh eyes, I would say that the quality of the estate seems to have improved over the past 10 years or so. What has certainly not improved over the past two years or so is the way in which the estate has been maintained. I am sure we will be getting on to the CarillionAmey contract. It is absolutely my Ministers’ and my colleagues’ commitment to ensure that the estate is maintained and is kept up to the kind of standards that our armed forces have every right to expect.

That is why we have the improvement plan, which we talked about and will no doubt talk about again. That for me is the main focus right now, to make absolutely sure that the people who are looking after this estate for us and providing quality accommodation for armed forces families are fulfilling their obligations under the contract.

Q58 Mrs Trevelyan: Thank you. That is helpful. You mentioned the armed forces covenant. It is very clear across the board, which obviously includes housing, that there should be no

disadvantage. Any number of service personnel say, “We are not asking for favours.” They always say that; that is the first thing they say. We are going towards a decent home standard as the premise for rental payments. Presumably, the MOD has realised that that is a perfectly reasonable base from which to start, because everyone else in a Government-owned property is based on that same level, but that is quite a challenge. A lot of people who have contacted me feel that the MOD does not necessarily seem to have an understanding of that and that because of the nature of the Annington Homes ownership, the direction of travel will not push to maintain the estate. From an MOD perspective there is not a driver to push for DH or DH Plus in the longer term, because the MOD does not own these properties.

Stephen Lovegrove: Well, we don’t own these properties. We have given a 999-year lease to Annington Homes and leased them back for 200 years. We have got the in perpetuity lease and we have got the 200-year lease, so I think we do feel extremely heavily invested in this.

The question of standards is an interesting one. We have moved to the kind of standards that DCLG would promulgate under decent homes and decent homes plus. I am glad we have done that because I think it has revealed that some of our housing stock is frankly not at the level that we need it to be. Under the previous four-tier grading system, we managed to get 99.5% of the houses graded as tier 1 or tier 2 houses. I think that tells you that, sure, they were improving over time. It also tells you that that grading system was no longer fit for purpose.

Under the new grading system we are around 88% designated as decent homes and 79% of those are decent homes plus. I want to see that get to 100%. I do think we have the tools to do it, and we certainly have got the commitment. I can certainly give you that assurance.

Q59 Mrs Trevelyan: That is helpful, thank you. Talking about the covenant, Mr Lumby, you have signed up to the corporate covenant as a company and so has Amey. The reality, if you are a member of the armed forces serving, is that this contract so far has not been brilliant—we will come back to the detail. I have no sense, as someone here to see if the armed forces covenant is happening, that the commitment that you signed up to at corporate level, which goes into the corporate responsibility bit of your accounts and makes you all shiny and great, has filtered down to the guys at the call centre about what it means to be part of the armed forces covenant. Because what that means would be to provide a better service. How do you as a company that has very large numbers of Government contracts, many of which are MOD, feel that you are actually driving that covenant through your corporate structure to impact the people it is meant to, which is the serving personnel at the bottom of the chain?

Richard Lumby: The first thing to say is that signing the corporate covenant as Carillion—I can’t talk directly for Amey or for CarillionAmey themselves—is an important part of what we do and what we think of ourselves as an organisation. It is our commitment to our people and to motivate people. There are some very pragmatic things about utilising people who are leaving the forces, utilising their skills and giving them a purpose, and we can do that, so that is one thing.

The second thing is the clear juxtaposition that we are in at the moment. You could say, “You’ve signed the covenant. How come you’ve got this awful performance?” I think it is fair to say that we have absolutely let ourselves down as CarillionAmey and Carillion and Amey in the last 18 months of the last contract.

Q60 Chair: Not as much as you have let down the families living in the homes.

Richard Lumby: If I may, from that perspective I have been involved in the contract and the predecessor contract and military contracts since the inception of the previous contracts. On a very personal basis, it is important to me. I am passionate about that and the recognition that what we aren't is a housing contractor. What we are is in many ways the provider in ensuring that people have a home to go to and everything else. I feel that is important. We have undoubtedly dropped a big clanger—many big balls—and put a lot of people and their families through discomfort in the last 18 months. We are incredibly sorry where we have done that and caused significant failure for them and discomfort.

Q61 Caroline Flint: But Carillion have had responsibility for supporting forces' families in terms of maintenance before.

Richard Lumby: We have indeed.

Q62 Caroline Flint: So it is not like you can say that you don't know the situation and complexities involved, and the moving in and out of families in meeting the needs of what the services require of them. What is it you have learned from what you did before, but which you obviously haven't put it right. What is going wrong?

Richard Lumby: It is a change in contract—

Q63 Caroline Flint: Basically, it is making sure houses are clean for people to move in, and making sure maintenance and contracts and the management of those contracts is carried out properly. It is not having people turning up, as witnesses have said in the last session, and taking a spanner, clanging a boiler and walking away.

Richard Lumby: I totally accept that. There is not a lot of difference between the contract we are in now and the previous contract, although there is some expanded scope that has gone very well from the first day; one of your previous witnesses said that. We have changed the modelling that we operate. We have looked to modernise it because it is a medium to long-term contract. The previous contract itself was coming to an end and needed some modernising in its underlying processes. Certainly the IT systems that we had in place were getting to the end of their life, and we have certainly not managed to get those up and running, which are required for us to deliver the service and the customer experience.

Q64 Chair: Mr Lumby, I think that Caroline has hit the nail on the head. It is not rocket science. You were doing this already. You have a lot of Government contracts. Anne-Marie, can you remember the number?

Mrs Trevelyan: Sixty-two at the moment.

Q65 Chair: Sixty-two Government contracts. So you are not new to working with Government, either, and yet the very people who should be getting the service, as we have heard very clearly and as the Report shows, are not. I can't quite see how you can sit here saying what you've said. I don't doubt you have got some personal sincerity in this, but you are not delivering. You and your organisation have failed these families. Why?

Richard Lumby: We have undoubtedly not got our systems, our underlying IT systems, running effectively to start with, and we rely on them to deliver the contract. We had an old system and we maintained use of that where we could, but it is not configured to deliver the requirements under this particular contract.

Q66 Chair: So why did you sign the contract if you couldn't deliver it?

Richard Lumby: Clearly, we believed we could, and we have the absolute intention to deliver. Then and now, the action plan that we have in place and the ones we successively put through last year are having success, and we believe that we are now delivering to those contractual KPIs. What is more important to us—it is in our improvement plan—is that the experience that the people who live in those homes have is improved, let alone to hit the contract targets themselves.

Chair: Caroline Flint will finish off; then Chris Evans, Stephen Phillips and back to Anne-Marie Trevelyan.

Q67 Caroline Flint: On page 23 of the Report, paragraph 4.7 says, "CarillionAmey receives approximately 25,000 calls related to maintenance work to Service Family Accommodation every month." The key statistics on page 4 of the Report state that there are 50,000 service family accommodation units in the UK. So there are 25,000 calls per month on maintenance issues for 50,000 units. Am I old-fashioned or something? I like to think I can use an iPad and a computer. When you are getting that level of calls from families, what about just picking up the phones to families and saying, "What happened with you and the contractor when they came and did the job and left you with a boiler that didn't work?" Has the old-fashioned system of talking to people gone completely out the window with you when it comes to customer service with you?

Richard Lumby: We do follow process. We do a call back to a sample of 5% of all the response maintenance activities we carry out. The company brings that information in-house and looks at the areas in which we need to improve. Then we can see how we need to put the service right or, indeed, where our contractors or our own processes are failing. We have had that engagement for a long time. We follow that and we pick up on the complaints process and the complaints. And, of course, we pick up on what we hear from social media. That is a massive part of our business and drives the business. The board, on which I sit, as against senior management, are massively interested in that and are holding to account the management team on explaining where we are, what they are doing about it and how we improve.

Q68 Chris Evans: Paragraph 4.15 of the Report says, "65% of CarillionAmey's workforce are small and medium-sized enterprises". Are they cowboys?

Richard Lumby: No, we don't look to employ cowboys. I would not typify them as cowboys.

Q69 Chris Evans: That is what it sounds like. From the anecdotal evidence we heard from Mrs Phoenix, it sounds like you have a bunch of cowboys there.

Richard Lumby: It does sound like that, from time to time, we—

Q70 Chris Evans: And if that happened in my local area, they would be reported to trading standards and struck off. Why you are allowing that level of service for people who are risking their lives for this country? It is an absolute embarrassment to be before the Secretary of State because you could not fulfil your contract. Why should people have confidence in Carillion to fulfil any of the Government contracts, based on this Report?

Richard Lumby: If I may take that, our engagement with our supply chain is critical. We look to employ the supply chain that we should and we look to SMEs because we believe that is important. Indeed, we look to give them terms and conditions of employment that work and are encouraging and motivational. What we are doing and will do is take contractors who are not good enough and we will work with them. Indeed, in our improvement plan now, we are working with one of those major suppliers and embedding people into their organisation and them into us, as well as giving them training, to see how we can improve. Our steps are to take SMEs, to work with them to see how they can improve and to give them the tools and training. If it fails, we need to move them on, like anywhere else.

Q71 Chris Evans: You haven't been moving them on, have you? If this is still happening, you have not moved them on.

Richard Lumby: Our improvement plan, which we take extremely seriously, has been working through the past few months. If I were to look at the KPI delivery performance as of today, compared with where it was, we would be performing to the contractual targets. Inevitably to turn this around in reputational terms—we are realistic about this, and one of the witnesses talked about our reputation—and to take away not just the anecdotes, but the dreadful experiences that people have will take us some time, but that is what we are going to do.

Q72 Chris Evans: You are using a lot of corporate-speak but I do not think you realise how serious this is. These are people who risk their lives for this country. This isn't like working in Barclays or Lloyds Bank, where you go to work every day. These people are risking their lives and they deserve the best. They are not getting that from you, Mr Lumby, and I don't think you get how serious this is for so many people. It is alright quoting statistics at us, but there are people out there tonight living in damp homes and places where there is mould. It is your company's responsibility and you are not doing it. Now, do you honestly think that your reputation is not on the line over this?

Richard Lumby: I absolutely believe that our reputation is on the line, and that is important. What is more important to us is that we put those things right where we can. We are not the provider of the quarters. We are the maintainer of it and we maintain it in the contract that we have, which is the one that was described before. Clearly it is important that where there is work that we can do, and we can do of our own volition, we do it to the standard that is required, we do it

effectively, we do it on time and we do it in a manner in which the people in the house feel that their home is right for them. We spend a significant amount of time with the families federations and with the chain of command listening to them, working with them and identifying what it is that we need to do to put things better.

Q73 Stephen Phillips: Mr Lumby, it is helpful to hear—correct me if I am wrong—that you are sorry about your performance to date. Is that right?

Richard Lumby: Indeed we are, yes.

Q74 Stephen Phillips: In fact, you accept that that performance under the contract has been lamentable.

Richard Lumby: Under the contract we have failed on our contractual KPIs.

Q75 Stephen Phillips: And yet you won this contract from the MOD. So things may be getting better now—we will come back to that—but I want to know why you were not delivering from day one on a contract that you tendered for, undercut everyone else on and won. Why were you not delivering from day one? What were the problems?

Richard Lumby: I will come back to our underlying major problem: the systems that we have that help us maintain over 30,000 activities a month did not operate the way we needed them to. We brought in a large number of people through the TUPE process from different parts of the country; we had to bring them into our organisation and give them training and development. We started the contract in the middle of the winter, which is never a great time to start. So there are a number of things that happened. Should I have anticipated them all? Yes, I did. Do I think we anticipated them all? Yes, I did. Did we actually get it right? No, we did not.

Q76 Stephen Phillips: I just do not understand that answer. You say you anticipated that these problems, which you blame your poor performance on, would occur. You had to TUPE in relevant employees and have in place a system, whether a computer system or another, that would enable you to deal with the volume of work that had to be done. All of that will have been in the tender documents from the MOD and looked at, and you accept that you anticipated it. So how do you explain to service families sitting at home watching this hearing, who have been living in accommodation that is not just cold, damp and mouldy but where the ovens do not work and heating does not work for weeks, the poor—indeed lamentable, terrible—performance of CarillionAmey? These people put their lives on the line for us and leave their families at home when they go to theatre. How do you explain it? What is your answer to them?

Richard Lumby: First, I repeat my apology. It is sincere and it is on behalf of the company. Having said that, that does not explain why it is we are where we are. We do rely on systems and process. Unfortunately, we did not that right. The national infrastructure that we put in to upgrade both the IT and the systems is significant. It is over 200 bases in the UK and it has been a transfer from what was the MOD's own secure intranet into our—

Q77 Stephen Phillips: All of this is entirely predictable, Mr Lumby.

Richard Lumby: Indeed it is. Did we manage to do it in the time? No, we did not and, on top of that, our systems did not work the way they should have done.

Q78 Stephen Phillips: Okay, which leads me to this question. Mr Lovegrove, I appreciate that you have only been in post as permanent secretary for a week, but how on earth did the Department give this contract to CarillionAmey?

Stephen Lovegrove: I can give you as much of an answer as I can give you, as it were. The contract was won by CarillionAmey obviously by providing the most competitive bid.

Q79 Stephen Phillips: Does that mean the cheapest bid?

Stephen Lovegrove: It does mean the cheapest bid, but of course it does not mean that it was the cheapest bid against a different set of standards from those anyone else would have contracted for—

Q80 Stephen Phillips: But you get what you pay for, don't you? It seems what the Department paid for is a rubbish contractor who was not doing to discharge its functions under the contract.

Stephen Lovegrove: I think the Department understandably had faith in the concept of competition when it comes to handing out these types of contracts. I think, however, there is a question about how we assured the ability of the contractor to be able to perform to the contracted standards.

Q81 Stephen Phillips: Can you just pause there, because I want to unpack that from civil service-speak? What you are really saying is that the civil servants who looked at the bids did not appreciate that CarillionAmey did not have the systems in place to be able to discharge the functions under the contract.

Stephen Lovegrove: No, I am not saying that. I am saying that to the extent that the civil servants who were looking at it—it was independently assessed; Mr Wood may be able to give a little bit more detail about this—they were satisfied, clearly incorrectly as it turned out, that CarillionAmey were capable of discharging their obligations under the contract; and as you would expect, the civil servants in question advised their Ministers to accept the bid on the basis of price. I think that is a very standard way of going about it.

Having said that, because of the very poor standard of performance of CarillionAmey over the first 18 months and—as came out, interestingly I thought, in the previous session—the quite sharp increase in performance over the last couple of months, we need to be very, very careful when we look at whether or not we should terminate this contract.

It does seem to be the case that CarillionAmey is now hitting the vast majority of its key performance indicators—basic targets, of which there is a suite of about 40. Whether maintaining that level of performance is sustainable for CarillionAmey, or when the heat is off they will start taking people away or dropping their focus on it and it will drop away again—that is something that we will absolutely not be prepared to see happen. I asked Mr Lumby and his colleagues about this yesterday and said very clearly, “You need to give me a personal assurance that the kinds of sustained improvement that we have seen so far are going to be sustainable for the long term.”

Q82 Stephen Phillips: Was that at a meeting in preparation for this hearing?

Stephen Lovegrove: No, it wasn't. It was a regular meeting, which we have with most of our contractors, as you would expect. It is vital that we do not lose what we have managed to get in the past couple of months. That is really the message that I am trying to get across to you, and that is what we are focusing on at the moment.

Q83 Stephen Phillips: I understand that. Forgive me; I am going to pick up on one thing that you said about which I am very concerned. You said that CarillionAmey are now meeting the majority of the key performance indicators.

Stephen Lovegrove: The exact figures that I have—it is a three-month improvement plan and in February, which was when it started, they were—

Q84 Stephen Phillips: Do you have figures for the end of May? It will become clear in a minute why I am asking you that.

Stephen Lovegrove: No, I do not have figures for the end of May. I have figures for the end of April, the end of March and the end of February, but I do not have figures for the end of May.

Q85 Stephen Phillips: The reason I ask you about that is that I asked the Parliamentary Under-Secretary of State, Mr Lancaster, about this in the House on 18 April, and in his answer to me, he said that CarillionAmey had “committed to meet all the key performance indicators”—including those in the national housing prime contract—“by the end of May 2016.”

Stephen Lovegrove: Yes, that's right.

Q86 Stephen Phillips: Are they?

Stephen Lovegrove: I don't know, because we have not got that information yet. It is only eight days into June, so that information will probably come in in about 10 days' time, I would guess.

Q87 Chair: Can we have that? We want to see that.

Stephen Lovegrove: Absolutely. I would be delighted to send that information to you. Can I give you an indication of what has happened so far, as far as I know, notwithstanding the fact that we do not have figures for the end of May? In February, seven out of 38 KPIs were being hit; in March, it was 29 out of 38; and in April, it was 34 out of 38. That is an indication of the rate of improvement. Clearly, what needs to happen is that Mr Lumby and his colleagues need to be able to get to the full set.

Q88 Chair: Can I be clear? Have you any intention of having these externally audited or vetted?

Stephen Lovegrove: We are going to be having them externally audited.

Q89 Chair: Can you just explain who you are using and what you are doing to do that?

Colin Wood: We will have them audited by the end of June. We will do a further audit across the whole dataset by August, and we will advise Mr Lovegrove and the Secretary and State on our findings.

Q90 Stephen Phillips: When you write to us, can you tell us what these 38 key performance indicators are? I know that Mrs Trevelyan has asked previously and we have not had an answer.

Colin Wood: We can do that.

Q91 Stephen Phillips: Can I pick up on one more point, Mr Lovegrove? You say it was not the fault of the civil servants who assessed CarillionAmey's tender; they thought that they were capable of meeting the standards in the contract at the price that they had given, which was competitive, which is another way of saying cheaper than anyone else's. Does that mean that your view is that CarillionAmey lied in their tender bid about whether or not they were capable of meeting the contract?

Stephen Lovegrove: It sounds to me like CarillionAmey probably underestimated their capacity to handle the transition period.

Q92 Stephen Phillips: That is a polite way of saying that they misled the Department.

Stephen Lovegrove: No, I think it is a reasonable way of saying that they misjudged their ability to handle that transition. I think that it is perfectly possible to have an honest misjudgment. It does not alter the fact that if they do not fulfil their contractual obligations we will terminate the contract.

Q93 Chair: Let us say that at the end of May, for argument's sake, they have met them all. How well will you really be monitoring—I suppose Mr Wood should answer this—that they are still meeting them at the end of June, July and so on?

Colin Wood: We have consistent monitoring, so we will be monitoring them on a weekly basis and that then has a roll up into monthly.

Q94 Chair: So were you monitoring them through 2015 as well?

Colin Wood: We were. That was one of the issues that flagged up the poor performance throughout the year, which led to the escalation through Ministers and then to the Secretary of State.

Q95 David Mowat: The question here is on contracting strategy though, isn't it? Look at figure 9 in the Report. It was not just the one contract that you let to them, was it? It was all of them.

Colin Wood: There were a number of other contracts: of course, the regional prime contracts, and there are others that sit on the training estate land map.

Q96 David Mowat: So you actually made a decision not just to let this contract; you just had to let every single contract that you had to them.

Colin Wood: Not all of our contracts. The training estate is managed by a different contractor, but five of the seven contracts were—

Q97 David Mowat: But you let several contracts to them. Was there ever an issue of capacity in your thinking when doing that—that maybe every single contract going to them was too much?

Colin Wood: One of the key tenets of the test of the assurance was that CarillionAmey had to demonstrate that they could meet that capacity challenge. That was looked into before the final contract was awarded.

Q98 Caroline Flint: How many bid for the contract?

Colin Wood: In total there were six contractors, and there was a challenge to three of the regional prime contracts, which was then negated through discussion.

Q99 Caroline Flint: Just quickly, you have only withheld £10 million of £150 million payments made to date to CarillionAmey. Why have you not held back more, given their performance?¹

¹ Clarification: the Department has paid £115 million to CarillionAmey and not £150 million

Colin Wood: In terms of the mechanisms under the contract, we are unable to hold back more. We are investigating that through our legal services at the moment, to see whether there is another mechanism that we can either use or build into a future contract.

Chair: I am going to bring Anne-Marie Trevelyan back in, but I just want to alert colleagues and witnesses that we are likely to have a vote in about 10 minutes' time so we will have to adjourn briefly for that. Anne-Marie, you have the floor until then.

Q100 Mrs Trevelyan: The NAO Report identifies about £660 million of investment into improving conditions of the housing stock—that is how it is described—between 2009 and 2015. That is about £110 million a year. For 50,000 homes, that is nearly £2,500 per property. Now if that it is how it has worked, there should be shiny new kitchens and shiny new bathrooms in every single property, which clearly there are not, based on a great deal of evidence that I have received. Parking that to one side, because we are where we are, how are you using the income from rents? How does that work? It has been very difficult to understand. Although they pay a subsidised rent, they are paying a rent. How does that feed through to the investment into the property, if that £660 million is actually netted off by a large amount of rent over that period?

Colin Wood: Any rental income is reinvested back into the estate. It would be very true, under the CAAS strategy, that any extra revenue generated goes straight back into accommodation.

Q101 Mrs Trevelyan: What do you mean by “extra revenue”? It just generates revenue; you charge them rent and they pay it to you.

Colin Wood: One of the challenges under CAAS is that there has been an increased revenue. I want to be really clear that that increased revenue goes back into accommodation.

Q102 Mrs Trevelyan: And in the last six years, when this £660 million has been invested in the housing stock, where was the rent going?

Colin Wood: The rents then would also go back into the estate.

Q103 Mrs Trevelyan: That is a net figure; £660 million is a net amount of investment by the MOD.

Colin Wood: That was the net amount of investment split across both capital and revenue generation as well—

Q104 Mrs Trevelyan: Yes, indeed. From the families' point of view, if you live in private rented accommodation and pay your rent, you expect the maintenance to be at an appropriate level for the rent you pay. Rents are going up. I have not had a single family or person say to me that they mind the rents going up. They completely get that the modern world is moving forwards; literally not a single person has said that they mind that. Some of them have had a bit of a shock, but they are getting over it. But there is going to be a substantial increase in the rental income that is coming in.

Do you have any idea what it will be annually over the next five years, until you get to the point of the full rental payment that you are taking them to?

Colin Wood: In terms of CAAS, £30 million.

Q105 Chair: Is that £30 million per annum?

Colin Wood: It is £30 million, which would be reinvested back into the estate—

Stephen Lovegrove: By 2022.

Colin Wood: By 2022.

Q106 Mrs Trevelyan: So will it go directly into all the service family accommodation? When you say across the estate, there is a lot of building in the single living accommodation going on.

Colin Wood: It goes across both.

Q107 Mrs Trevelyan: So it is both. There is a lot less money coming into the single living than there is into the family, so the family housing is subsidising single living accommodation in terms of rental investment.

Colin Wood: It is going across the accommodation piece. At times people who normally live in service families accommodation can live in single accommodation as well, so it is investment in the quality of our overall accommodation offer.

Q108 Mrs Trevelyan: Who is going to make the decision on how that spend is made year on year—the split of that rental income, that increase in rental income?

Colin Wood: Defence Infrastructure Organisation, my organisation, would do that across the most appropriate quarters or the most appropriate single living accommodation.

Q109 Mrs Trevelyan: And where is the military input, if I might ask you, General, in terms of the changing face of how we are doing things? At RAF Odiham, we have two new squadrons turning up, with the appropriate number of personnel and families who go with that. How is that all feeding together to make sure that the service family accommodation that is there is right? How are we going to use the income that we have coming in to add to that portfolio—or will that be an extra capital investment?

Lieutenant General Nugee: We need to make sure that the right number of properties are available to our people with the rebasing of the armed forces. That is why we have the number of properties that we have. Some of them are being kept empty specifically so that families can move in when appropriate.

That is one side of it. The other side is that if we do not have enough accommodation in that particular area, we will rent on the open market for them, in order to be able to provide a set of services or a service to those individuals where they will not pay any additional rent. We will pay the additional rent but put it into the private sector until we can get everybody into quarters, as we would wish to do so.

We are very clear that any money that comes in from the rent is going into the accommodation space, but obviously we have 40,000 quarters. We have slightly fewer people living in SLA—single living accommodation—but not significantly fewer. We therefore want to make sure that the entire offer, whether people are living in single living accommodation or in service families accommodation, is as appropriate as possible. So we want that money to go into both.

Q110 Mrs Trevelyan: You talk about renting if there is a need in a particular area. Why are you not proposing to build new homes?

Lieutenant General Nugee: We are doing that as well. We are building an additional 400 homes in the Larkhill area, because we have a number of regiments moving down there. We are going to have five regiments there; we have two regiments there at the moment. There is a very significant investment, because there is not sufficient local provision in the area. We therefore have to build our own, and we are very happy to do so. In the Tidworth area, there was a local initiative to build more homes; we have taken them as well to make sure we have sufficient homes.

Q111 Caroline Flint: Will the MOD hold those homes, rather than passing it over to Annington? Just so I am clear: you said you are building more homes—

Stephen Phillips: Who is going to own the houses?

Caroline Flint: Who is going to own those houses that you are building?

Lieutenant General Nugee: At the moment, as I understand it, it will be the MOD. We have houses outside the Annington Homes contract that are owned directly by the MOD.

Q112 Caroline Flint: And there is no change proposed for that?

Colin Wood: Not as far as I am aware, no.

Q113 Chair: And the maintenance contract applies to both?

Colin Wood: Yes.

Q114 Mr Jackson: Obviously the Department has a strategic objective to release land for capital receipt, and particularly for new residential building in the private sector. That is a strategic objective, but is there also a strategic objective to ring-fence some of that money to put back into new housing for service personnel in line with the current SDSR and the new one?

Lieutenant General Nugee: Is that to me or to the Department?

Mr Jackson: Either of you.

Colin Wood: I'll take this. In terms of estate optimisation, the intent is absolutely to make the estate self-sustaining, so any generation through capital will be reinvested back into the estate.

Q115 Mr Jackson: Because obviously you are releasing land in places like Hampshire and Kent, where property values are buoyant and increasing, one assumes that you can therefore reinvest some money back into military bases, to provide very good quality new build for service personnel across the country.

Colin Wood: The intent is to reinvest back into the estate.

Q116 Mr Jackson: Is there a plan for that?

Colin Wood: Once we start to dispose of assets that are no longer required, the revenue generated after treatment would go back into the estate.

Q117 Mr Jackson: Okay, but where is that written down? It is an objective, but is it part of a plan with a timeline?

Colin Wood: It is part of a plan with a timeline. We have something called a footprint strategy, which stretches out to 2040. It is a 25-year strategy looking across all the defence estate, making sure that whatever the defence outputs are is enabled by military capability and underpinned by the right level of infrastructure. Where we no longer need that infrastructure over the next 25 years, we would then look to dispose of it.

Q118 Mr Bacon: May I ask Mr Lumby a question? It says on your CV that you have been managing director of Carillion Defence since 2002, and that you were managing director of Carillion Infrastructure from March 2002 to October 2002. So when did you become managing director of Carillion Defence?

Richard Lumby: In November 2002. I was managing director of Carillion Infrastructure Services from something like February through to November.

Q119 Mr Bacon: So for most of that year. And then towards the end of that year, you became managing director of Carillion Defence. It then says that during the period 2004 to 2006, you were "also responsible for Carillion's Education, Local Authority and Courts activity." That's correct, is it?

Richard Lumby: That's correct.

Mr Bacon: So you have been responsible for this defence area for 14 years.

Richard Lumby: I have been responsible for Carillion's defence activity since then. Our contracts in the round between 2002 and 2005 were nominal. The contract growth and the appointment of us into the regional prime contract and housing prime contract took place in 2005. Before then, it was a limited number of two or three contracts. *[Interruption.]*

Chair: We will have to pause for the vote. I suggest to colleagues that we will get started again as soon as four of us are back, so if we can be quick, that would be great. Apologies to our witnesses.

Sitting suspended for a Division in the House.

On resuming—

Q120 Mr Bacon: Mr Lumby, we were just trying to establish your CV. From your answers, we didn't fully hear. You became the managing director of Carillion Defence in around November 2002. Then you mentioned something about an intervening period of three years, and something that happened in 2005. Can you remind us what that was?

Richard Lumby: Yes, certainly. The MOD and Defence Estates, as it was then, re-looked into the way they were contracting in the early part of 2000, as they had a major improvement programme to see how they could contract. A number of contracts came out, including the regional prime contracts, and they were well signalled in the early part of the 2000s. We looked to bid for them. We bid for a number in the early years but did not win them, and a number of us decided to put in together to target those larger new contracts in particular.

At the time—2000 through to 2005—we had two or three small consultancy and construction contracts. That was all through that period of time. Most of that period was spent preparing ourselves and bidding through the bid process for the contracts that came out at that point.

Q121 Mr Bacon: The bigger contracts that came from 2005 onwards?

Richard Lumby: Absolutely. Late 2005 and early 2006.

Q122 Mr Bacon: Right. So you're saying the bigger contracts have been around for the last 11 years, although you have been around since late 2002 in this particular defence role.

Richard Lumby: Absolutely, yes.

Q123 Mr Bacon: But it says on your CV that you also had education, local authority and courts activity responsibilities. Part of me is wondering whether you were being diverted in too many different directions.

Richard Lumby: During that period of time, as I said, it was mostly a bidding period for us, rather than an operating business period.

Q124 Mr Bacon: I see. Fine. What I really cannot understand is this: when we did our last Report on this in October 2009, when you had been into the operating phase for four years, according to your own account, it said that many families had very limited information, if any, about the properties they were allocated and in many cases saw the houses for the first time only when they moved in. Many were dissatisfied with cleanliness. The level of first-time repairs was low. The communication of progress to occupants was poor. All of that was happening four years after you took over, but most of what we are talking about in this more recent Report has happened since then. We heard stories of people having cookers that were broken and not fixed for months, so they could not cook food for months. Did you hear about those stories at the time?

Richard Lumby: Yes, we did.

Q125 Mr Bacon: Right, and what did you do? Did you say, "I'm sorry, our IT system doesn't work"?

Richard Lumby: No, we did not say that.

Q126 Mr Bacon: So why weren't they fixed more quickly? Plainly, it might be difficult to maintain houses if they are old, but I have been looking on my iPad and you can get a decent cooker for between £300 and £400, with either a gas or electric hob and an oven underneath. Of course, by bulk buying you'd get a lot more for your money than that. You could have put 1,000 or 1,500 cookers in a warehouse, or perhaps split them up among three or four warehouses around the country, employed a couple of blokes in each one who knew how to install cookers, and when you got a call you could have just sent them in a van and fixed it, couldn't you? Did that kind of thing happen, or not?

Richard Lumby: That is the kind of way we operate.

Q127 Mr Bacon: I'm not talking about now; I'm talking about then.

Richard Lumby: And then.

Q128 Mr Bacon: So why did it take months? Why were people without working cookers for months? That is what I cannot understand.

Richard Lumby: Clearly, where we have those problems, and there have been some, we have to put that right.

Q129 Mr Bacon: Forgive me, but if I can just deconstruct that sentence, you said, "Clearly, where we have those problems, and we have had those problems, we have to put them right." That is a sentence and it is an answer, but it is not an answer to my question. My question was: why wasn't it done? What was difficult about it? That is what I don't understand. I can understand that computer systems don't work and you have to do something else, but we won two world wars with

mostly card indexes. Where there have been problems in other areas—for example, foot and mouth—when people could not make things work they reached for makeshift solutions with spreadsheets, and it did the job. Why were families waiting for months? I just cannot understand it.

Richard Lumby: I think the logic that that would be the case is absolutely fair. For the vast majority of that period of time we hit our targets and managed to achieve what we do. Individual cases where—

Q130 Mr Bacon: That is not the evidence we heard from the families. In fact, we heard the contrary: that it was being said that things were going to improve. We also heard that it is widely acknowledged that in the last two or three months there have been marked improvements.

Richard Lumby: Yes.

Q131 Mr Bacon: Funny that. Of course, that was when it was known that the NAO was starting to look at this area again. We heard in the evidence that there were promises that things were going to improve, but then they didn't, and it carried on being the case that the cooker didn't work for months, and that the heating didn't work.

Richard Lumby: I would like to look at the improvement plan and the coincidence. It is absolutely right that from the early part of this year—

Q132 Mr Bacon: My question isn't about the last two or three months; it is about why, two, three or four years ago, when cookers weren't working, it took months to get them fixed. Can you please explain to me why that was the case?

Richard Lumby: I cannot explain to you why individual items did not get fixed. En masse, this was not something that was a problem. Clearly the recommendations and the anecdotal and physical evidence provided at that point pointed to this needing to be improved.

Q133 Mr Bacon: The thing is, as Mrs Trevelyan said, this is not new. It has been going on for a very long time, and it is so straightforward. Most of us have had occasion to rent a flat at some point or other. We either get it massively clean ourselves by getting on our hands and knees, or we pay the money to a contractor who comes in and does a blitz clean so that the new tenant gets a property that is looking spick and span. There is nothing that difficult about it. We got a man to the moon in July 1969. That was 47 years ago. This is a lot easier than that. For many of the past 47 years, it has been done successfully, but you are sitting here unable to explain why it wasn't done.

Richard Lumby: I am able to take you through some of the issues that we face as a contractor, and we clearly failed in a significant amount of the activity that we carry out all the time. Our commitment is to improve, and we are improving, and we're picking up the learning at any one point. In the new contract, the arrangements for providing white goods are slightly different from the old contract. We put that in place, and we are carrying out that activity in that way.

Q134 Mr Bacon: My point, which is why I started with your CV, is that this has been on your watch the whole time. You were in the defence space from November 2002, although you were actually there in early 2002. This Report was in 2009. You were there, and you are still there now. This has all been on your watch. When you say, “We let ourselves down,” what you really mean is that you failed, didn’t you?

Richard Lumby: In those instances, we failed.

Q135 Mr Bacon: I didn’t mean “we”; I meant you, Mr Lumby.

Richard Lumby: Me, Mr Lumby, as part of the operation—

Q136 Mr Bacon: You failed. You have been in charge of this thing the whole time, haven’t you?

Richard Lumby: I have been in charge of Carillion Defence and I have been on the board of the joint venture.

Q137 Mr Bacon: So when you say, “We let ourselves down,” what you really mean is, “I, Mr Lumby, failed.”

Richard Lumby: In that context, I absolutely take the responsibility inside Carillion for operating the contracts and being responsible for the contracts.

Q138 Mr Bacon: I know you take responsibility for it; that is why you are here. But do you agree that you failed?

Richard Lumby: I agree that where we failed in those instances, yes, we failed.

Q139 Mr Bacon: You said “we” again. I wasn’t talking about “we”; I was talking about you.

Richard Lumby: I failed to make sure that the business delivered in those instances, of which there are—the number of activities we carry out in the year are in the hundreds of thousands.

Q140 Chair: Mr Lumby, you are talking constantly about process and KPIs. We know that that is the language of a management contract, but this is a contract about homes and people.

Richard Lumby: Indeed.

Q141 Chair: Does that resonate with you?

Richard Lumby: It totally resonates with me, and it resonates with our business.

Q142 Chair: Do you think it is okay for people to have to go and buy McDonald's for a week because their cooker is not working?

Richard Lumby: I don't, but I will say that we operate under the requirements under our contract, and in some instances, where there is a failure of part of the cooking appliances in the kitchen, we have some time to put it right, because not all appliances are available—

Mr Bacon: They would be with my little proposal of—

Q143 Chair: Most tenants would understand the negotiation about the right type of cooker coming at the right time. There is a human element to this, but it doesn't sound very human in the way you talk about it. You are talking about processes, structures and IT systems, but at the end of it, there's a human being. This is a different sort of defence contract from some of the others Carillion may run. Were you the right organisation even to bid for it?

Richard Lumby: I believe we are. I believe we are committed to doing that, and I believe we will deliver it. We have invested significantly to make sure that we are able to deliver the customer experience as against just the contractual KPIs. We continue to do so.

Chair: Okay. I am going to ask Caroline Flint to come in on this point and then come back to Anne-Marie Trevelyan.

Q144 Caroline Flint: I want to come back to the Permanent Secretary on this. When it comes to supporting service families, has the MOD considered looking at a completely different model—maybe one that is based on housing trusts or ALMOs? In the areas where the accommodation is, those well-established housing organisations might provide a better service to the families, in line with the service they provide for other social tenants—for want of a better word—they are looking after. Given that a lot of housing trusts and ALMOs are now looking to support private sector landlords as well, a different packaging of the contract might be helpful. Is that something the MOD is prepared to consider?

Stephen Lovegrove: I am not aware that we have considered that. It may have happened. Is it something we are prepared to consider? I will certainly take that away and look at whether or not that is possible or would provide any advantages. I will ask General Nugee to talk you through some of the new initiatives being made for service families and armed forces personnel. It is still the case that in comparison with social housing, and certainly in comparison with private housing, armed forces personnel get a good financial deal out of the accommodation offered to them. I think it says in the Report that roughly 12% of pay goes on accommodation for service families. It is 30% for people in social housing and about 40% for people in the private sector. There are some significant advantages to the system we have at the moment, but it certainly does need to evolve.

Q145 Caroline Flint: I am not sure that that cuts it really, because part of that contract is in recognition of the particular pressures that service families face—

Stephen Lovegrove: Absolutely.

Q146 Caroline Flint: —both those on the frontline and the families who support them. I am sure that you are not trying to say this, Permanent Secretary, and that you would not want anyone to go away feeling that somehow poor standards, such as not having a cooker for months or being left without a boiler, is a price you pay for only having to pay 12% of your accommodation costs.

Stephen Lovegrove: Thank you. I am absolutely not saying that. I would like just to separate the two issues from the basic estate and the maintenance of the estate. I think the problems here are principally about the maintenance of the estate.

Q147 Caroline Flint: But I feel that what's coming across here is this: there's one thing sending people out to do a maintenance job—as MPs, we all have to deal with that with any social housing in our areas—but then it's about the actual housing management side of it and the customer contact side of following up these issues and being on top of them. For example, in my ALMO in Doncaster, regular checks on boilers and cookers are part of the job that they do, to preempt any problems in anything failing for the families that they look after.

Stephen Lovegrove: These are absolutely some of the targets where there needs to be very, very significant improvement over the performance in the last 18 months.

Q148 Chair: Mr Lumby, is it a requirement of the contract that when the property is empty, when one tenant leaves and another moves in, that they check the working condition of the cooker?

Richard Lumby: Yes.

Q149 Chair: So that is a condition of the contract and yet we've heard examples where that clearly hadn't happened.

Stephen Lovegrove: There are some headlines of the contract terms in figure 10 in the Report. I think that's covered in there.

Q150 Mrs Trevelyan: Just before we move on to the roll-out of CAAS in more detail, so that those watching and those of us here can understand it better, I have another question. This is a difficult question for you, Mr Lovegrove, I know, but perhaps Mr Wood is able to explain it better. Just to be clear, when this contract was looked at and you picked the cheapest one—and we get where that was coming from—was anybody doing the calculation of retention risk and the cost of losing some of our highly trained, very heavily taxpayer-invested-in individuals in the armed forces, compared to the money you were going to save on this contract?

Colin Wood: I believe the contract was let with the full belief that it would deliver the appropriate service, and I should say that I'm an ex-serving officer of 20 years, so I know how important it is to get this right. So, the contracts were not let with an output that we would start losing people off the back of it. I think the key—

Q151 Chair: Sorry. Can you speak up, Mr Wood? I didn't hear that sentence.

Colin Wood: Sorry, excuse me. The contracts were not let with the thought in mind that it would affect retention rates at all. The contracts that were let were believed to be appropriate. They haven't performed at the right level over the last year. They have now started performing to the right level, and over the next period we'll find those contracts are fit for purpose with the right monitoring that we have got in place.

Q152 Mrs Trevelyan: So when the Defence Infrastructure Organisation is looking at this wider estate management, how are you assessing retention risk from a financial point of view? I ask that because it makes no sense to me, as an accountant, to have a Typhoon pilot's wife say to me, "He loves his job, but we can't do this anymore, and he's agreed it's me or the plane—it's me." There was £2.25 million worth of investment and 15 years of commitment to the RAF, and because—bluntly—CarillionAmey and DIO, because they were brought in in this particular instance too, failed to solve a human-element problem, we lost one of our best.

That is completely against all sense of value for money that any Department should be thinking about, and I worry that the MOD doesn't think about its human capital in that way at all. You know, the overspends are famous, but actually the human capital is vital. None of the ships and none of the planes works without them. What do you do—day in and day out—to understand and value that from a value-for-money point of view long-term for the MOD?

Colin Wood: I ensure that my part of the organisation works very closely with General Nugee's part of the organisation. So we are very embedded in the new employment model—the future accommodation model that's going forward—and we need to make sure that any decisions we made are either in concert with anything that General Nugee and the team come up with, or anything that we're observing that we can feed in, so that General Nugee can then look at different strategies going forward. So, I see it very much as a two-way process, that the learning—and let's be clear that there is huge learning from what we've gone through over the last year—can absolutely be played back into that area.

Q153 Chair: Lieutenant General Nugee, do you recognise what Anne-Marie Trevelyan is describing?

Lieutenant General Nugee: Yes. It is always a sadness that somebody leaves who has to make a choice between their family and their job.

Q154 Chair: Do you acknowledge any responsibility for that? I mean, the case that Mrs Trevelyan described was because of the failure of this contract.

Lieutenant General Nugee: The voluntary outflow rates are my responsibility in terms of the overall central defence view. The single services are responsible for their own people, but a lot of the policies come from my area. I absolutely accept that, and it is regrettable if anybody feels they have to leave as a direct result, but we do know that the effect on one's family is the most quoted reason why people leave. It is not just about accommodation; there is a whole host of reasons why people leave. We are doing as much as we can to try to support the family, which is why we have introduced a new families strategy, why we have a new families plan and why we are

doing spousal employment trials as part of the covenant, in order to try to improve that relationship so that people do not have that reason for leaving.

Q155 Chair: In terms of the chain of command, one of the challenges we have had in talking to colleagues around the House is that very often people feel that, because of the chain of command, they cannot go and speak even to their MP about their concern. As these go up through the chain of command, do they get to you? Does the chain of command pass these concerns upwards, if indeed service families feel able to raise them?

Lieutenant General Nugee: I think it would be fair to say that not all get to me, but certainly a proportion do, and I can assure you that the defence board and the people committee, which is a sub-committee of the defence board, look at voluntary outflow every single time they meet, to discuss what is happening with retention, why people are leaving and what we can do about it.

Q156 Chair: But if there is a problem before people leave, where does that go? There is a big issue, which Anne-Marie Trevelyan has picked up on.

Lieutenant General Nugee: The people leaving are the symptom, obviously, not the cause, and we look back to the cause to try to stop people leaving who decide they want to leave. Obviously, there is churn in every organisation, but we would prefer that our highly skilled pilots, highly skilled nuclear engineers and highly skilled whatever else stay in the armed forces for as long as possible.

Q157 Chair: We recognise that there is an importance to the chain of command approach, but this is about the welfare of people who are not in the forces themselves—the families. There is a big concern for us as democratically elected MPs that people are frightened and feel they can't come to their MP, so perhaps you could be clear. If you are a forces family or somebody with a problem with your welfare or your housing—something that is not directly related to your actual service conditions, in terms of flying a plane or whatever you are doing on your ship—can they go and see their elected representatives? Are they allowed to go and raise these issues?

Lieutenant General Nugee: Yes. And we have the families continuous attitude surveys, which they can fill in, and they can talk to their families federations, which they do an awful lot of, and as you have heard already—

Q158 Chair: They are allowed to go and see their MP; they would not be disciplined for going to see a Member of Parliament about their housing problem?

Lieutenant General Nugee: No.

Q159 Mr Bacon: On that point, General Nugee, you answered Mrs Trevelyan by saying it is always a sadness when people have to choose between their commitment to serving in the armed forces and their family. I'm not sure that is the choice. Mrs Trevelyan will correct me if I am wrong, but it's a choice between a commitment to serving in the armed forces and having a damp, mouldy

house with a broken cooker. That is the choice that they are being forced to make, and when you say, "It's regrettable when we lose an RAF pilot," apart from anything else—I think this is the point Mrs Trevelyan was making—it is stonkingly bad value for money, having spent all this money on training a pilot or whatever. There are lots of other kinds of military personnel who cost a great deal to train. I know that for driving a truck that can have nuclear weapons loaded on the back of it, it costs several million pounds. I have spoken to armed forces personnel who have done that. There are lots of areas where this costs a great deal of money, and then you lose them because of something as simple as a cooker that Mr Lumby can't fix over a period of several months, so they're having to eat pizza and McDonald's not for one or two days, which you could understand, but for weeks and weeks at a time. It is staggeringly bad value for money. That's the point. You do understand that?

Lieutenant General Nugee: I understand that completely. I think it is a real shame that this contract has failed to deliver what it was expected to deliver, and the direct effect is on our families. The effect it has had on our families is to lose confidence in our ability as the Ministry of Defence—and in me as the Chief of Defence People—to deliver the standards that we would expect, and that's acknowledged. It has not done well; it has failed in its delivery over the period, and that is why the Secretary of State stepped in to try to make sure it is better. This has a direct effect on the families of the armed forces. I absolutely get that, and that is why we want to improve it.

Q160 Mr Bacon: Mr Lumby, I have one question for you, relating to paragraph 4.13, which says that "Between November 2014 and to the end of March 2016, the Department had paid £115.3 million to CarillionAmey under the contract." Have you made a profit?

Richard Lumby: No.

Q161 Mr Bacon: You haven't. You have made a loss.

Richard Lumby: We are not in profit. Our investment has been far greater than we expected. We have continued to commit to that. We have clearly got some backlog. We have taken some penalties. We have put some more people in place. We are doing that because we have to do it. We are compelled to do it, and we want to deliver a service to the service families, so—

Q162 Mr Bacon: The next sentence goes on to say that you had £10.4 million withheld "due to late completion of tasks", of which the MOD "subsequently released £6.4 million". So presumably there is £4 million of that to go. If you got all of that would you then be making a profit?

Richard Lumby: Marginally, if not losing; we are still investing a significant amount to complete our improvement plan. We have more or less completed the investment to get our IT systems completely running and operational, and that is the place that we are at. We would expect now, as long as we can drive the performance we need to drive without losing the sustainability of the performance that we have got, that we should at some point be able to make the contract efficient, and to make money out of it; but the most important thing to us is to drive and continue with the sustainable performance we have now, which is up at the KPI level, and that is our commitment, to do that, with the additional cost.

Q163 Mr Bacon: Just to be clear, over the last one to two years, you have lost money.

Richard Lumby: We have certainly spent more than we have earned.

Q164 Mr Bacon: How much?

Richard Lumby: I couldn't tell you at this point.

Q165 Mr Bacon: You don't know?

Richard Lumby: I will have to come back to you.

Chair: You can write to us with that.

Q166 Mr Bacon: How do you know? If you know that you have lost money, how do you not know how much? How do you know that you have lost money? If you don't know what the number is, how can you tell that you have lost it rather than gained it?

Richard Lumby: I can tell you—and I will come back to you with that—that the investment that we have made, the cost is outstripping the revenues that we have received to date, and I can tell you that, because of the way that clearly we account for some of the things, they sit on our balance sheet, so it becomes a bit complex; but I can come back to you and tell you.

Q167 Chair: Just before I pass back to Anne-Marie Trevelyan, can I ask Mr Wood: earlier, in response to Caroline Flint, I think you said—I am not sure if I heard right—that you were unable to hold back more than £10 million of the contract. Is that right?

Colin Wood: Correct.

Q168 Chair: So actually, even if Carillion are putting money in this year, there is really not much of an incentive for them to improve if the contract is written in such a way that there is such a little penalty.

Colin Wood: I think in terms of contractual penalties it is not where we would want to be from a contractual perspective.

Q169 Chair: I know every Government Department always says that, but, ultimately, that is the backstop, isn't it?

Colin Wood: I think in terms of incentive we have been very clear that if the performance doesn't improve we would look to terminate.

Q170 Chair: And what would it cost the Department to terminate the contract?

Colin Wood: I don't have that figure to hand. I am very happy to provide it.

Q171 Chair: If you could provide that, please do, because usually—if it is written up this badly it sounds like there is a cost.

Richard Lumby: There are two parts of this contract that incentivise us to perform. One is clearly that there is a penalty should we not; the other point is the price for the work that we do, regardless of the number of times we turn up, regardless of our efficiency, is set. So we have to spend the money. We are incentivised, clearly, to be as efficient and effective as we possibly can to deliver the service to the people in the homes that we have to. So for us it is a massive disincentive not to perform. So it is on a fixed-price contract; so we get paid a fee—

Q172 Chair: A massive incentive not to perform?

Richard Lumby: Sorry, a disincentive.

Chair: Sorry, two negatives. I was just running over the answer in my head.

Q173 Chris Evans: Have you had a bonus this year?

Richard Lumby: I received a bonus.

Q174 Chris Evans: So you failed the contract and you received a bonus.

Richard Lumby: A substantive part of my potential bonus I did not receive.

Q175 Chris Evans: But you received a bonus.

Richard Lumby: I received a bonus, yes.

Q176 Chair: Can you tell us how much that was?

Richard Lumby: I would rather tell you later, but I can tell you that 77% of my bonus that I could have earned was retained by the company from me this year.

Q177 Chris Evans: I come from a banking background, Mr Lumby, and I will say this: I was based on bonus, and if I had failed the way you failed, they'd have sacked me. They wouldn't give me a bonus.

Chair: Okay, Mr Evans, you've made your point. I am going to move on to Anne-Marie Trevelyan.

Q178 Mrs Trevelyan: Mr Wood, perhaps you could help us clarify, to understand the combined accommodation assessment system, which is rolling out. I think the families understand, they said earlier, rents going up and that a new system was needed. The Secretary of State was very clear that he understood, and was wanting it to be fairer, more transparent and simpler. Those three words have been repeated to me by so many families, followed by "It isn't any of those things." There are key parts to that. Whilst the system is more complex and difficult to navigate for the family, the premise on which all rebanding was done was a survey of the home. Can you say to me with confidence that every single home was surveyed? If not, when you did a street by picking one home and deciding that they were all the same, how on earth did you think that that system was going to give the right answer? It hasn't, in very large numbers.

Colin Wood: To be clear, not every home was surveyed. At the launch of CAAS, 68% of homes were surveyed, based on what was termed a "beacon house". A house was selected in the middle of the married patch and then used to extrapolate across the rest of the estate. We are now at 80% across the estate and our intent is to move forward to 100% across the estate. We have heard evidence from the previous panel that that wasn't done fairly. I don't have data to support that absolutely that I am aware of. There is a complaint system in place, and I believe we have had approximately 1,800 complaints, of which approximately 47 have been upheld and taken forward. In terms of the absolute data, General Nugee may be closer to that than I am, but in terms of the survey and the way in which it was done, we surveyed 68% at kick-off, 80% now and we are moving towards 100%.

Q179 Mrs Trevelyan: Are you comfortable that the information coming out of the surveys is accurate?

Colin Wood: I am. We are using two professional surveyors to provide that information—this is not internal to MOD—and we are basing it very much on their professional opinion.

Q180 Mrs Trevelyan: Could you explain for my colleagues and those watching exactly what criteria are used in the house survey? How do they assess the age of the kitchen and the bathroom and the state of thermal efficiency to try to reach the DH standard or above?

Colin Wood: In terms of the absolute technical detail, I can't provide that. I do understand what is required from a Decent Homes perspective and from that perspective, we are currently sitting at 88% Decent Homes with 79% being what we would term Decent Homes-plus.

Q181 Mrs Trevelyan: There is a particular guideline that has caused a lot of concern with families. It is a DCLG guideline, which obviously the MOD is choosing to work from, that says that a kitchen must be of adequate size and layout for the size of the property. That is a fairly broad and not very specific description of a kitchen. Some of the stories and paperwork that I have seen suggest that it is acceptable to have a fridge or a freezer but not both because there isn't the space, or a washing machine or a dishwasher because the plumbing is there for one.

At what point do you—those in control of this housing, controlling the lives of the families and, with that, their day-to-day existence—accept that there is a need for families to have functional kitchens and bathrooms, and accept that age, which is often not identifiable because it seems that the long-standing maintenance contracts have not kept records of when the kitchens or bathrooms were put in, just isn't adequate? How can you fix that so that in the next year or two, as these bandings settle in and new people move in, they accept that it is at roughly the right level? How can you do that, because it doesn't seem to me to be working at all well?

Colin Wood: I think we have to listen to the feedback that is provided to us and make sure that we engage properly to fix any issues that come up. We will have a much better idea once we have 100% of the estate surveyed. In terms of the technical detail about whether it is a fridge or a freezer, I am afraid I cannot comment directly on that.

Q182 Mrs Trevelyan: It is a challenging problem, but it is the question of how you convince those people out there. While you are getting it right—this is a question for you, I guess, General Nugee—there are a lot of people out there who have had 18 months of hassle, who continue to be frustrated, and for whom the uncertainty of your future accommodation model is not clear to them. There is no reason why it should be; it is not clear to you yet either. How can you offer a level of reassurance to those families and to their serving partners? They are on the end of a phone—as you know, you get one call a week from your ship, and all you get is the hassle. How can you give them reassurance—other than making the contract work—so that we don't lose them? The confidence is shot; it is still not right and the bandings aren't right. People will move into new homes and they will challenge the bandings. How can you give them confidence?

Lieutenant General Nugee: I can answer that in a couple of ways. First of all, if any home does not meet the Decent Homes standard—it is not our standard; it is the DCLG standard, as you have pointed out—we will not allocate that from 1 April this year. There are some people who are in what we have termed DH-minus properties, because, as you heard from the permanent secretary, we only have 88% in the Decent Homes or Decent Homes-plus categories. There are some people who are in properties—I think you have heard from some of them today—that do not meet the standards that we would wish to meet. They are offered the opportunity to move, if they wish to do so, to get out of the property and into a higher quality property. I would be much happier if no people were in DH-minus accommodation, but some people are in those and it is up to them as to whether they wish to move or not. Some will say that the hassle of moving is worse than the quality of the property.

I would reassure by saying that the quality of the property is the most important element of the categorisation for the CAAS standard. The banding cannot be above grade C—it goes A to I—unless it is DH-plus standard, so what we have tried to do, trying to be as fair as possible, is to make sure that we acknowledge only those Decent Homes-plus ones get the higher bands.

The third piece I would say is that the Armed Forces Pay Review Body is the organisation that sets the amount of money that you pay on each band. It determined this year not to raise the accommodation price levels per band in line with inflation, but to freeze them, in order to accommodate the fact that a number of people were going up from one band to another.

I would try to reassure by saying that we absolutely understand that the accommodation model is really important as part of the offer. I regularly talk to people about the offer, which is about more than accommodation; it is about an awful lot of issues. Where we can, we will try to

make the offer fairer. I am disappointed to hear that people do not think it is fairer, because I think it is, and I will give you just one example: the difference between the top band and the bottom band is a fixed 10% per band, and it is down to 8%. Under the old system, you had generals getting a higher discount than corporals. That is unacceptable. That, to me, is the answer to why it was so important to bring this new system in as soon as we possibly could—to get rid of those discrepancies. People may not have seen them, but they were there. What we wanted was a much fairer system for our people, and a fairer system across the board.

I would reassure by saying that it is up to the AFPRB as to where it sets the rates, and it is up to the AFPRB to make sure that it raises them or not, depending on what it feels the standard of the accommodation is. We have absolutely not taken more money out than we would have done had the previous grading system been done properly. The intent was not to take any more money out of the system than if it had been done properly, but the previous system was not done properly at all. It was open to abuse, as you have heard from the families federations. We hope we have solved that, and we hope we have a much fairer system.

It is interesting that the 1,800 appeals that my colleague mentioned are much more detailed than we expected. That is a positive sign that people really understand it and have got their heads around it. The appeals are taking much longer to answer than we would have liked and expected, because they are much more detailed from the people appealing. It is positive that they feel that they can appeal with details and that we are looking into them. We are trying to be as fair as possible.

Chair: I am going to bring in Deidre Brock briefly, because she has a particular point about Scotland.

Q183 Deidre Brock: As a Scottish MP, I have a quick question about the situation in Scotland. The report focuses pretty much exclusively on conditions for MOD housing conditions in England. Housing is devolved to the Scottish Parliament. For example, the MOD has to conform to Scottish quality housing standards, as I understand it. I wonder which Committee of the Scottish Parliament the MOD presents to in order to explain how it manages that estate in Scotland.

Lieutenant General Nugee: I cannot answer that.

Colin Wood: I'm afraid I cannot answer that.

Chair: To be fair, Mr Lovegrove has been in post for a week.

Stephen Lovegrove: I am happy to get back to you on that. Of course, accountability—

Q184 Deidre Brock: I would appreciate some clear understanding of it, because I have been looking and I find it very opaque. I would appreciate some clarity.

Stephen Lovegrove: I understand. Accountability is important, and there are homes up there, so we will look into that.

Chair: It is important. You understand the interest of elected representatives. Wherever we are, we have a role to play.

Q185 Mrs Trevelyan: Just a quick question, Mr Wood. Could you confirm that the DIO was fined for failure to meet health and safety regulations on gas safety certificates?

Colin Wood: It didn't receive a fine; it received a warning from the Health and Safety Executive in terms of performance. That performance was absolutely recognised and address, and we moved—I can't remember the exact date; probably within about 8 months—from 417 outstanding gas safety certificates to 2 at the end of May. It is an unacceptable situation from our perspective and we have worked very hard to fix it.

Q186 Caroline Flint: Lieutenant General Nugee, at the start of the session you were explaining about the support for people to buy their own property. Could you clarify that for me? Were you seeing that as a way in which service families would buy a property in the locale of where the base is and where they are currently accommodated in order to move people out of that accommodation we have heard such terrible things about? I understand that, but I am an MP in Doncaster and I think South Yorkshire is a pretty strong recruiting ground for the Army. From my experience, a number of families want to buy back home in Doncaster for when they leave the service, because that is where their family is. I am trying to understand how what you are saying actually helps those families, because the housing is pretty expensive in a lot of places where accommodation is situated, in Hampshire and elsewhere.

I did the armed forces scheme some years ago for the Army, and for the average soldier and family to buy in some of those areas, even with allowances, is a bit rich. They want to buy back at home. Could you just clarify that for me? If they want to buy back home in Doncaster for their eventual release from the Army or after leaving it, that is not going to help them move out of accommodation that they and their families are maybe not being best served by while they are serving in the Army.

Lieutenant General Nugee: First of all, forces Help to Buy is agnostic as to where you buy. The thrust is to try to improve people's future prospects by getting them on to the property ladder at the earliest opportunity. It is not dependent on buying in the area that you happen to be serving in. You can buy in Doncaster or wherever.

Q187 Caroline Flint: Okay, that is helpful. You are not seeing this as a way to decant people out of the accommodation and thereby solve a problem for you in terms of all of the concerns we have had raised today?

Lieutenant General Nugee: No. I would go back and say we strongly believe in the service families accommodation provision at the moment, and therefore we would support that. This is not seen as a way of getting out of the service families provision. What we are trying to do is improve the lot of our people by getting them more prepared for moving into civilian life. The Army is not a good example in this respect; the Navy and the Air Force have more settled lives because their basing is more settled. I think you would find that most of them have bought where it is appropriate, as opposed to buying just by the bases.

Q188 Chair: Can I ask a few quick points? One is about right to buy for the forces. Right to buy has been a Government policy for other tenants. Is it something that is considered for any of the estate at all? Maybe it is too late now, because Annington Homes has got it. Is it not on the cards?

Colin Wood: I am afraid I don't know the answer to that question.

Q189 Chair: Maybe it is too much of a policy question. We have heard slightly mixed messages from the families federations about how they consult on these things. It seems they meet the Minister regularly. I suppose you weren't all here when the contract was let, but in terms of learning about the contract, when would you normally want to speak to the families federations? Do you think they have got something to contribute to the issue of contracts associated with the covenant?

Colin Wood: I do believe we should engage with the families federations. One of the key learning points from the letting of this contract is to do absolutely—

Q190 Chair: So it is a key learning point. What will you do in future that you did not do before?

Colin Wood: We have a quarterly meeting with the head of accommodation from Defence Infrastructure, who we meet on a formal basis, but we also have informal contact with the families federations as well.

Q191 Chair: So if they start flagging something up to you early on, will you listen and do something about that?

Colin Wood: Of course we will listen, and we routinely talk about feedback in terms of this contract and others. The families federations are an incredibly rich source of feedback, and we have both formal and informal contact with them.

Q192 Chair: We might come back to that for the next contract issue. In terms of the contract, Mr Lovegrove, I suppose this comes to you. You are the new permanent secretary, you can tell us it was all bad before and you are going to make it all marvellous. I am sure that is what we will hear, but more seriously, what lessons has the MOD learned about this for letting? This contract has been a disaster for families and it is costly, even though it was the cheapest bid. What are you going to do differently?

Stephen Lovegrove: When we are through this "get well" period, as it is called—hopefully it will be a success—there are two specific things that immediately occur to me. I would like to come back to you in further detail when I have a better understanding. I think that we need to be very thoughtful about assuring capability at the beginning of the contract. If we feel that a contractor might have overestimated their ability to fulfil the contract, we notice that. We can pick that up, rather than just rely on—

Q193 Chair: How will you do that?

Stephen Lovegrove: It may be that we will have to audit aspects of the contractors' operations in a slightly more intrusive way than we do at the moment. There are auditing processes, but it may be that we have to—

Q194 Chair: We have had the Major Projects Authority, which we are great fans of on this Committee, in front of us often, and there has been lots of discussion about upskilling the civil service so contracts are determined right in the first place and then managed. It seems to me that the MOD has fallen down on the job on this one. Do you agree?

Stephen Lovegrove: Well—

Q195 Chair: Yes or no?

Stephen Lovegrove: I'm afraid I can't answer it with a yes or no. I am gratified that what has happened since the Secretary of State got involved in February seems to have borne fruit.

Q196 Chair: Really, isn't it a failure when a Minister has to go—I am not knocking that, but—

Stephen Lovegrove: I am not gratified that it has taken the Secretary of State's intervention, a year and a half into the contract, for serious improvements to be made. That is something that I am going to look into.

Q197 Chair: I have got one other quick question about the proportion of complaints. We were hearing about the number of complaints coming in, and you are confident, Lieutenant General Nugee, that that is a good thing. Can you give us a rough idea of what proportion of the complaints are from senior ranking officers, compared with the more junior members of the forces?

Lieutenant General Nugee: I don't have that breakdown.

Q198 Chair: Is it possible to get that?

Lieutenant General Nugee: We will get that to you.

Chair: If you could write to us on that, that would be very helpful.

Q199 Mr Bacon: I have a couple of questions. Mr Lovegrove, in response to the previous question on what you weren't gratified by, can I invite you to study some of the utterances of your predecessor? On a different occasion, he was once asked whether the right number of people were fired, and he said, "Probably not." We were great fans of Mr Thompson's blunt style. If you could keep that up, we would be grateful.

I am very interested in the subject of retention—not just recruitment, but retention—and also the treatment of veterans and the honouring of the military covenant. I think you have a tremendous opportunity, because the forces and the MOD are great owners of land. Are you familiar with the provisions of the Self-build and Custom Housebuilding Act?

Stephen Lovegrove: No, I am not.

Q200 Mr Bacon: Well, I wrote it, so that's why I am. You may like to know that one of the provisions is for local authorities to keep registers of people who want to acquire serviced plots of land—not just individuals, but associations of individual. It could be anybody; it could be a group of teachers, a school, a regiment, a group of service veterans or a family association. It seems to me that you, with your land, the provisions of that Act and the provisions of the Housing and Planning Act 2016, which just became law last month, have a tremendous opportunity to put forward an offer to serving people, which would do a great deal to encourage retention by giving them the opportunity to create their own dwellings, potentially at discounts. What appals me about this is that these are very special people whom we ask to do extraordinary things, and we should treat them in a special way. That is what the military covenant is supposed to be about. Will you go and look at both the Self-build and Custom Housebuilding Act and the provisions of the new Housing and Planning Act, which strengthen the Self-build and Custom Housebuilding Act, to see how you can enmesh those provisions with your plans to improve retention?

Stephen Lovegrove: Yes, I will.

Mr Bacon: Thank you.

Q201 Mrs Trevelyan: Thank you all for your honesty and candour today. There are very many thousands of members of the armed forces and their families who will appreciate that. But that's not enough, and I hope very much, Mr Lovegrove, that now that you are here, you will be on top of this daily, because at the end of the day we cannot get it wrong.

I am concerned that the question of assessing value for money in our human capital is not really something that seems to exist in the MOD and I would ask you, speaking as a chartered accountant, a mum and an MP who sends people's children to war, to think about it. We train them at vast expense and we ask them to do impossibly difficult things, which they do on all our behalves, but I worry that the MOD does not value that human capital in the way that it does its tanks and planes and ships. You have a financial background, too, so I ask you to take that away and really consider how that could be factored in more effectively, because it makes no sense, from the public accounts perspective, not to include that.

On a practical level I would ask, in order to bring back confidence and perhaps a better programme, whether Mr Lumby could be encouraged to look at bringing in estate wardens again, perhaps through the Full Time Reserve framework, joining back together the military and civilian contracts in a way that can work so that those families on the ground have a connection. The regional housing officers are not close enough and they are not able to be effective, so I would ask you to take that away and think about that because it would bring back a level of competence and a level of responsibility and accountability for those families that is linked to the military rather than leaving you entirely running a civilian social housing contract that has not been successful for them. The covenant does not work if that is not what we do in practice.

I know that a great many people will be grateful to you for your honour and honesty. Lieutenant General Nugee, you have given me confidence that you understand the problem and that you are not going to let it run, so thank you.

Q202 Chair: I just want to highlight that we have looked at this a lot before. The National Audit Office has looked into this in 1999—a couple of years after the original Annington Homes contract—2002, 2009 and now today and yet as we have heard from colleagues it has not been a happy picture all the way through, so now is the time, as Anne-Marie Trevelyan has eloquently said, to really focus on the covenant.

Of course, there are discussions in the MOD this week about the new accommodation model and I want to ask two quick questions about that. Perhaps Lieutenant General Nugee or whichever of you will want to answer. Among the issues, will that model impact on the size of the estate? Are you factoring in the cost of releasing land, or not releasing land, into that new model?

Stephen Lovegrove: I will pass over to Lieutenant General Nugee. There is the footprint strategy and there is the people strategy. The two are dovetailed—or meant to be dovetailed. Let's just ensure that they actually are.

Q203 Chair: I am glad you say “meant to”. You have not given us over-confidence, but we will be watching and holding you to account that you are looking at that.

Lieutenant General Nugee: No decisions have been taken yet on the new accommodation model. The answer is: it may, but we have not made decisions on exactly how we are going to deliver accommodation from the new accommodation model, which we are calling the future accommodation model—FAM. Those decisions are still to be taken.

Q204 Chair: When will they be taken?

Lieutenant General Nugee: We are hoping for initial decisions by the end of the year.

Q205 Chair: Presumably morale and networking issues—the sorts of things that families raise with us—will be considered a major part of that.

Lieutenant General Nugee: Absolutely. The families federations are involved in those discussions and we have a number of options on the table.

Chair: Thank you very much. There were a number of commitments to provide information. I think I have not got all of them here, but I have got some of them. Mr Lovegrove, you committed to give Stephen Phillips the end of May figures for the contract—basically we will get the full evaluation of this contract. Mr Lumby, you said you would provide the cost of the contract. Mr Wood, you are going to provide us with the cost of terminating the DIO—sorry, I broke my own rule: Defence Infrastructure Organisation—contract. There are the issues that Deidre Brock raised about Scotland, and then the breakdown of complaints by rank that you are going to provide. I think there are a

couple of other points, but we will write to you anyway—there is no doubt someone behind you, Mr Lovegrove, writing it all down.

Can I thank you very much for coming? I thank you for your candour. It is easy for the new boys—dare I say it—to come and tell us “It’s all going to be fine” but you will be coming back, because I know the NAO is already working on the Defence Estate Report and that might be a good opportunity to call you back on this issue as well, so I give you forewarning of that. I think you sense that Mrs Trevelyan is on the war path on this one and she has the full support of the Committee, as you can gather.

Mr Bacon: You don’t mess with her!

Chair: Yes. It would be easier to get it right by then. Maybe we will have a very quick hearing in the autumn. For the families of our forces who, as Mr Evans said, go out and risk their lives for this country, it is the least that we can do. Thank you for your time.