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Committee of Public Accounts

Delivering the defence estate

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Report, together with formal minutes relating to the report

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The Committee of Public Accounts

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Summary

The Ministry of Defence (the Department) faces a huge challenge in maintaining its estate which, at 1.8% of the UK land mass, is one of the largest in the UK. The overall condition of the estate has been in steady decline for many years as a result of under-investment and we welcome the fact that, after decades of indecision, the Department now has a strategy which identifies the estate it needs and the 25% of the estate it can dispose of by 2040. However, even if the strategy is successfully implemented the Department still faces an estimated shortfall in estate funding of £8.5 billion over the next 30 years. Until the Department resolves the challenges associated with an unsustainably large estate there will be continuing risks to both military capability and value for money. The Department faces many complex and interconnected decisions around the future of its estate. It is essential that these are made on the basis of sound information, take adequate account of the impact on service personnel and their families, and are communicated clearly. Despite the reforms of recent years the Department still does not have a fit for purpose model for managing the estate and faces continued uncertainty until it has restructured its Defence Infrastructure Organisation, renegotiated with its business partner and successfully embedded delegation into the Commands.

Introduction

The Ministry of Defence (the Department) holds one of the largest estates in the country, accounting for approximately 1.8% of the UK land mass and valued at £31 billion. The defence estate is crucial to the country's defence capability. It includes land and also buildings such as offices, houses, storage units and training facilities (the 'built estate'). It also includes 50,000 Service Family Accommodation units. In 2015–16 the Department spent £4.8 billion (12%) of its budget on its estate, mainly on maintaining, building and upgrading the built part of it. The Government has set targets for the Department to reduce its built estate by 30% by 2040 and make £1 billion between 2016–17 and 2020–21 by disposing of estate it no longer needs. The Department is also the largest contributor to the government's objective of releasing land to build 160,000 new homes between 2015 and 2020, and has a target of releasing enough land to build 55,000 homes. In 2011 the Department established the Defence Infrastructure Organisation (DIO) to manage the estate centrally.

Conclusions and recommendations

1. **Service families have seen some recent improvements in the quality of maintenance but are still unclear as to what service levels they can expect and continue to face uncertainty around the future provision of accommodation and its costs.** Providing service families with a good standard of accommodation and a reasonable degree of certainty regarding their future accommodation options is vital both for morale and for Ministry of Defence's (the Department) ability to recruit and retain service personnel. In July 2016 we reported that service families were being badly let down and often left for too long without basic living requirements such as heating, hot water or cooking facilities. We recognise that CarillionAmey has worked hard since then and services are improving. However, complaints remain above the target of 1.75% of total monthly jobs and CarillionAmey is not routinely meeting its 100% emergency response rate key performance indicator. The Department's communications with service families are not as good as they should be and, in particular, there is a lack of clarity about what maintenance response levels mean and what level of service families can expect. Families are also unclear, and concerned, about how potential changes to the provision of accommodation resulting from the Department's new estates strategy, the Future Accommodation Model and the forthcoming negotiations with Annington Homes, will impact on how and where they will live, and how much this will cost them. The pressure on the Department's budget for subsidising accommodation will be exacerbated if it fails to secure a good deal in its rent review negotiations with Annington Homes, to whom it paid £167 million in rent in 2015–16.

Recommendation: *The Department should improve its communication with service families to give them greater clarity and transparency around CarillionAmey's obligations with regard to Service Family Accommodation. It should also make available all research underpinning any decision to alter Service Family Accommodation arrangements to ensure a proper understanding of the potential implications of change and the basis on which changes are being made.*

2. **The Department's new estate strategy is a significant step forward, but there is much to be done to overcome decades of under-investment.** Because of long-standing pressure on its budget, the Department has only carried out essential maintenance on its estate since 2009. As a result there has been a steady decline in the overall condition of the estate which now represents a risk to defence capability. This Committee has reported several times in recent years on issues relating to the defence estate, including the Department's failure to align the size of its estate with its requirements. We welcome the fact that the Department now has a strategy to reduce the size of its estate by 25% by 2040. However, even successful implementation of this Strategy will only allow for a partial reversal of the decline of the remaining estate and would still leave unfunded costs of at least £8.5 billion compared to what is required over the next 30 years. The Department intends to incentivise the Front Line Commands to reduce the size of the remaining estate, which will generate disposal receipts and reduce running costs.

Recommendation: *By the end of 2017 the Department should put in place effective delivery structures to enable it to maintain momentum towards its strategic objectives over the coming decades, as well as governance arrangements which will allow it to track and report progress, challenge any inertia within the Commands, and learn and feed lessons back as the programme progresses.*

3. **The Department's decisions about the estate are still subject to considerable uncertainty.** We support the Department's objective of rationalising its estate to release funding for reinvestment and delivering an estate fit for the 21st century. However, the success of the strategy is dependent on reconciling different, and in some cases conflicting, pressures. These pressures include the need to achieve £1 billion of disposal receipts before 2021, release land for 55,000 homes, and at the same time deliver an estate which meets military capability requirements and provides decent accommodation for service personnel and their families. There are many uncertainties associated with the strategy and many risks to its successful implementation, including around the role of Front Line Commands and the difficulty of sustaining focus over 25 years. Failure to achieve forecast disposal receipts, particularly from sites in London, could jeopardise the success of the entire strategy. Furthermore, we are not convinced that the Department has sufficiently taken account of the impact of its decisions on the recruitment and retention of its people, or the impact on local communities and cultural heritage.

Recommendation: *In its annual report on progress against its estates strategy, the Department should set out clearly the decisions that have been taken in the previous year in relation to the restructuring of the estate, and the rationale behind those decisions.*

4. **The Front Line Commands are to be given back responsibility for estate budgets even though they failed to manage these budgets effectively in the past.** The Department has decided to delegate the estate budget to the Front Line Commands (the Commands)' from April 2018 because it believes that the Commands are best placed to balance estates requirements against the other enablers of defence capability, such as equipment and military personnel, for which they already hold the budgets. When the Commands last held the estate budget, prior to 2011, they failed to invest in the estate, which is part of the reason for the deterioration in its condition. Despite this, the Department still believes that the Commands are in the best position to make good decisions about how to rationalise the estate and improve the condition of what remains. The Commands will not be able to do this effectively without an improvement in the information that the Department holds on the existence and condition of its assets, and an enhancement in the Commands' ability to manage these sizable budgets.

Recommendation: *Before it delegates the estate to the Front Line Commands in April 2018, the Department must develop appropriate criteria to judge the readiness of the Commands to take on responsibility for managing their estate budgets. It must then use the criteria actively to monitor Commands' ability to take good decisions in relation to the estate.*

5. **The Department's model for managing the estate is still not fit for purpose which jeopardises the success of its plans for the rationalisation of the estate.** The Department does not have an appropriate operating model to support its long-term strategy for the estate. It is currently undertaking a review of the model, on which it is due to report by April 2017. The Department has already announced that this will include restructuring its Defence Infrastructure Organisation (DIO) to operate more effectively in the new environment. We are dismayed at the continued instability in the Department's plans for managing its estate which is likely to be bad for staff morale and retention in DIO, an organisation which is already carrying around 500 vacant posts, and which has had three different permanent Chief Executives in two years. Under the new model DIO will act as an expert estate manager and source of advice, but it will struggle to do this successfully unless it can improve its ability to recruit and retain staff with the right skills and capabilities. The Department previously tried to address this issue, and overcome the impact of pay restraint on its ability to recruit and retain experienced staff, by entering a complex contractual arrangement with a Capita-led strategic business partner.

Recommendation: *The Department should write to the Committee by the end of May 2017 setting out the results of its review of the infrastructure model. This should contain information about how it intends to address recruitment and retention issues in DIO, including the impact of pay restraint, and secure the skills it needs.*

6. **The Department's contract with the Capita-led strategic business partner failed to transform the performance of DIO.** In 2014 the Department signed a 10-year gain-share contract with Capita, supported by AECOM and PA Consulting, with the intention that this strategic business partner would provide new management with specialist estate knowledge and skills to enable the Department to achieve the savings it had already assumed in its budget. However, there were fundamental weaknesses in the Department's approach, in particular that it had failed to transform DIO before the strategic business partner became involved, and that it did not ensure that savings identified by the partner were sustainable rather than achieved through one-off cost cutting measures. The Department went ahead without having completed its transformation programme because it believed there was an urgent need to bring in expertise and start achieving savings. While the strategic business partner has had some successes with individual programmes, such as the Army Basing Programme which supports the Department's plans to bring back all UK troops from Germany, it has failed to transform DIO's performance. Despite the lack of transformation, and the uncertainty regarding the amount of sustainable savings achieved, the Department paid the partner £90 million between June 2014 and July 2016 of which it estimates that around 50% is profit.

Recommendation: *In the ongoing review of the Strategic Business Partner's role, the Department must avoid repeating the mistakes of the 2014 contract negotiations. In particular, it must ensure that it incentivises the sustainability of savings and avoids enabling private sector providers to earn excessive profits.*

1 Service Family Accommodation

1. We reported on service family accommodation in July 2016, highlighting that the Ministry of Defence (the Department) and its contractor CarillionAmey were 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.¹ On the basis of an update memorandum from the Comptroller and Auditor General, in January 2017 we took further evidence from the Department and also from Annington Homes, to whom the Department sold four-fifths of its service family accommodation in 1996.² We also received written evidence from Annington Homes on the deal it entered into with the Department in that year.³

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. There are some 50,000 Service Family Accommodation units in the UK, of which around 39,000 are owned by Annington Homes and leased back to the Department. CarillionAmey is the private sector provider with responsibility for maintaining Service Family Accommodation, through the National Housing Prime contract.⁴

Performance on the National Housing Prime contract

3. In our previous report on Service Family Accommodation we highlighted the poor performance of CarillionAmey against the National Housing Prime contract.⁵ We therefore welcome the fact that, since that time, CarillionAmey has worked hard to improve how it operates and that its teams have responded better when errors or omissions have taken place. There are however some improvements which still need to be made, including meeting the 100% emergency response rate key performance indicator, and reducing the level of complaints regarding property maintenance. In particular, there is a lack of clarity about what “meeting the response” against key performance indicators means, and whether this means just turning up and fixing the immediate problem or whether it means completing the necessary repairs.⁶ We raised the example of a mother with three children under five whose problem was apparently fixed by an engineer attending the property and addressing the immediate emergency. However, as a result the gas at the property had to be turned off and the family was still left for a weekend without any heating or cooking facilities. The Department agreed to follow up on this case and consider how to improve the clarity of its communication with service families regarding response levels.⁷

1 Committee of Public Accounts, Ninth Report of Session 2016–17, *Service Family Accommodation*, HC 77, July 2016

2 C&AG’s Memorandum, *Service Family Accommodation update*, 16 January 2017; Annington Homes was represented at our evidence session by Mr James Hopkins, Chief Executive of Annington Limited.

3 [Annington Limited](#) (TDE0007)

4 C&AG’s Report, *Service Family Accommodation*, June 2016, paras 1.3, 2.1 and Figure 2

5 Committee of Public Accounts, Ninth Report of Session 2016–17, *Service Family Accommodation*, HC 77, July 2016

6 [Qq 5–10, C&AG’s Memorandum](#), para 2.10

7 [Qq 10–11](#)

The Future Accommodation Model

4. The Department has concluded that the current model of directly providing accommodation to service personnel is becoming less attractive to service personnel and their families, increasingly unaffordable, and less effective at meeting the Department's operational and business needs. In September 2016 the Department launched a survey of service personnel to inform the development of its policy regarding the provision of accommodation in the future.⁸ We are concerned about the distressing effect that the uncertainty around the future provision of accommodation is having on service families and asked the Department to commit to making available to us the full details of the survey, to which it agreed.⁹

5. The Department told us that it was seeking to extend provision of accommodation in a fairer way to better reflect the way people live their lives today. It acknowledged however that to extend the existing model for providing accommodation to everybody who wishes to live as a family would probably be unaffordable and that inevitably some groups would be disadvantaged as a result of the changes.¹⁰ We encouraged the Department to find a way of assessing the likely impact of its plans on the recruitment and retention of personnel because, if it does not get this right, the security of the nation could be impaired.¹¹

Annington Homes

6. In 1996 the Department sold four-fifths of its Service Family Accommodation to Annington Homes for £1.7 billion and rented the properties back on a 200 year lease. The lease allows for a rent review every 25 years, with the first occurring in 2021. Until now the Department has benefited from a 58% reduction on the rent and the review in 2021 is the first opportunity for both parties to negotiate an alternative discount rate.¹²

7. The Department told us that the deal done in 1996 was a bad one for the taxpayer and that, while it could not alter the fact that the Department had signed a 200-year contract, it certainly wanted to negotiate a better deal for Defence, its people, and the taxpayer.¹³ In 2015–16 it paid Annington Homes £167 million in rent and wanted to see this come down substantially in the future because every extra pound paid to Annington is a pound that cannot be spent on the estate and the people that live on it.¹⁴ Annington Homes told us that it had sympathy for the Department's situation and was very happy to have discussions in the wider context, but noted that it had gone through a competitive process at the time and submitted the highest bid to buy an asset from the Department. The Department noted that the negotiations would take some time but agreed to provide the Committee with an estimate of the likely timeframe for the negotiations.¹⁵

8 [C&AG's Memorandum](#), para 3.5, 3.8

9 [Qq 29–38](#)

10 [Q 29–32](#)

11 [Qq 39–42](#)

12 C&AG's Report, [Delivering the defence estate](#), Session 2016–17, HC 782, 15 November 2016

13 [Qq 12, 13, 20](#)

14 [Qq 15, 20](#) and [C&AG's Memorandum](#), Figure 4

15 [Qq 16, 19–22](#)

2 The Department's strategy for the defence estate

8. On the basis of a report by the Comptroller and Auditor General, we also took evidence from the Ministry of Defence (the Department) on its strategy to provide a defence estate that meets military needs and is affordable within available resources, and on whether it has an appropriate operating model in place to support its strategy.¹⁶

9. The Ministry of Defence holds one of the largest estates in the country, accounting for approximately 1.8% of the UK land mass and valued at £31 billion. The defence estate is crucial to the country's defence capability. It includes land and also buildings such as offices, houses, storage units and training facilities (the built estate). In 2015–16, the Department spent £4.8 billion (12% of its budget) on the estate, mainly on maintaining, building and upgrading it.¹⁷

10. In 2011, the Department established the Defence Infrastructure Organisation (DIO) to manage the estate centrally. The objective was to cut costs, drive further rationalisation and create commercial opportunities for using the estate.¹⁸

11. The Government has set targets for the Department to reduce its built estate by 30% by 2040 and, as part of its spending review settlement, it must also make £1 billion between 2016–17 and 2020–21 by disposing of estate that it no longer needs. The Department is also the largest contributor to the Government's objective of releasing land to build 160,000 new homes between 2015 and 2020, and has a target of releasing enough land to build 55,000 homes.¹⁹

The Department's estates strategy

12. The defence estate is an important element of defence capability, enabling the Armed Forces to train and undertake operations, and providing accommodation for personnel and their families. Because of long-standing pressure on its budget, in 2009 the Department stopped undertaking any preventative maintenance on its estate and reduced service levels to those necessary to provide a safe and legal estate. As a result there has been a steady decline in the overall condition of the estate and there is now a significant risk that its poor condition will affect the Department's ability to provide the defence capability needed.²⁰ The Committee has reported several times on issues relating to the defence estate in recent years.²¹

13. In April 2012 the Department committed to producing a strategy setting out the future size, location and composition of the estate, which would help it to support the delivery of defined military capability within available resources. In December 2016, the

16 C&AG's Report, *Delivering the defence estate*, Session 2016–17, HC 782, 15 November 2016.

17 C&AG's Report, para 1

18 C&AG's Report, para 3

19 C&AG's Report, para 4

20 C&AG's Report, para 11 and 1.9

21 Committee of Public Accounts, *Ministry of Defence: Identifying and selling surplus property*, Tenth Report of Session 1998–99, March 1999; Committee of Public Accounts: *Ministry of Defence: Managing the Defence Estate - Quality and Sustainability*, Sixty-first Report of Session 2006–07, February 2008; Committee of Public Accounts, *Ministry of Defence: Managing the defence estate and budget*; Tenth Report of Session 2010–11, December 2010.

Department published its *Better defence estate* strategy which set out its planned approach to supporting military capability by providing a smaller but better estate for the armed forces and their families and included a list of parts of the estate of which it planned to dispose.²²

14. We welcome the fact that there is, at last, a plan to turn the military estate into one that is fit for the 21st century and appreciate the complexity of this task. However, even if the strategy is successfully implemented, there will still be an estimated £8.5 billion funding gap in relation to the defence estate over the next 30 years.²³ The Department told us that it did not think its estates strategy should be looked on as anything other than the first step in what is going to be a very significant and ambitious programme. It also acknowledged that the strategy does not go far enough to be able to put the financing of the estate on to a sustainable level.²⁴

15. As part of its solution to the financial challenges it faces with the estate, the Department intends to incentivise the Front Line Commands (the Commands) to actively seek out opportunities to release further estate in order to generate receipts and reduce running costs.²⁵ However, it acknowledged that the Commands would not necessarily be able to keep the receipts generated from their disposals and that decisions would be determined on a case by case basis. The Department said that it was looking closely at incentives and intended that the Commands would reap some of the benefits of reducing the size of the estate.²⁶

Decision making in relation to the estate

16. If it is to succeed in implementing its plan to rationalise its estate the Department will be required to reconcile some different, and in some cases conflicting, pressures. These include the need to achieve £1 billion of disposal receipts before 2021; release land for 55,000 homes before 2020; and at the same time deliver an estate which meets military needs and provides decent accommodation for service personnel and their families.²⁷ We questioned the Department on the principles it had used to develop its plan for the future estate and how decisions about individual sites had been reached. The Department explained that at the strategic level it had combined information on issues such as the condition of the estate and future costs with information on military capability. The latter information included the ability to recruit and retain staff, and to make decisions on which elements of the estate to dispose of, and which to keep.²⁸ Decisions on individual sites had been agreed by the relevant Commands who, together with the Department's Head Office, were effectively responsible for prioritising the estate.

17. The Department has divided all of the planned disposals and investment activity into a series of 37 business case groupings. It acknowledged that it would need to refine the overall plan continuously as a result of possible changes arising from improving the information underpinning the individual business cases. This information included further consideration of whether the changes might have a negative impact on the

22 Ministry of Defence, *A Better Defence Estate* (December 2016)

23 [Q 60, C&AG's Report](#), para 16

24 [Q 77](#)

25 [Q 67](#)

26 [Qq 68–70](#)

27 [C&AG's Report](#), para 2.20

28 [Q 61](#)

Department's ability to recruit and retain personnel.²⁹ It noted that in some cases there would be "softer effects"³⁰ of some of the planned changes, such as the impact on local communities. Whilst we support the Department's intention to rationalise the estate we are concerned that the Department has not sufficiently taken account of the "softer effects"³¹ around some of its decisions, such as the planned disposal of Kneller Hall in Twickenham and Cavalry Barracks in Hounslow.³²

18. Ultimately, the success of the Department's estate strategy depends on its ability to maintain its focus over a 25 year period and deliver a very complex set of interdependent disposals, moves and re-provisioning activities. The Department noted that a delay or problem in one area could have a "domino effect"³³ and cause significant delay elsewhere, and that it needed to do some more work to make sure that the strategy could be delivered. There is a risk that in some cases, such as in relation to Stonehouse Barracks in Plymouth, the Department may have been over-optimistic about the amount of receipts it will generate from the disposal of individual sites and the amount it may cost to re-provide the necessary capability.³⁴ We also note that 40% of anticipated disposal receipts relate to a few sites in London and that there is considerable uncertainty regarding whether these disposals will proceed as planned.³⁵ It is therefore very important that, within the rules set by HM Treasury, the Department maximises the amount it can obtain for individual sites by, for example, applying for planning permission in advance of disposal where appropriate.³⁶

29 [Q 61, C&AG's Report, para 2.18](#)

30 [Q 66](#)

31 [Q 66](#)

32 [Q 66](#)

33 [Q 64](#)

34 [Q 64](#)

35 [C&AG's Report, para 2.17](#)

36 [Qq74-75](#)

3 The model for managing the defence estate

Delegation to the Front Line Commands

19. On 13 January 2017, following a review of how it manages the estates and takes infrastructure decisions, the Ministry of Defence (the Department) announced that it had decided to delegate infrastructure decisions and funding to the Front Line Commands (the Commands).³⁷ The Department told us that it had taken this decision because it believed, as did the Commands, that they are going to be in the best position to take the right decisions about the estate taking into account all capability considerations.³⁸ However, when the Commands last held the estate budget, prior to 2011, they failed to invest in the estate, which is part of the reason for the deterioration in its condition.³⁹

20. We questioned the Department on its recent decision and how it intended to ensure that the Commands attach sufficient priority to investing in the estate in future. The Department told us that it was following the principles of Lord Levene's model to delegate the estates budget to the Commands, which also now hold the manpower and equipment budget.⁴⁰ Unlike prior to 2011, when the Commands only held the estates budget, they would therefore now be better placed to take balanced investment decisions across these three major elements of defence capability.⁴¹

21. However, the Department recognised that it is easy to take a short-term view on the estate because it can take years for issues to materialise, and it intends to use safeguards to ensure Commands take sensible decisions. These safeguards include reviews of decisions by the capability coherence function within the Department's Head Office, and the provision of advice to the Permanent Secretary from the Defence Infrastructure Organisation (DIO) about whether the estate is being managed to a suitable level.⁴² The Department told us it would not ask the Commands to take on responsibility for managing the estate budget until they could demonstrate they were ready, will be making the right decisions, and have appropriate management information. Ultimately, the Department commented that if delegation did not work, it could be withdrawn either from individual Commands or all of them.⁴³

22. We questioned the Department on whether the Commands had appropriate skills and information to manage these budgets. The Department told us that training programmes are underway to ensure that people have appropriate skills, and the fact that the equipment budget has already been delegated means that the Commands have had to develop skills in budgetary management and taking balanced investment decisions.⁴⁴ The Commands' ability to make good decisions will also be dependent on the quality of the information provided to them by DIO. Although the Department has improved its data on the 318

37 HC Deb, 13 January 2017, [col 19WS](#)

38 [Q 47](#)

39 [C&AG's Report](#), para 3.26

40 [Q 46](#), Lord Levene, *Defence Reform: An independent report into the structure and management of the Ministry of Defence*, June 2011.

41 [Qq 47, 105](#)

42 [Q 106](#)

43 [Qq 106–108](#)

44 [Q 52](#)

sites covered by its estates strategy, it acknowledged that it currently had relatively poor information at a system level, such as on lighting, fire detection and drainage systems, to inform Commands' decisions. It told us that work to improve its information was ongoing and was expected to continue during the course of 2017–18.⁴⁵

The infrastructure operating model

23. Since it was established by the Department in 2011 DIO has struggled to recruit some of the skilled specialists that it requires to undertake its role in areas such as programme and project management, quantity surveyors, commercial specialists, contracting experts and strategic asset managers.⁴⁶ In 2014, it contracted with a Capita-led strategic business partner to insert new management into the organisation with specialist estate knowledge and high-quality skills.⁴⁷ Although the strategic business partner has brought greater rigour to DIO's approach to workforce planning and improved recruitment processes it has not been able to rectify DIO's difficulties in terms of recruiting and retaining staff. Five hundred of the 2,800 posts within DIO are vacant and the organisation has had three permanent chief executives plus additional interims in the last two years.⁴⁸ DIO admitted that it did not yet have all of the skills and capabilities that it needed to undertake its role and cited project and programme management and commercial management as particular areas in which it needed to further develop.⁴⁹

24. The Department told us that one of the reasons that it ended up in arrangements such as the contract with its strategic business partner was because it found it difficult to recruit the types of people that it would like as a result of pay restraint, particularly in areas requiring IT, cyber and commercial skills.⁵⁰

25. Under its existing model the Department has wanted DIO to act as an intelligent provider of estate and for the Commands to act as intelligent customers, articulating their requirements to DIO. However, the Department believes that, in practice, roles, responsibilities and accountabilities are unclear.⁵¹ The Department is undertaking a review of its infrastructure operating model which will report by April 2017 which it intends will address these issues and put in place an appropriate framework for delivering its new estates strategy.⁵² In January 2017, it announced that this would include re-structuring DIO to operate more effectively in the new environment.⁵³ Under the new model DIO will act as an expert estate manager and source of information and advice to the Commands and to the Department's Head Office.⁵⁴

45 [Qq 99–103](#)

46 [C&AG's Report](#), para 3.21

47 [C&AG's Report](#), para 3.4

48 [C&AG's Report](#), para 3.3

49 [Q 143](#); [C&AG's Report](#), para 3.22

50 [Qq 147–150](#)

51 [C&AG's Report](#), para 3.20

52 [Q48](#), 77

53 HC Deb, 13 January 2017, [col 19WS](#)

54 [Q 106](#)

The strategic business partner contract

26. In 2014 the Department signed a 10-year gain-share contract with Capita, supported by AECOM and PA Consulting.⁵⁵ The Department intended that this contract would enable it to achieve significant savings which it would share with the strategic business partner, improve DIO's ability to manage projects, and deliver a strategy for the future footprint of the estate.⁵⁶ However, at the point at which it awarded the contract to the strategic business partner, it had not completed its planned programme to transform DIO and have it operating effectively, which was essential if it were to be able to gain maximum value from private sector involvement.⁵⁷ The Department told us that it went ahead with the contract despite not having completed its transformation programme because of the urgent need to get some expertise in and start making savings. It sought to mitigate the resulting risk by ensuring that the business partner agreed the transformation plan and took on this element of the job themselves. It noted however that the business partner's performance in relation to transformation had not been as strong as in relation to delivery.⁵⁸

27. The Department believes that the business partner's performance has been mixed. It has had some successes including developing the estates strategy, and improving the delivery of the £1.8 billion Army Basing Programme through which the Department intends to relocate, reconfigure, re-role or disband over 100 army units to deliver the government's commitment to bring all units back from Germany by 2020.⁵⁹ However, there have been a number of shortcomings in its management, including being slow to address poor performance by CarillionAmey in maintaining the estate and making limited progress in improving DIO's internal controls.⁶⁰

28. The fees due to the business partner are calculated on the basis of a number of components, of which the largest relates to the business partner's ability to deliver sustainable savings.⁶¹ We questioned the Department on why it did not ensure that the savings that were to be achieved should be primarily sustainable, rather than through one-off cost cutting. The Department told us that it believed that a number of the savings that had been achieved were sustainable. However, it accepted there had been a period of two years where it probably had not had enough information to actually determine this, and had had to take a "risk-based approach" to this work. In the future this situation would be improved by better management information.⁶² Despite its inability to verify the savings claimed, between June 2014 and July 2016, the Department paid the business partner £90 million in fees. The Department told us that, based on what it had been told by Capita and the consortium, its best estimate was that 50% (£43 million) of the fees it had paid to the partner was profit.⁶³ Capita told us that it did not recognise the 50% figure and that it would be surprised if anyone made a 50% profit margin on a public contract.⁶⁴

55 [C&AG's Report](#), para 3.6

56 [C&AG's Report](#), para 3.4

57 [C&AG's Report](#), para 3.6

58 [Q 110](#)

59 [C&AG's Report](#), para 2.9 and 3.13

60 [C&AG's Report](#), para 3.15

61 [C&AG's Report](#), Figure 15

62 [Q 111, 122–124](#)

63 [Qq 126–127](#); [C&AG's report](#), para 3.17

64 [Qq 139–142](#)

Formal Minutes

Wednesday 15 March 2017

Members present:

Mr Richard Bacon	Kwasi Kwarteng
Philip Boswell	Nigel Mills
Chris Evans	Bridget Phillipson
Kevin Foster	Karin Smyth

In the absence of the Chair, Mr Richard Bacon was called to the chair

Draft Report (*The Defence Estate*), 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.

Summary agreed to.

Resolved, That the Report be the Forty-seventh 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 20 March 2017 at 3.30pm]

Witnesses

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

Monday 16 January 2017

Question number

Stephen Lovegrove, Permanent Secretary, Ministry of Defence, **Graham Dalton**, Chief Executive, Defence Infrastructure Organisation, and **James Hopkins**, Chief Executive, Annington Homes

[Q1–42](#)

Stephen Lovegrove, Permanent Secretary, **Lieutenant General Mark Poffley OBE**, Deputy Chief of Defence Staff (Military Capability), **Julie Taylor**, Director General Head Office and Commissioning Services, Ministry of Defence, and **Graham Dalton**, Chief Executive, Defence Infrastructure Organisation

[Q43–165](#)

Published written evidence

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

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

- 1 Annington Limited ([TDE0007](#))
- 2 Caroline Dinenage MP ([TDE0004](#))
- 3 Ministry of Defence ([TDE0005](#))
- 4 Ministry of Defence ([TDE0006](#))
- 5 Public and Commercial Services Union ([TDE0002](#))

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

Session 2016–17

First Report	Efficiency in the criminal justice system	HC 72 (Cm 9351)
Second Report	Personal budgets in social care	HC 74 (Cm 9351)
Third Report	Training new teachers	HC 73 (Cm 9351)
Fourth Report	Entitlement to free early education and childcare	HC 224 (Cm 9351)
Fifth Report	Capital investment in science projects	HC 126 (Cm 9351)
Sixth Report	Cities and local growth	HC 296 (Cm 9351)
Seventh Report	Confiscations orders: progress review	HC 124 (Cm 9351)
Eighth Report	BBC critical projects	HC 75 (Cm 9351)
Ninth Report	Service Family Accommodation	HC 77 (Cm 9351)
Tenth Report	NHS specialised services	HC 387 (Cm 9351)
Eleventh Report	Household energy efficiency measures	HC 125 (Cm 9351)
Twelfth Report	Discharging older people from acute hospitals	HC 76 (Cm 9351)
Thirteenth Report	Quality of service to personal taxpayers and replacing the Aspire contract	HC 78 (Cm 9351)
Fourteenth Report	Progress with preparations for High Speed 2	HC 486 (Cm 9389)
Fifteenth Report	BBC World Service	HC 298 (Cm 9389)
Sixteenth Report	Improving access to mental health services	HC 80 (Cm 9389)
Seventeenth Report	Transforming rehabilitation	HC 484 (Cm 9389)
Eighteenth Report	Better Regulation	HC 487 (Cm 9389)

Nineteenth Report	The Government Balance Sheet	HC 485 (Cm 9389)
Twentieth Report	Shared service centres	HC 297 (Cm 9389)
Twenty-first Report	Departments' oversight of arm's-length bodies	HC 488 (Cm 9389)
Twenty-second Report	Progress with the disposal of public land for new homes	HC 634 (Cm 9413)
Twenty-third Report	Universal Credit and fraud and error: progress review	HC 489 (Cm 9413)
Twenty-fourth Report	The sale of former Northern Rock assets	HC 632 (Cm 9413)
Twenty-fifth Report	UnitingCare Partnership contract	HC 633 (Cm 9413)
Twenty-sixth Report	Financial sustainability of local authorities	HC 708 (Cm 9429)
Twenty-seventh Report	Managing government spending and performance	HC 710 (Cm 9429)
Twenty-eighth Report	The apprenticeships programme	HC 709 (Cm 9413)
Twenty-ninth Report	HM Revenue & Customs performance in 2015–16	HC 712 (Cm 9429)
Thirtieth Report	St Helena Airport	HC 767 (Cm 9429)
Thirty-first Report	Child protection	HC 713 (Cm 9429)
Thirty-second Report	Devolution in England: governance, financial accountability and following the taxpayer pound	HC 866 (Cm 9429)
Thirty-third Report	Troubled families: progress review	HC 711 (Cm 9429)
Thirty-fourth Report	The Syrian Vulnerable Persons Resettlement programme	HC 768 (Cm 9429)
Thirty-fifth Report	Upgrading emergency service communications	HC 770
Thirty-sixth Report	Collecting tax from high net worth individuals	HC 774
Thirty-seventh Report	NHS treatment for overseas patients	HC 771
Thirty-eighth Report	Protecting information across government	HC 769
Thirty-ninth Report	Consumer-funded energy policies	HC 773
Fortieth Report	Progress on the Common Agricultural Policy Delivery Programme	HC 766

Forty-first Report	Excess Votes 2015–16	HC 954
Forty-second Report	Benefit sanctions	HC 775
Forty-third Report	Financial sustainability of the NHS	HC 887
Forty-fourth Report	Modernising the Great Western Railway	HC 776
Forty-fifth Report	Delivering Restoration and Renewal	HC 1005
Forty-sixth Report	National Citizen Service	HC 955
First Special Report	Protecting the Public's Money: First Annual Report from Chair of Committee of Public Accounts	HC 835

Public Accounts Committee

Oral evidence: Service Accommodation and the Defence Estate, HC 888

Monday 16 January 2017

Ordered by the House of Commons to be published on 16 January 2017.

[Watch the meeting](#)

Members present: Meg Hillier (Chair); Philip Boswell; Charlie Elphicke; Kevin Foster; Kwasi Kwarteng; and Mrs Anne-Marie Trevelyan.

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

Questions 1-165

Witnesses

I: Stephen Lovegrove, Permanent Secretary, Ministry of Defence, Graham Dalton, Chief Executive, Defence Infrastructure Organisation, and James Hopkins, Chief Executive, Annington Homes.

II: Stephen Lovegrove, Permanent Secretary, Ministry of Defence, Lieutenant General Mark Poffley, Deputy Chief of Defence Staff (Military Capability) OBE, MoD, Julie Taylor, Director General Head Office and Commissioning Services, MoD, and Graham Dalton, Chief Executive, Defence Infrastructure Organisation.



Report by the Comptroller and Auditor General
Delivering the defence estate (HC 782)

Examination of witnesses

Witnesses: Stephen Lovegrove, Graham Dalton and James Hopkins.

Chair: Good afternoon, everybody, and welcome to the Public Accounts Committee on Monday 16 January 2017. We are covering two subjects today: an update on service family accommodation, which our first panel is here for, and then very quickly—we hope we have quick questions and answers—we are going to move on to the defence infrastructure organisation. Obviously, the two are connected.

Mr Lovegrove, before I introduce the witnesses and we get to the main element—I did inform you of this—I want to ask you, as Permanent Secretary, some questions about the contingent liability that your Department informed us about.

Stephen Lovegrove: Yes.

Q1 **Chair:** We received a letter about the contract awarded for the Phalanx close-in weapons system's availability on 22 December, which was the day after Parliament recessed for Christmas. This was all going to be signed off on 31 December. Can you explain to us what happened and why we got such short notice? We are supposed to have 14 days.

Stephen Lovegrove: Yes, absolutely. I should apologise for that. It is an unacceptable position to have put parliamentarians in, so, on behalf of the Department, I apologise.

The explanation is that there was a mistake in the use of an exemption. Contingent liabilities of that scale need to be notified to the House to give you and colleagues 14 days to take a view and to debate them if you would like to. There is an exemption often used by the MOD for new kit on ships. This particular piece of work on Phalanx was not for new kit on a ship; it was for a refurbishment of the base of the Phalanx gunners, as I understand it, and therefore the exemption was unavailable, strictly.

However, it was invoked mistakenly and the difficulty that we placed our Ministers in was that if the support contract was not signed by the Minister, there would be a break in support to the Phalanx capability for the serving men and women on those ships. That was deemed not to be acceptable operationally, so we asked the Minister to approve it, notwithstanding the fact that it had not been through the 14-day period.

There was a clear mistake in the interpretation of the guidelines. I have asked for the guidelines in the Joint Service Publication to be clarified so



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the mistake does not happen again, and they will be issued and promulgated in February—next month. I cannot pretend that this was anything other than a mistake in interpretation of the exemption.

- Q2 **Chair:** I take what you say and the honesty which has been offered, and I understand about the need for continuation of service and support for our forces. We take your assurance that it will not happen again, but if it does we will call you back to explain. I trust that you will make sure it doesn't happen again.

Stephen Lovegrove: I fully expect to be brought back if it does happen again.

- Q3 **Chair:** I will write to the Minister to express our concern because not only were the 14 days not observed, but this was over the Christmas period. It was a doubly bad mistake to make.

Stephen Lovegrove: I understand that.

Chair: I thank you for that and I will hand over to Anne-Marie Trevelyan. Before I do, I will hashtag this part of the hearing #forceshomes; we hope it will take no more than half an hour, but it may be quicker, gentleman, if you are quick with your answers. This is on the back of our previous report, published on 13 July, "Service Family Accommodation". It is really an update on that.

- Q4 **Mrs Trevelyan:** I know that the Department has seen the Report and agreed its contents, which is very encouraging news. As you are all well aware, this is something that has taken up a lot of my parliamentary time. The Minister has been kind enough to grant me an exemption from parliamentary protocol, so I am dealing nationally with issues relating to CarillionAmey while we find a system that works to educate MPs on these matters. It has been busy in my office—too busy, sadly—but the situation is improving.

I want to put on the record the fact that CarillionAmey has worked incredibly hard with me and with families, where it can, to improve how it does things. The Department has obviously exerted a certain amount of pressure, but on a human level its teams have gone out of their way to try to do stuff better when errors or omissions have taken place. I commend it on that because it has been quite difficult.

One reason for that, which has become clearer to me over the last few months, is that often the difficulties are because the Defence Infrastructure Organisation is not meeting its part of the bargain. Having seen the audit that you commissioned in September of how the key performance indicators were being managed and whether that was going well, it is clear that some of the messages coming out—the joke with some personnel is that it is DI"No" rather than DIO, which you may have heard, Mr Dalton—are that CarillionAmey can't always meet the needs of its customers, our armed forces families, because DOI says "No" too often.



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In the light of coming in new and seeing that audit, how you feel it is going and do you feel it is improving? I think that is a key part of the problem with the CarillionAmey programme.

Graham Dalton: Thank you for acknowledging their hard work. In the time I have been here, I have certainly spent time with CarillionAmey to make sure it is making a consistent and sustained effort. Thank you for your recognition. I know they will appreciate that, but I will make sure they don't rest on their laurels. I hadn't heard the misuse of the acronym, which is probably as well.

Mrs Trevelyan: You have now.

Graham Dalton: I have now, and I will bear that in mind.

I don't know whether there is conflation between families and their experience where they live and their experience at work. With CarillionAmey under completely separate contracts, they are effectively working under different regimes because on the working estate there are far more things we are not funding and are not able to do. It is a much more basic maintenance regime. I hope that in housing it is not experienced to that extent.

I think the best I can say is this. I have seen some of the housing and talked with CarillionAmey, the suppliers. Looking at stats and performance, the main thing that I have done with them is to make sure they are working through the winter and keeping up to the contracted performance levels, because that is the most essential thing.

Q5 **Mrs Trevelyan:** The emergency response KPIs are not quite there yet, as I understand it. How do you feel that is going? Are you getting to grips with it? Are there particular issues that have caused those problems?

Graham Dalton: They are not. I have looked at the details of the emergency response failures over the last four or five months. I have not spotted a theme through there. Sometimes the failure is because the time has been missed by a relatively small amount. One of them, I think, was 20 minutes and one was two and a half hours. That is not ideal, but it's there or thereabouts. In a couple of them, the paperwork and documents were not properly kept, so it gets treated as a failure because no one can demonstrate whether it was on time.

Q6 **Mrs Trevelyan:** What are you doing to improve that?

Graham Dalton: It is about driving performance and making sure that you really do keep the records accurately, because it matters and it demonstrates performance.

Q7 **Mrs Trevelyan:** But why is that not working? Is it because they are sometimes using subcontractors rather than their own people?

Graham Dalton: Possibly, and particularly with the emergency response ones, the fast ones, it's that not writing the time the job was finished in the box and then going back to the office and thinking, "Oh, I didn't do



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that yesterday” or whatever it may be, or rushing off to the next thing they have to do. So retraining and reminding is important.

There aren't specific themes through there. I have not spotted anything that is an endemic failure in one area, but you are right about the emergency response ones. We have a small number hanging out. The expectation is 100%. It is doable—I think we did it in December—and we will keep at it, but I am not seeing an endemic theme that is causing me to have particular worries.

Q8 Mrs Trevelyan: One of the other issues that is raised constantly with me, but was also raised in the audit, is what “meeting the response” means. Does it mean someone turning up, regardless of whether they do anything about the issue—a plumber turns up, says, “I haven't got the part,” wanders off and ticks “Response met”? Or should response mean that if someone turns up and does not fix it, it is not completed until the job has been dealt with? It would be helpful to have some clarity, and perhaps you could feed that through, because I know that is a continuing frustration for families, in that they don't feel that they have been looked after.

Graham Dalton: I am happy to feed that back. Under emergency response, which is the really tight response, it is to attend and make safe or fix. In one case recently, a lighting column was knocked down, which exposed cabling and wiring. In that case, it's clear that it is not to come and put a new lighting column in—that takes a while—but to make it safe, so there is no exposed electrical wiring, for example.

Q9 Mrs Trevelyan: But it is not to actually fix the problem; the emergency response is to make safe only.

Graham Dalton: Yes, the emergency response is to make safe. If it is a situation where a family need some follow-up and it cannot be fixed immediately, the teams are trained, coached and equipped to make at least support arrangements—if the heating is off, they get heating in.

Q10 Mrs Trevelyan: The challenge for service families, which continues, is this. In fact, we had one over the weekend. It was a gas issue. The gas was turned off, but a mother was left with three kids under five and no cooking availability or heating. It went from “Emergency fixed” to nothing while they waited for Monday.

CarillionAmey went out of their way to help them with a variety of matters, but there is no clarity to me on how robust the Department expects to be to ensure that our service families are properly looked after and not left with someone saying, “Well, your house isn't going to blow up, because the gas is not leaking.” That is not a response as far as the families are concerned—those wives are looking after three kids while their husbands are flying Typhoons out of Akrotiri. That is not an acceptable support system, so how can we make sure that CarillionAmey are able to actually fulfil the requirement of looking after those families in the way that we all expect them to?



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Graham Dalton: They certainly have the systems and the instructions there that enable them to make some accommodation and prioritisation. That does not necessarily mean a full fix immediately, if it is not possible to get parts or equipment, but they certainly should not be leaving families in a state of having young children and no heat, for example; if that is happening, clearly we will follow through.

I am drawing something out as well about clarity and understanding of what the response levels mean. I am seeing the family federations, I think, later this week, so I can add that to the list of—

Q11 **Mrs Trevelyan:** That continues to be an issue and it does nothing to help the relationship between the families, CarillionAmey and the DIO, put it that way. The whole of this has educated me: the Department's comms in relation to the families is not as good as it could be. If you could take that away and work on that I think that would be hugely appreciated by those whom we are trying to serve. We will keep an eye on those KPIs as we go forward, and I know you will too.

Chair: We will have Mr Lovegrove back in front of us in a month or so, and probably many times after that; it is easier, Mr Lovegrove, to make sure it is all working well, or you will have to face Mrs Trevelyan.

Q12 **Mrs Trevelyan:** Turning to Annington Homes and the longer-term picture of where we are going with this, just for some clarification first, if you could, Mr Lovegrove: you wrote to us over recess setting out that obviously you felt you might have difficulty in talking in detail, because, in your words, you are about to enter discussions with Annington Homes. I absolutely understand that.

My problems stem from the fact that I have a letter dated 8 November from the Minister, who it states cannot comment further on the consequence of Annington Homes relationships because of the commercial negotiations. So I am a little confused as to where we are at, and perhaps you could clarify before we ask the CEO for his perspective.

Stephen Lovegrove: Maybe a tiny bit of history is worth going into here. Obviously, the deal that the MoD did with Annington Homes was in 1996 and lasts for 200 years. The first moment at which there is a meaningful opportunity to adjust some of the terms of that deal is effectively after 25 years, where there is a rolling series of rent reviews. Given the scale of the estate, that is going to take quite a long time.

The first rent reviews, I think, are due to kick off in 2021. As a result, we are preparing ourselves for that negotiation. It is a negotiation I really want to get right because in my opinion the deal done in 1996 was a bad one for the taxpayer. I think it is an example of a deal that was probably done for affordability reasons, rather than value-for-money reasons. It is essentially a financing arrangement out of which Annington and their shareholders have done exceptionally well and the taxpayer has done really quite badly.



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Annington paid £1.7 billion for the properties in 1996. I think that they have so far taken out £2.8 billion in rent. They have taken out £1.6 billion in disposals and they have a carrying value, in their accounts from last year, for that estate, of £6.7 billion.

Q13 **Mrs Trevelyan:** You are doing nothing to help the Department's contract negotiations credibility, are you?

Stephen Lovegrove: I have to say that this is not a deal, in 1996, that I would have done.

Mrs Trevelyan: I am very glad to hear that.

Stephen Lovegrove: There are no reopeners in it. The profit share fell away too quickly. There is a floor but there is no cap. So there are a lot of things that I want to look at in this deal when we come to the rent review. The contract itself is a 200-year contract. We cannot deal with that fact, but we certainly can deal with, I hope, the economics of the rent, which at the moment I do not think reflects the way in which the property market has gone. Nor does it reflect the fact that actually the MoD and CarillionAmey have to do all the work on the estate.

So those are the kinds of things that I want to look at. We are at the beginning period of thinking about how we want to negotiate this contract. Obviously, we will be talking to Annington about that. I have had a couple of conversations with their shareholder in the form of Terra Firma just to let them know my opinion of where this contract is and what it represents.

Q14 **Charlie Elphicke:** To follow up on that particular point you made, Mr Lovegrove, which is a very important point: in the last Parliament the gentleman who is now Lord Maude—then Francis Maude—was in the habit of revisiting PFI contracts and reworking and renegotiating them. Was any form of attempt made in the last five years to rework or renegotiate, and are you hoping to do so, to get a more sensible, fair deal?

Stephen Lovegrove: I am not aware of that, but I have only been in the Department for nine months and I haven't checked. I am happy to go away and have a look. It is a contract, so if Annington wants to stick by the contract, then Annington will no doubt stick by the contract. I mean, it is in contract law. Our main opportunity is, as I say, around these big rent reviews that are coming up, which is where we are looking at the moment. But I will certainly have a look at whether we try to renegotiate the fundamental contract at some point.

Q15 **Charlie Elphicke:** The dialogue that Francis Maude had at that time was based on the factual understanding that if enterprises wanted to make undue profit, they would not necessarily have further work being done with the Government.

Stephen Lovegrove: Yes. I am not aware that Annington has any further contracts with the Government, but it is clearly the case that every extra pound that we pay to Annington is a pound we cannot spend on defence, the estate and the people who live on the estate.



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Q16 Mrs Trevelyan: Mr Hopkins, I was confused by something being lacking. Perhaps you could give us some of the history of how the relationship has been with the Department. Hopefully you will be keen to encourage a good dialogue as these negotiations come forward, and it will be helpful for us to understand where we are coming from.

Chair: To be clear, Mr Hopkins, you have been with Annington right from the beginning, haven't you?

James Hopkins: I have been with Annington for 18 years, so I have seen I think 10 Secretaries of State, I don't know how many CEOs and a lot of changes.

I would at some point love to have the opportunity to respond to Mr Lovegrove, because this is very different contract from a lot of other contracts. This is not a service contract, in the sense of CarillionAmey. The Ministry of Defence took a decision in 1996 to sell an asset that it no longer thought that it needed to own, for £1.62 billion¹. It retained the management and maintenance, which it insisted on—that was a requirement—and it was a contract written and dictated by the Ministry of Defence on a take it or leave it, warts and all-type approach.

There was no negotiation here behind closed doors. Annington happened to be one of many people who bid for it, and it bid the most. The NAO reported on that in July 1997, was satisfied that the process had been well run, that it was a competitive process and that the highest bid was achieved, although it was in excess of what the Government advisers' estimates at the time were.

To correct one or two other things as far as that is concerned, we have always had the objective of being fully engaged with the Ministry of Defence, and there is a long history of us coming forward with ideas and initiatives on how to improve and work on the estate. That is very well documented.

In 2004, for example, when the Ministry decided that it wanted to privatise the management and maintenance—the forerunner to the CarillionAmey contract, which was with Carillion Enterprise—we were quite keen to put management and maintenance back together with the ownership of the estate, but we were strongly discouraged from bidding at that particular time. While I have every sympathy for the Ministry's situation, and I am very happy to have discussions in the wider context of the overall arrangements, we need to understand the actual backdrop and that it is not a service-level agreement as such.

In terms of where we have got to with discussions, at a local level there is regular contact on, basically, estates issues, which there would obviously need to be on an estate of this size. In respect of the Ministry, with the exception of meeting Graham Dalton last week, which I was very pleased

¹ Clarification from witness: "The figure quoted as the purchase price of £1.62 billion should have been £1.662 billion, which is what was actually paid"



to do—I hope to build a relationship there—I have not spoken to or had communication with the CEO at DIO for over 12 months.

- Q17 **Mrs Trevelyan:** Thank you. An interesting question is raised there about contract management, and not only of maintenance. Could you explain how that works? It seems to me that there are a lot of separate contracts for different estate management parts, such as drainage and so on. Is that in your view the DIO's best way of managing the housing accommodation estate?

Graham Dalton: In managing infrastructure, you have always got to start from where you are. From a managing it point of view, the situation we have got is that the property is owned, but we are managing the maintenance and the lifecycle renewal on them. There is some complexity about some of the contract. At the head level, Annington own the properties and lease them to Defence, and we put in our contractor to do the service and maintenance.

As for having one contractor across the country, which has been the subject of your main discussion, we now have got some systems in, which, from the user perspective, means they are getting consistency and some attention across the country. There are some other bits, such as water and waste water, which are subject to a very separate PFI. On any housing development, they do not tend to be major things, but it is another complexity to look at when you are looking at disposal of parts of the estate, for example. It is complex. The contracts were made for good reasons at the time and we will manage them.

- Q18 **Chair:** I think that Mr Lovegrove probably summed up—I do not always speak for the Committee as a whole; the view of the Committee, or many of us, is that this was not a great contract to start with. But I hear what you are saying, Mr Hopkins. You got this contract fair and square, even though it wasn't widely declaimed at the time, if my memory serves me. But we now need to make sure that we are looking at what happens now, so we will probably want to talk to you again. Where will you be at by 20 February with these negotiations, because that's what—?

Stephen Lovegrove: By 20 February this year? I doubt that we will be very far, if I am absolutely honest.

- Q19 **Chair:** When, roughly, do you think you will have covered these negotiations?

Stephen Lovegrove: It will take a long time, because it will be about how the negotiation is done from Annington's side and how it is done from our side, and there may be different approaches to it. I mean, I look upon this as basically a very, very expensive 200-year bond that we have sold, and it may be that Annington takes a different view to that, but that is the approach that I am taking.

Could I get back to you with a sense—?

- Q20 **Chair:** If you could, because we want to keep an eye on this, given the history, which you have laid out very clearly, and because it was



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notorious across Whitehall. Also, for the families—as Anne-Marie Trevelyan has indicated, she has had a lot of contact. We have had contact from a number of colleagues as well, who are concerned about the forces in their constituency, and they want to know what is happening. Will you pledge that the families will get very early notification once you have made the deal?

Stephen Lovegrove: Given the sums of money involved here, because we are paying £170 million a year on rent alone and I would like to see that come down very sharply—

Q21 **Mrs Trevelyan:** Remind me how much of that is actually covered by the increase in rent charges? The new rent level, which is going up, will eventually even out your bill with what you receive, or not?

Stephen Lovegrove: I don't think it will. I would have to get back to you with the exact calculations on that—

Mrs Trevelyan: That would be helpful, thank you.

Stephen Lovegrove: But we will obviously continue to subsidise the service families and servicemen and women.

What I do not want to do is to compromise the negotiations with Annington. We will be working as hard as we possibly can to get the best possible deal for Defence and its people, and indeed for the taxpayer. Exactly how that plays out, I will certainly let you know—

Q22 **Chair:** Just give us an indication. I understand that you cannot absolutely say. We would rather you got a good deal than a quick deal; I think that is fair to say. So we will not hold you to it too hard, but you must have some idea and I'm sure Annington don't want to be dragged through it for too long either. At least I hope that is the case, Mr Hopkins.

Q23 **Mrs Trevelyan:** Can we just get a bit of clarity in terms of where we are at, because it is raised with me by families a lot? With the future accommodation model, which we will come on to in a moment, if you were to decide that you want to move forwards and that you will build new MOD housing estates in different places—all that sort of stuff—and that you do not want to maintain large chunks of the existing 47,000 Annington homes, you have to hand them back in a state that requires what sort of level of investment from the MOD? That is part of the commitment, I understand.

Stephen Lovegrove: It depends. I think they have to be brought up to decent home standards.

James Hopkins: Good and tenable condition.

Q24 **Chair:** Is that the same as decent home standard, just to be clear?

Graham Dalton: Not necessarily, no. It is a slightly subjective market condition, but it is one that the market is used to.

Q25 **Chair:** So decent homes does not apply to MOD or Annington properties?



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Stephen Lovegrove: It applies to homes that we want to put our service families and servicemen and women in at some stage, but it does not apply to the homes that we have to hand back to Annington.

Q26 **Chair:** Fine. That is okay. So, just to be clear, our service personnel are not getting a lesser standard than other tenants and they have to be decent homes?

Stephen Lovegrove: No.

Mrs Trevelyan: We can have that discussion, but that is a whole other—

Chair: We are not supposed to be.

Stephen Lovegrove: I believe that the average remediation cost for the MOD, before it hands back a home or a set of homes to Annington, is about £14,000 per house.

Q27 **Philip Boswell:** Mr Hopkins, Annington's stated group profit on ordinary activities after taxation was £607 million in 2016. What percentage of that was made off the Defence estate?

James Hopkins: Annington owns the married quarters estate. But, if you have a look back prior to that, when we were producing our accounts under UK GAAP, Annington has not ever made a profit because the interest repayment on the debt that we have has always exceeded the operational profit. Last year, we moved to FRS 102 accounting standards, and the chief difference there is that it requires you to account for any change in value of your property. So in our reported accounts last year there was a £713 million increase in the value of the property—if that answers your question.

Q28 **Mrs Trevelyan:** Obviously, as part of the future accommodation model programme that is ongoing at the moment, the question of—as we just discussed—whether the existing Annington homes or other houses might be where you want to put families is going to be part of that mix. As far as I understand it, you are responsible for roughly 47,000 Annington homes. Roughly how many of those are void?

Graham Dalton: We are about 20% voids at the moment.

Mrs Trevelyan: So, around 10,000—just under 10,000.

Graham Dalton: Yes, which is a managed level of voids, bearing in mind things like rebasing the army and bringing troops back from Germany.

Q29 **Mrs Trevelyan:** So you are of the view that 50,000 is still the number of homes that you need to have in your mix, or are we looking to shrink that? To drive us forwards, whether you hand back Annington Homes or not, in the future accommodation model—we could have a long conversation about that, but we will not—people will need service family accommodation in whatever that framework is. How you manage that is a question to look at.

Looking at FAM, it has been a hugely contentious issue with families. It



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has caused more distress than we would have expected—Lieutenant General Nugee and I have talked about this at some length and it is very nice to see him here. Could you first give us an idea of when the survey results are likely to be published to give the families some certainty as to when this is going to kick off properly?

Stephen Lovegrove: Quite soon—I look to Richard Nugee to tell me exactly when. I have had a flash headline of some of the surveys. I think they probably have to be checked off by the national statistician to make sure that they are capable of being published as national statistics. Initial results will be on 31 January—the end of this month—and full results will be on 30 March.

A couple of highlights from the survey. There were, I think, 28,000 responses to it, and there are a couple of things to say. I would say, two to one, the respondents wanted change because of the differing patterns that people live their lives in at the moment and the way in which they want to live with their families and use their homes. What they really want to do is own a home, so there is a very big strong sense of that.

Mrs Trevelyan: As does every person—not necessarily also living in it while serving, though, if we are precise. Let's not be disingenuous in that statement.

Stephen Lovegrove: No, though what I think is coming across is that they would like the arrangements that are offered by Defence to enable them sooner rather than later to get on to the home owning ladder. So we would certainly have that in mind as we design FAM.

The SFA model, which is the family part of it, is much more popular than the single living accommodation part of it, because of the way in which we define these things. That is something that we want to think quite hard about.

Q30 **Mrs Trevelyan:** Would you say that the reason that is the case is that Army families, in particular, want to live as a family all the time, and want to live in communities of military families? Or is it that single living accommodation is just a bit of a fag?

Stephen Lovegrove: It is certainly partly that, but it is also partly that the way it is organised at the moment is that if you are single—that is, outside a marriage, either because you are divorced or because you are in a relationship that is not a civil partnership or a marriage—it is difficult to live with your children and your family. There are big adjustments that we need to make about that.

Q31 **Chair:** Can I just be clear: you are going to be changing that rule?

Stephen Lovegrove: We will certainly be seeking to reflect across the whole of the future accommodation model the way in which people these days wish to live their lives. I think we are completely missing a trick and being unfair if we do not.

Q32 **Mrs Trevelyan:** But would it be fair to say that the intention of the future



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accommodation model is not to extend service family accommodation in its present form—living on a patch in a family house with kids—to the modern family unit if marriage or civil partnership is not involved, because you consider that too expensive a model?

Stephen Lovegrove: What we will try to do is extend service family accommodation in a fairer way. If we were to extend it right across the piece to everybody who has a family and wishes to live exactly as a family, that would probably be unaffordable for us, so we are trying to do it in a fairer way that reflects, as I said, how people live their lives now. Out of that, clearly, there is likely to be a group of people who are disadvantaged as a result of the changes, and we are going to have to work through how we make those families and individuals adjust to the new reality in a way that they are comfortable with.

Q33 **Mrs Trevelyan:** Which are they likely to be? Which group is likely to be disadvantaged?

Stephen Lovegrove: Would it be acceptable to turn to General Nugee, who is certainly better—

Q34 **Mrs Trevelyan:** I had hoped that that was the sort of thing you would know, but feel free to ask the general; he knows everything about these matters.

Chair: I am sorry; we cannot have evidence from the gallery. I thought you were asking to turn to him for a bit of advice. Perhaps you could write to us about which groups will be disadvantaged. We had a discussion about witnesses at the table. We do not change witnesses at the last minute—

Stephen Lovegrove: We will certainly write to you.

Chair: I thought you were just turning to him for advice, which I am willing to allow, to a certain extent. I think you hear what Mrs Trevelyan is driving at. If there are going to be groups that are disadvantaged, they need to know sooner rather than later, so we can make alternative plans, at the very least—or maybe there are good reasons why they should not be.

Q35 **Mrs Trevelyan:** The question I will leave you with—we could talk about this for any length of time—is this. Until we have the details of the survey, we cannot really make an assessment of those who have given their views. There are 40,000 who still have not been asked for their views, unless that has happened. There is a core group of people—the special forces in Northern Ireland and others—who have not been asked their opinion, and I put on record that I think that that is still unacceptable. They are a very frustrated and anxious group of people. If you could find a way to make sure their views are gathered officially, that would be helpful.

Q36 **Chair:** Why did the Northern Ireland forces not respond?

Stephen Lovegrove: I am afraid I don't know the answer.



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Q37 **Chair:** If you could write to us with that, it would be very helpful—and special forces, as well. It seems extraordinary: either a geographical mistake, or an omission that we cannot understand.

Stephen Lovegrove: It may well be to do with security—

Q38 **Chair:** I think there are only two accommodation bases remaining in Northern Ireland. I don't think the families issue is about security as much as many other things that we discuss. Can you commit that we will see the full detail of the survey? It will help inform our further work on this.

Stephen Lovegrove: Yes, of course.

Chair: All the questions to all the answers.

Q39 **Mrs Trevelyan:** Going forward, I ask you to consider how you are going to do a full, real value for money assessment of the future accommodation model: not what is cheapest, but what is sustainable. What is going to avoid a serious retention risk cost? I do not know if you have thought about it yet; I have not. Do you have any sense that there is a holistic perspective on assessing value for money?

Stephen Lovegrove: We have discussed this before, and I am very aware of those views. We are looking at that at the moment to see whether there are ways in which we might be able to capture that. These are obviously quite complex issues. They were talking about Annington earlier on and we will be talking about the defence estate. The move to a smaller number of bigger hubs in its own right brings with it a number of factors that we certainly need to take into account. They are quite difficult to capture in a simple numerical way, so we are looking at that quite carefully at the moment. I am very happy to keep taking advice and observations from you and will certainly let you know how we go forward with that.

Q40 **Mrs Trevelyan:** I would encourage you to find a way to assess that. There are various tools used in the private sector to assess the holistic impact of a policy on the purchase of a corporate entity. To not do that at this point when the people are a key component of our armed forces is unwise. Yes, we need our shiny tanks and planes, but none of them work without the people. If we get this wrong, there is a retention risk. You see the figures, as I do. We are already undermanned. If we do not get that right, the risk to our armed forces and the security of our nation is genuinely impaired in my opinion. Clear guidance on how the Department is thinking about this in a holistic way would be helpful.

Stephen Lovegrove: Certainly.

Q41 **Chair:** I think you know our interest in this subject.

Stephen Lovegrove: I do.

Q42 **Chair:** It is absolutely only right that our personnel get what they signed up for and that they get good quality accommodation. We all understand the pressures about home ownership, but people still have to move and



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still have to have somewhere to live. They cannot always be upping sticks and selling at short notice.

Stephen Lovegrove: And every family and every individual is different. Indeed, Army families tend to have different types of priorities and thoughts about where they want to live compared with Navy families, for instance, because of the nature of the service involved. It is a complex subject, but I understand the point.

Chair: Thank you for your time on this. We are now moving on to our second panel. And thanks very much to Mr Hopkins.

Examination of witnesses

Witnesses: Stephen Lovegrove, Lieutenant General Mark Poffley, Julie Taylor and Graham Dalton.

Q43 **Chair:** Let me introduce the panel for the ease of anyone who may be tuning in for this element of the hearing. We have Julie Taylor, Director General of Head Office and Commissioning Services at the Ministry of Defence. If anyone wants to follow this and they have got the NAO Report in front of them, figure 16 shows where all our witnesses fit in the firmament around managing the DIO. Ms Taylor has oversight of the DIO and reports to the Permanent Secretary.

Graham Dalton, Chief Executive of the Defence Infrastructure Organisation, is still here. Mr Dalton, just to be clear, are you still a Capita employee?

Graham Dalton: I am.

Q44 **Chair:** So you are paid by Capita and you are on their payroll.

Graham Dalton: Yes.

Q45 **Chair:** I just want to be clear. We also have Stephen Lovegrove again, the Permanent Secretary at the Ministry of Defence, and Lieutenant General Mark Poffley, Deputy Chief of the Defence Staff, particularly for military capability at the Ministry of Defence. Welcome. Our hashtag for this element of the hearing is #modestate.

Before I go into the main section of the hearing, we were interested to know that the Minister made a statement in the House on Friday about the review of this programme. This is the sixth time that the NAO has reported on management of the estate in 30 years, so this time, well done, Mr Lovegrove. There is a strategy and a bit of data, but, worryingly, two years in, there has been a review of that strategy and we now have this statement from the Minister, which seems to indicate that the Defence Board has decided to continue working with Capita. Can you expand on that and tell us whether I have interpreted the statement



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correctly?

Stephen Lovegrove: The ministerial statement addresses two different aspects. We have taken, after some consideration—

Q46 **Chair:** Sorry to interrupt. Can you answer my question? Are you continuing with Capita as a partner in this operation?

Stephen Lovegrove: We are looking at the nature of the contract at the moment. It is too early to say whether we will or we won't.

Chair: That's interesting. That's fine. Carry on.

Stephen Lovegrove: Two aspects of the written ministerial statement are worth bringing out. We have taken a view, not without considerable thought and analysis, that the right thing to do is, by and large, to delegate control of the estate down to the frontline commands. It was repatriated to the centre some time ago. It had been down with them before, and now we are going to put it back down with them this time. That goes along with the Levene principles. The Peter Levene review suggested that delegation to the frontline commands is best, because they are the best ones to work out the balance of priorities. It goes along with their having delegated to them not only manpower but equipment, so they have the full package. That is one part of it. I am happy to talk about that.

Q47 **Mrs Trevelyan:** Can I just hold you on that? Just for clarity, are you proposing to give them a distressed estate, given the state it is in at the moment—it is seriously underfunded and has had seven years of basic health and safety investment only, and even then at a push—or are they going to get something functional, from which to start managing the maintenance?

Stephen Lovegrove: They will certainly have something that is functional and operational.

Mrs Trevelyan: But not invested in.

Stephen Lovegrove: There is no contention about the fact that parts of the estate have been under-invested in.

Mrs Trevelyan: Absolutely. I think we all agree on that one.

Stephen Lovegrove: We accept that there is a very, very big issue, which has been a long time brewing on the estate, and that it is going to take a while to fix. We believe—as do the frontline commands, very strongly—that the frontline commands are going to be in the best position to take the right kinds of decisions to fix a bit of the estate, maintain a bit of the estate and dispose of a bit of the estate, taking into account the whole of the capability coherence, which General Poffley can talk more about. No doubt we will not be giving them something that they think is absolutely perfect in every possible regard. It would be disingenuous to pretend that the defence estate is in that state.

Mrs Trevelyan: Will they have any chance to say whether they are willing to take on a part of the estate that may be incredibly badly invested in?



Chair: Can they say no? Is it a one-way option?

Q48 **Mrs Trevelyan:** Can they say, “Do you know what? This is unacceptable unless you give me a million quid to fix it”?

Lieutenant General Poffley: Let me try to address that. The answer is yes, they already do. They feed back to me regularly where they have concerns about the estate. It is as part of an overall assessment that we make in the Ministry of Defence as to where their individual capabilities lie. As the defence review set out a series of outputs, the infrastructure line appears as one of the factors that we consider on an annual basis. Indeed, it is regularly updated through a committee that I chair, at which they are all represented.

Stephen Lovegrove: If I may, it is probably right to say that what we are doing is delegating the funding of the estate, rather than the leaseholds and freeholds themselves. I don’t know whether Mr Dalton would like to give more detail on that.

Graham Dalton: A difference at the moment is that I and my people try to determine slightly remotely what the priorities are to spend the available money on. I absolutely support the delegation of the budgets to the frontline commands so they can prioritise across all the things we are spending money on, as Lieutenant General Poffley said. It is then my job to make sure they have got the asset information—information on the condition and the likely future condition of the estate and the assets they have got—so they get better sight of when things are going to need maintenance intervention, and then they can make those decisions, which we will support them on, and then we will go away and procure.

Chair: Just one more point, Mr Lovegrove. I have got Members keen to come in on this, as you can imagine.

Stephen Lovegrove: I just thought I’d go on to the second part of the WMS, if I may. It talks about the DIO itself, which is effectively moving, as Mr Dalton said, away from making these kinds of decisions, so it is a more strategic, more advisory, more assurance and standards type of body. Against that background, we clearly need to work out whether the current arrangements with the strategic business partners—Capita, PA and AECOM—are adequate to achieve the best possible outcomes for the future. Not only that, we also have the experience of the first couple of years of the contract, which has been okay in some parts and not so okay in other parts.

We have started looking at any changes that we might want to make to that. There has been, as it were, a first reading of some of that work at the Defence Board, just before Christmas. We should be going back to the Defence Board in March or April when that work has further progressed and we will be making recommendations to it at that point. Nothing is taken off the table at the moment.

Q49 **Chair:** So this statement is actually saying that you are still talking about it. What did the Defence Board actually decide? What does this statement



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signify was the actual decision?

Stephen Lovegrove: This statement signifies, more than anything else, the proposed delegations. That is really what—

Q50 **Chair:** So that is the decision but, other than that, they have still not been taken.

Stephen Lovegrove: That is correct. We are clearly having to look at the nature of the strategic business partner arrangements against that background.

Chair: The danger of a ministerial statement a couple of days before Committee is that we end up discussing that more than the NAO Report and I don't want to do that too much. I do want Mr Boswell and Mr Elphicke to chip in on this.

Q51 **Philip Boswell:** The National Audit Office Report paragraph 3.25 concerns the delegation of the estate budget to the commands. This seems to make a fair bit of sense but it is reverting to the 2011 position. It says at the end of that paragraph: "The Department expects to decide on delegation in 2017, after assessing the Commands' ability to take on these additional responsibilities." What has changed?

Lieutenant General Poffley: Two or three years ago we delegated the equipment programme down to the TLBs. In that process, we reviewed the maturity of each of the delegated TLBs as to their ability to manage what we were doing centrally at head office.

We believe that that similarly needs to occur here. This is very different from when we last saw delegation of the infrastructure programme because, as the Permanent Secretary has just described, that was a point at which we had now delegated the equipment programme, the activity programme, the people programme, and this is an anomaly to the delegated model that Lord Levene set out. The maturity of their architectures and skillsets to be able to accept that responsibility quite clearly needs to be assessed before we allow that delegation to take place.

Chair: We have previously reported on that, raising some concerns, which I hope you will take into account.

Q52 **Philip Boswell:** So Lieutenant General, it is basically that we are not sure. Have you done anything about improving the commands' expertise in this area?

Lieutenant General Poffley: Absolutely. There is an active training programme underway to ensure that people are competent in those areas. I would also say that the delegation of the equipment programme is similarly already skilling people up in budgetary management and the ability to take the balanced investment decisions that are inevitably required.

I should say that we are viewing the DIO as an expert supplier to us, the authority. As a consequence, it is not that I want to turn everybody in the TLBs into a civil engineer competent to make some judgments about a



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particularly project, quite the counter. That is where we would hope that the DIO have amassed those skills and, therefore, we can tap into that, as can the TLBs.

Stephen Lovegrove: I should say also that frontline commands are acutely aware of the need to improve their capability in this area over the next year and a bit before the delegations actually take effect. They have been speaking to Mr Dalton about whether certain staff should transfer. So there is a lot of work that is going on in this area.

Chair: I think this is going to keep us busy, as ever, for a while to come. I want to bring Mr Elphicke in because we want to get on to the main body of the NAO Report.

- Q53 **Charlie Elphicke:** To follow up on a point made by Mr Dalton, I want to understand the decision-making process. Who makes the decisions? Let me give an example. Say you had decided you were going to withdraw all military presence from Dover castle, ending a thousand years of history and defence of the realm and all that stuff. *[Interruption.]* Exactly. It has already happened. If that was going to be the case, is that a decision made by the frontline south-east command, by you, General Poffley, or you, Mr Dalton? How does that decision come into being? Can you briefly take us through the stages from policy to operational?

Lieutenant General Poffley: The ownership of the decision lies in the first instance with the TLB that might be managing that particular part of the estate.

- Q54 **Chair:** The TLB?

Lieutenant General Poffley: The top level budget, in this case the Army, who would have folk already stationed in that facility. If they made a judgment that said, "I wish to remove that unit from a particular location" because they wanted to spend their money in a slightly different way, they would, inevitably, bring that into their annual proposition, which is scrutinised by my staff and the Director General Finance's staff in the Ministry of Defence. I will scrutinise it for capability coherence and Ms Louise Tulett, who is the DG Finance, will scrutinise it on behalf of the Permanent Secretary for good value for money and the accounting officer function. It is absolutely the case that there may be some political, environmental or output aspects that need to be considered in that judgment, and because we have visibility of it we can then add clarity or direction, if needed, to the frontline command—in this case, the Army—as to whether we think it is a good thing to do.

- Q55 **Charlie Elphicke:** Where does that then link across to the DIO? Do you then instruct the DIO or do you consult and they have a say as well?

Lieutenant General Poffley: In the defence plan, annually, we will set that down as a piece of direction to be completed in the following year or, indeed, because our defence plan runs out as a programme over 10 years, at some point in the future.

- Q56 **Charlie Elphicke:** So does Mr Dalton do what he is told and you are the



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decision maker really?

Lieutenant General Poffley: The Ministry of Defence and the Army, Navy and Air Force are effectively the decision makers in terms of the prioritisation of the estate and its lay downs, but we must live within a budget and therefore there is advice that comes back as to the best mechanism we might use in the infrastructure pillar for servicing that set of priorities.

Q57 **Chair:** Given that we have had this statement and that you are reviewing your arrangement with Capita—Mr Dalton confirmed at the beginning of this hearing that he is employed by Capita—I want to ask: were the MOD's arrangement with Capita to come to an end, would that mean you would have to have a whole new team of personnel at the top of the DIO, as Mr Dalton and a number of his colleagues are employed directly by Capita?

Stephen Lovegrove: As we think through what the arrangements need to be, I am quite keen that we give sufficient weight to continuity in senior leadership, which we have not had for the last couple of years in the DIO. So that would be one of the things that we will need to think about.

Q58 **Chair:** Remind us how many leaders you have had? How many people in your position, Mr Dalton, have there been before you?

Julie Taylor: Graham is the third permanent Chief Executive of the DIO

Q59 **Chair:** In two years.

Julie Taylor: Yes, and there have been some acting Chief Executives in the meantime. What is probably worth saying though is that the contract that we have with Capita is quite strong in allowing us to make changes and/or, if necessary, terminate the arrangement, and it gives us rights to take on Capita's staff—

Chair: Yes, it is all listed in the Report, so we will not go into it in detail here.

Julie Taylor: That is an important feature of the contract—

Chair: We are going to come on to the contract under section 3 of the Report in a little while. Before we go further, I just want to acknowledge the interest of a number of colleagues. In particular, I would like to welcome the hon. Member for Twickenham to the room—she is so interested that she is sitting through our hearing. There are other Members who are unable to attend but have sent us some evidence, in particular the hon. Member for York Central and the hon. Member for Gosport—others have talked to us as well.

Charlie Elphicke: Can I ask a question about those particular colleagues?

Chair: Absolutely. In a moment, Mr Elphicke. I would like to let Anne-Marie Trevelyan kick off—we are now moving into the main body of the NAO Report.



Q60 **Mrs Trevelyan:** Thank you, Chair. I think that the NAO Report is very clear and although we all support the fact that there is, at last, a plan to turn the military estate into one that is fit for the 21st century—it is no mean feat; it is a dynamic environment; we get all that—the reality is that the Footprint strategy, which seems to have coalesced, is by the Department’s own figures and the NAO’s Report far short of being anything that is financially viable. We are looking at a more than £8 billion black hole in terms of management of what the Footprint strategy expects to take us to. I understand that this is a challenging prospect but, with the plans—91 sites have been identified publicly as being removed and have been discussed over the last few months—you are now saying, following the ministerial statement last week, that this will be within the commands’ control pretty soon. So will all that Footprint strategy roll-out be in the hands of command?

Lieutenant General Poffley: Each of the frontline commands has been actively engaged in drawing up the plan that is associated with those sites. It is already agreed that we would establish a series of what we are terming “capability clusters”. They have been actively engaged in that process and, stand fast, we have not seen one area, particularly in terms of rotary provision, where there has been any demurring from the position that we have agreed over the past year. From the point of view of the commands delivering against that plan, I anticipate that that should proceed without too much disruption, but inevitably, as we get into this and review the business cases and our operational requirements potentially change, it will be a dynamic process, as you suggest.

Q61 **Mrs Trevelyan:** Perhaps you can explain to us how the business cases for each of the sites have been reached. What principles have you worked on? Is it about sites that you may not want to be in it at all, capability changes and that bigger value for money versus capability question? There have been one or two that I have seen where it seems like the DIO has said, “It’s really expensive to run. Let’s split the stuff up and put it somewhere else”, but the local view has been that that is not necessarily the best value-for-money solution, holistically. Perhaps you can talk about the principles of how you got to these decisions.

Lieutenant General Poffley: The principles were set out originally for us to look, with the DIO providing some counsel, at the state of the estate and, from an infrastructure point of view, what would be the perfect lay-down from a rationalised estate. It went to utilities, usage, geography and the condition of the estate. Having started on that premise, we then flushed across that analysis a capability judgment as to how you would now accommodate people. That was looking at whether people want to live there, whether it was a sensible place for recruiting and what the terms and conditions were that we would be asking our people to live in that were associated with that estate. We looked at our ability to generate forces, such as proximity to training facilities and that sort of thing, and then we looked at the operational requirement in terms of equipment. Was it suitable for those sorts of things? The distillation of that is the plan that you have seen with those disposals in mind, and that will of course be continually refined as we go through the business cases. We are in the



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process at the moment of engaging with local authorities to see what the local dynamics would be against that proposition. We have a proposition. We have assessed it in terms of its strategic balance of investment and value for money, and that work needs to be refined as we go forward.

- Q62 **Mrs Trevelyan:** So the reality is that some of them may not close, some of them may not raise the money you hope and some of them may end up costing you a great deal as you move and have to put the capability somewhere else.

Lieutenant General Poffley: Absolutely.

- Q63 **Mrs Trevelyan:** So Ms Taylor, in terms of the deal agreed with the Treasury that there would be £1 billion of capital receipts as part of this roll-out—is there confidence in the Department that that is even likely to be achieved?

Julie Taylor: We still have a degree of confidence that that is a reasonable expectation. As the Report sets out, there are financing questions about how we finance the re-provision. That is something that we are looking quite hard at in terms of potentially novel methods of financing. We may be dependent on those in order to release the estate to generate the disposals. At the moment, we are proceeding on the basis that those will be possible.

- Q64 **Mrs Trevelyan:** Is it likely—I don't think anyone disagrees that while there is a history, Stonehouse barracks is not fit for purpose for our Royal Marines to work and live in and they are going to need a modern, 21st-century, fit-for-purpose unit where you bring everyone from Chivenor across, so that you have a super socking great Royal Marines set-up, but that is going to cost a great deal of money to set up—that you may not get any money from the barracks for many, many years, if anything at all? You might be lucky if someone takes it off your hands, because there is a historical cost. How can you have any confidence that those sorts of decisions, which must surely be based on capability, are going to roll out and meet the financial commitment that you have made to the Treasury?

Julie Taylor: Obviously in the planning we have made some assumptions that we think are reasonable about who might be interested in our sites. I take your point that some of those are very uncertain, but we have made a reasonable judgment that we think will stand up. I think the point that General Poffley would make is that this is a very complex set of moves, so one small thing going wrong could delay quite a lot and have a domino effect. We have a degree of confidence in the work that the DIO has done in this space. It is as good as it can be at this point in time. We need to do some more work to make sure all these things can now be delivered.

- Q65 **Mrs Trevelyan:** Is it likely that the London properties that are identified for disposal and sale will be the profit generators across the board?

Julie Taylor: Some of them are worth the vast majority of the disposal receipts.

- Q66 **Mrs Trevelyan:** In terms of the holistic view for the whole force, for



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instance, the Cavalry barracks in Hounslow and Kneller Hall have been identified for sale. Both are in an area where there is a complex BME relationship and where the military presence at the moment is a really important part of community strength. Are those sorts of issues being taken into account or is it a question of, "Let's be honest: Kneller Hall is a fantastic site. We're going to turn it into fancy apartments, so let's just flog it, because we can put musicians somewhere else"?

Lieutenant General Poffley: These are inevitably judgments that will need to be taken on a case-by-case basis. For some of the sites that you describe, absolutely there will be the net benefit from a potential receipt being washed through the rest of the defence programme or, indeed, ameliorating some of the challenges we have in sustaining the remaining estate. It would be wrong for us to say that infrastructure is the key driver. In some cases, it is absolutely going to be, because that is the most efficient use of the estate. In some cases, there will be softer effects, such as the implications for local communities. As we go through each of the business cases, so we will make a judgment on that basis and then progress against a target that has been set by the Treasury—indeed, we think it is a legitimate target. We are under no illusions that it is quite challenging—that does not make it a bad target—and that it will be quite difficult to get to it.

Stephen Lovegrove: It will be case by case. Woolwich barracks is a good example of the type of facility you are talking about. Clearly it is not in great condition, but local leaders and the local MP have very clear views about the importance of the barracks to the local economy. We will have to engage with that before any final decisions are taken about it.

Q67 **Mrs Trevelyan:** What happens if those that have the chance to generate some of that £1 billion of profit do not come off because you decide to rehouse people and say, "We should have a battalion here rather than shipping it all to Andover"?

Lieutenant General Poffley: What is absolutely the case is that there are some sites where it is clearly riskier against that target than others. It draws you to the conclusion, quite rightly, that we need to continue to work to go further, beyond those sites we have already identified. That plays to delegation, where we would hope we can incentivise each of the frontline commands to actively seek out opportunities to release estate for two reasons: first, for the obvious receipts and therefore militating against other sites that do not materialise in the way we would hope; and secondly, because it will reduce the amount we are having to spend on an annual basis to sustain that estate going forward. That will allow us to wash that financing through the rest of their programme, ideally, and where necessary, pull into the Ministry of Defence prioritisations that may trump it from a defence point of view.

Q68 **Mrs Trevelyan:** So if the Air Force agrees that a disused airfield, which perhaps is not yet identified, is not required, will it get to keep that receipt?



Lieutenant General Poffley: We are looking closely at the incentivisation that would make sure they seek that out. Absolutely, the intention is for them to reap some of the benefits, to attend to their strategic priorities.

- Q69 **Mrs Trevelyan:** That doesn't quite answer my question. If the commands have equipment, personnel and infrastructure and they say, "That airfield is no longer required," will they get to keep the receipts? If the local commander has a good relationship with the local council and comes up with a really good housing scheme—you are telling me that that command will be determining those decisions and DIO will help with the technical stuff, but will the Air Force get to keep that money or will it come back into MOD?

Lieutenant General Poffley: All three services will be allowed—and will be encouraged—to push that delegation down to the very local level. Quite clearly, it is that station commander—

- Q70 **Chair:** Answer Mrs Trevelyan's question—who gets to keep the money?

Lieutenant General Poffley: It is to be determined on a case-by-case basis whether that money should stay inside a frontline command, or whether it needs to service a higher priority at the defence level. The defence budget is delegated in its current form.

Chair: Just to be clear: we understand that, but we don't have a clear answer.

Lieutenant General Poffley: There can be no guarantees.

- Q71 **Charlie Elphicke:** I want to pick up the issue that was raised by my colleague, Mrs Trevelyan, on the matter of Kneller Hall, which, you will know, is where the Royal Military School of Music is located. This is an issue, because it is a great example of the tension one has between wanting to deal with the estate but also wanting to make sure that capability is preserved.

My colleague, Dr Tania Mathias, who is the MP for Twickenham and is a hard-working, energetic, campaigning champion for the area, tells me that this works very well as a school of music, but that it was allowed to fall into disrepair in the '90s—it was not kept up or maintained—and now the MOD are saying, "Let's just flog it for housing and move somewhere else outside London." Have you taken into account the dislocation of the history, or the effectiveness of an already-working establishment?

Lieutenant General Poffley: It is absolutely the case that people are conscious of the effect that that will have, not only on the local community but on the heritage that we may have built up on a site such as that. It is also absolutely the case that balancing the delivery of musicians—across the Army in this case, but potentially defence more broadly—may be better serviced in a more up-to-date series of facilities that we simply cannot afford to provide on that site. If that is the case, it would clearly lead you to a conclusion that you either find an alternative military use for that particular site, or you dispose of it. Quite clearly, a judgment has been taken with regard to Kneller Hall in that way.



Q72 Charlie Elphicke: How many facilities are you talking about moving it into—one single facility or several facilities around the country?

Lieutenant General Poffley: I can't give you a precise answer on that particular subject, but I can come back to you with the detail. My understanding is that the vast majority of the school of army musicians will be going down to Winchester into a bespoke series of facilities that better provide for them.

Q73 Charlie Elphicke: Is that not the issue I'm highlighting? You have one central, well located school of music that works well and is a centre of excellence—a concentration of expertise who people can consult—and you are going to blast it into a whole load of different sites around the country, meaning you will lose that gossamer thread of excellence. It is a bit like turning a single, big teaching hospital into a whole load of community hospitals. You lose the excellence and quality.

Lieutenant General Poffley: I can't give you an assurance that it is more than one site or not, because I don't know; I would need to come back to you. My understanding is that it is on to one site, and that it will continue to centre not only the Army but, more broadly, defence's musicians in one location, which better provides for them than the current facilities at Kneller Hall.

Q74 Philip Boswell: This is something that ties into what my colleagues have said on all the facilities. In Scotland there are 22 facilities, some of which are closing. My hon. Friend from Edinburgh South West is concerned about the Redford barracks. It is on the flight path for Edinburgh airport. There is a shortage of housing in Edinburgh. It is a substantial piece of land, although there is a burn running through it, so it does have issues. What does the DIO intend? Does the DIO intend to gain at least outline planning approval before selling on, or will this go in its current form to some private investor, like Annington Homes?

Graham Dalton: For any site, DIO will make an assessment of the potential use of the site. In particular, it will work with local authorities to see how the use of the site fits with their local plans, whatever their local planning arrangements are. We will then use a range of options. Some will be straight disposal of the land as it is; some will need some remediation clearance; some of it will work with a lead developer over time—if it is a large site, for example—to secure detailed planning consent and build phases, which optimises return for the taxpayer.

Q75 Philip Boswell: The general mentioned that there will be additional expertise in the commands. This can hugely increase the value of the land. Who gets the profit? Does the public purse lose out to chumocracy?

Graham Dalton: We are working clearly within managing public money and the rules, so we don't just dispose for someone else to make a windfall, if we think there is an easy windfall to be made. We work out to secure the right level of whatever the development is. It might be that it is just cleared, and competition—the site is free for access for someone else. More often it is securing either outline planning consent or detailed



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planning consent, or in phases, or even working with a developer on a gain share as time goes through. We work through with the developer. What we don't do is speculate on what might happen in future.

Q76 Philip Boswell: And if this does happen does the buck stop with you, Mr Dalton? Are you accountable if this happens?

Graham Dalton: I am sitting with the accounting officer, and he will raise it pretty clearly with me, yes.

Philip Boswell: So you are accountable for it. Okay, thank you.

Chair: I will bring Anne-Marie Trevelyan back in, but we will be raising a few other examples like this.

Q77 Mrs Trevelyan: A concern I have, Mr Lovegrove, is the management of the risk. You are starting with a Footprint strategy, which is not economically viable. While I commend the fact that there is at least a plan—I am new here: 30 years of not doing this is a damning indictment on the Department. You are at least trying to do that, but we are not at a stable starting point from which to tackle this financial black hole in terms of infrastructure, investment and maintenance. How are you proposing to monitor and manage the risks going forward, understanding that this will be a continuing conversation? When you find that you can't sell "RAF this" because of something, and you find that you can shift something in Shrewsbury, how will you be managing the risks that this impacts for the whole Department in terms of both capability and finances? I don't think the Treasury is looking to give you another £10 billion a year.

Stephen Lovegrove: No, I am sure it is not. Your question goes to the very heart of what we are trying to do here. As I said, this is a problem which had its genesis over many decades and it will no doubt take a couple of decades to fix it. I do not think that the Footprint strategy or, as it has morphed into, the better defence estate strategy, really, should be looked upon as anything other than the first step in what is going to be a very significant and ambitious programme. But I think we do accept, absolutely, that it doesn't go far enough to be able to put the financing of the Defence estate on to a sustainable footing. But we have to start somewhere. There is a very high level of execution risk in this plan. It is very ambitious, notwithstanding the fact that we will probably—almost certainly, in fact— have to go further. What I want to do at the moment is not embed this plan but certainly ground the plan clearly, and make sure that we have the right operational apparatus and framework around it, so that we can start making progress on it. We are changing the nature of our management information quite profoundly at the moment; and there is some discussion in the Report that actually we weren't capable of changing it quickly enough before the strategic business partner came in, and that is absolutely right. We want to continue to improve that.

Q78 Mrs Trevelyan: How much are you investing to get that to a point where you think it is something robust?

Stephen Lovegrove: I don't have that figure on me—



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Julie Taylor: Over 10 years the new information technology system will have about £90 million to £100 million invested in it.

Stephen Lovegrove: There is a lot more information about lifecycle replacement, assessment—the delegation to the frontline command, the top-level budget holders, will certainly, assuming that it is incentivised properly and we are looking at it properly, drive different types of outcomes.

Q79 **Chair:** I think that is one of our concerns. The statement—that is why we were probing you quite hard on it at the beginning—on Friday seems to have ripped up a lot of what the NAO has been looking at, in terms of the strategy and the management of it so far, because all the balls are in the air again. It will be, as Lieutenant General Poffley has indicated several times, down to the individual commands to decide their priorities. How can you be sure that that won't just tear it all up and start all over again? Is there an alignment with where you are now and where the commands are going to be?

Stephen Lovegrove: Yes. Two reasons, principally: although the DIO will not be taking the kinds of decisions that it used to take, and those will be delegated down to frontline commands, it will be very much keeping a strategic overview of what we do with the estate, and whether the kind of standards that are being applied over here are the same standards as are being applied over there. If it is the case that we need at some point to go further than 30% by 2040, who do I look to to tell me what the right number in the right date is? It will be the DIO. That is our area of expertise—property expertise within, effectively, head office. There is still very clear, central oversight there.

On the other side, I would look to General Poffley's unit. We have upgraded the military capability coherence function in the area that General Poffley runs. Delegation in this kind of system can only go so far. There has to be a control in mind, because the really big decisions about what capability means for equipment, premises, manpower or training—all the other areas that go to make up an efficient defence establishment in the UK—cannot be made down in the individual silos. It is that balance that we have to get right. I am not saying that the latest incarnation will be perfect, but we think—

Q80 **Mrs Trevelyan:** It is an incarnation. It is a great start. My question is, who then is responsible at the end of the day for these decisions, and who therefore is managing the risks for estates, equipment and people, taking that holistic view of risk with each of those decisions? RAF Halton: it was announced in September that the airfield was going to be sold. Fine, no one bats an eyelid, good decision, great place to have some housing. Then—this is in my understanding—someone realised that Aylesbury council was having a closure date for its land-banking access and, with a week's notice, the whole of RAF Halton was informed that it would be shutting down. That is the RAF's basic training centre. There are buildings that you have had to close in the past few months because the roof is falling in. So there is a quick decision to make. The impact on



those people, those experienced trainers, has been catastrophic. How are you going to manage the risks as this dynamic programme rolls forward so that that sort of poor decision making, based on perfectly valid reasons, does not happen, because the impact across the board will be enormous?

Stephen Lovegrove: We will have to continue to improve the way in which the two really big elements of the defence estate are integrated. They are, fundamentally, about a civilian, professional assessment of the right thing to do against prevailing market conditions and so on; and a professional military assessment of the right thing to do for our people and our capability—our capability very broadly defined. When you have those two broad thrusts, it is always perfectly possible that incomplete or inadequate decisions are made, but we are working very hard—ultimately, they come together in me and in the Chief of the Defence Staff, particularly, obviously, for capability—to be responsible for making sure that defence works properly.

Q81 **Mrs Trevelyan:** I keep asking questions because I still cannot understand how you are going to manage those risks. What are you actively doing so that you and CDS are on top of it?

Lieutenant General Poffley: Let us take the case you are describing. I would have expected the Royal Air Force to come back to me in its annual judgment about the plans for that particular site and to declare either contentment or otherwise.

At that juncture, there is a conscious decision to be taken and some negotiation to be made to confirm whether we are prepared to find a different solution. By the way, inside the Royal Air Force's budget and with the Chief of the Air Staff in control of this judgment, if he has not got a provision for taking forward those capabilities that are compromised by that site's disposal, then he has not got a strategic plan for that year, in which case it is challenged by me for a lack of coherence.

I have a number of committees at various levels that bring that forward, and then ultimately I submit to the collective wisdom of the Chiefs—and, through the Permanent Secretary, to the defence board—as to whether that is a good decision or a bad decision, and then we can promulgate it one way or the other.

Q82 **Mrs Trevelyan:** Going forward, we might hope that there will be no sudden shocks like the one at RAF Halton in terms of the impact on retention of high-quality staff, because there will be a much more coherent management of this estate change.

Lieutenant General Poffley: One would hope that that is absolutely the case. The Chief of the Air Staff should be absolutely worried about his people, as I know he is. The consequences of an estate action impacting on those people will undoubtedly be very much at the forefront of his mind.

Q83 **Mrs Trevelyan:** In a practical sense, I think the concern is that these



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initial business plans have been made, but there is much work to do before any sale happens. You might find that there are covenants on a lovely old property that was gifted to the RAF, for instance—I am not particularly picking on the RAF—after the war because all the boys were killed, and that it will cost you a fortune to dispose of it, and/or you cannot, for any number of reasons.

Why is that thought process and all that investigative work not being done before the decision to sell, with all the destabilisation, actually takes place? Why is it being done in reverse?

Lieutenant General Poffley: We certainly have a better visibility of those sorts of issues as a consequence of the work that has gone on over the course of this year, and I anticipate that level of understanding maturing exponentially as we go forward this year.

Q84 **Mrs Trevelyan:** Will you maintain it in the Department? We are not going to send people off to go and do other things—we are going to keep them.

Lieutenant General Poffley: Absolutely. I will have a dedicated portfolio office that will purely be responsible for monitoring the implementation of this strategy.

Stephen Lovegrove: It is really important that the DIO maintains its role as a centre of expertise and gravity in this area. Graham and his colleagues need very clear visibility as to what the top level budget holders of frontline command are aiming to do, and ask them the kinds of question that you have just asked—“Have you considered whether or not the local authority, given its public statements, is going to be prepared to do this, that or the other?” This is a balance between delegation and a degree of central control, and it will fluctuate a bit.

I should say that the other thing that is going to fluctuate—you mentioned it earlier on—is the £8.5 billion. It is obviously a very alarming sum to see there, but in a sense it is an artificial sum. What it shows you is that if we do a fairly crude like-for-like replacement cycle on pretty much everything we have at the moment at a sticker price that has not been interrogated, without thinking about utilisation rates and sale rates and all the rest of it, that is what you end up with. It is a necessary minatory shot across our bows, to say “Okay; clearly what we must not do is pursue a policy that leads to that kind of outcome, because that will simply be unsustainable.”

Q85 **Mrs Trevelyan:** It certainly indicates that the last 10 or 15 years of total under-investment in estates has not worked. That is not a sustainable way of running MOD assets. You are now going to ask commands to take responsibility for those assets. Certainly all those I speak to think that that is great, but as I asked at the beginning, how are they supposed to ensure that the assets get to a good state and are maintained, if according to the Report you have at least a £435 million deficit in terms of investment? That is money that you now do not have to chuck into those assets.

Stephen Lovegrove: Again, that is a work in progress in its own right. That number—I think it is £425 million—is not going to be the number



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spat out at the end of the process. In the course of working out how that headline number can be managed, the frontline commands will take views on what they can do to maintain a level of coherent capability, using all the various levers that they can now pull—manpower, equipment and so on—to make sure that it becomes coherent.

Across the top of that, the centre of the Department—the head office, effectively, as it is represented around me—will take a broader Defence-wide view as to whether or not that represents real capability coherence across Defence.

Chair: It just seems to us that a lot of those decisions will have to be made because the maintenance costs have been ratcheted up so highly because of the deficit. I want to pause for a moment because I want to say that we hope to finish the bulk of this hearing by 6 o'clock, so can we bear that in mind in both questions and answers? Remember that we have the NAO Report and we have read it, so we don't need to have it read out to us. We have it in the record anyway, so you can refer to it, rather than quote, if that is helpful. I turn to Mr Philip Boswell, and then we will come back to Anne-Marie Trevelyan.

- Q86 **Philip Boswell:** Moving on to the model for managing the estate—question 13—this is to Stephen Lovegrove and Julie Taylor. Who is ultimately responsible for decisions undertaken by the Defence Infrastructure Organisation? Mr Lovegrove first.

Chair: Perhaps we can look at figure 16 of the Report.

Stephen Lovegrove: Ultimately, I am. I am the accounting officer. Ms Taylor is accountable to me, and I am accountable to Parliament. Ultimately, it is me. Clearly, I delegate quite a lot of the day-to-day activity, and I will hold—

- Q87 **Philip Boswell:** Okay, Mr Lovegrove. Why did the NAO find that the roles and responsibilities are unclear and that the governance arrangements are confused?

Stephen Lovegrove: I think that some of the confusion in their mind may have been injected by virtue of the role of the strategic business partner. When you are asking an outside entity to run an important organisation such as this, there is the capacity for a degree of confusion. I think that we also need to have a look at some of the top structures in the Ministry of Defence, which have grown up over a number of years and might need a bit of rationalisation. In fact, there is a small amount of work happening on that subject at the moment.

- Q88 **Philip Boswell:** So, Mr Lovegrove, you are saying that it may be unclear or confused in their minds, but not in yours.

Stephen Lovegrove: It is not unclear in my mind, because ultimately I am responsible. I should also say that I absolutely do not look upon the fact that there is a board at DIO as injecting any degree of unhelpful complexity into this area at all. We are very keen on boards. There is a



great deal of precedent on having boards of that type. Ultimately, they are advisory, rather than executive.

- Q89 **Philip Boswell:** Thank you, Mr Lovegrove. Julie Taylor, same question. Why did the NAO find that the roles and responsibilities are not clear and that the governance arrangements are confused?

Julie Taylor: To follow on, there is a requirement to manage the Defence Infrastructure Organisation, and there is a requirement to manage the contract for the strategic business partner. As Stephen said, ultimately we are all accountable to the accounting officer—the Permanent Secretary—so it comes together there. At the moment, the top management of DIO are managed through a contract, and the work of DIO is managed through a board. We have made sense of that arrangement, but I think that is something that the NAO was querying. It is something that we expect to look at as part of the new arrangements, because clearly, under a delegated model, our relationship with Capita will need to change.

- Q90 **Philip Boswell:** Okay, Ms Taylor. Why has the operating model for the Defence Infrastructure Organisation not worked as it was intended when it was established?

Julie Taylor: I am not completely sure we would put it like that ourselves, although we did not query the wording. There are a number of things about why the Defence Infrastructure Organisation was set up that did not go as intended.

There was a transformation programme that was not delivered before we started the contract. There were unintended consequences of the contract, in terms of how we incentivised the strategic business partner. In those days, we were in a less mature state, both in terms of the management of the information we had and in terms of not having a very clear defence estate strategy. I would argue that our new model will address those issues. Indeed, the NAO contributed to that thinking as we put the new model together. We are confident that the new model will address that.

- Q91 **Philip Boswell:** We will come on to that in more detail later. Again, this is to Ms Taylor. What are the results of your review of the best model for managing the defence estate?

Julie Taylor: That review is the one that was referred to by the Chair as having been announced through the written ministerial statement on Friday, so, as we began this session by saying, we should put more decision making into the frontline commands, that DIO will need to change, and—

Chair: Which we have covered, yes.

- Q92 **Philip Boswell:** Finally, how are you keeping your staff motivated when the operating model keeps changing?

Julie Taylor: We have kept staff engaged in this process. I might ask Mr Dalton to comment on that, because he has been directly responsible for communicating with the DIO staff.



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Q93 **Chair:** To be clear, the DIO staff, apart from the senior management, are mostly MOD staff. They're MOD employees.

Julie Taylor: Nearly all of them, yes.

Q94 **Chair:** This is where the hybrid gets quite confusing. They report into Mr Dalton and then he, through various routes, reports to you and—

Julie Taylor: Yes.

Q95 **Philip Boswell:** Do you think there is a large lack of facilities management experience in your department?

Julie Taylor: One of the reasons why we brought the strategic business partner in was that we had a very serious lack of skills in some key areas, and facilities management was one of those areas.

Q96 **Philip Boswell:** But General Poffley said that you are going to upskill and get better, so are you going to take some of this role on for yourself?

Julie Taylor: Well, within the DIO.

Graham Dalton: Estate management is DIO core skill. The thing that we need to get better at within the DIO is having the information and data on all the assets around the estate, predicting what maintenance they are going to need and what the cost of that is going to be, and then presenting that to the frontline commands.

Philip Boswell: Okay. We will come on to more of that later.

Chair: Just to pick up Ms Trevelyan's point, it is not just the cost of maintenance; it is the cost of re-provision. Do you want to pick up on that at this point?

Q97 **Mrs Trevelyan:** My first question about what you have just said, Mr Dalton, is: how much of the estate do you think you now understand, have identified, have valued and have costed in terms of running costs? You have not done 100% of it yet, presumably. It is a big job; I get that. It is 1.8% of the whole nation's—

Chair: You have two questions there: first, are you looking at the re-provision costs as well as the actual running costs, and secondly—

Graham Dalton: There is a series of points; let us see whether I can punch them off nice and quickly. We have good knowledge of what assets there are, which is quite a long way from when this Committee and the NAO looked in 2010. It is a long move from that. DIO is—

Q98 **Mrs Trevelyan:** So I understand. So you have a balance sheet that is the 1.8% of Great Britain that belongs to the MOD.

Graham Dalton: Yes, so we have good knowledge of what we have. We have fair knowledge at high level of the condition on the target sites that we have been looking at around the Footprint strategy, so the more expensive—



Q99 **Mrs Trevelyan:** Which is what percentage of the whole?

Graham Dalton: The more expensive sites. It is around 80% to 85% of the cost, but nowhere near 80% of the number of assets. It is the expensive assets. We have relatively poor information—we are collecting information now—at system level. It is not just a building; you go by lighting systems, fire detection systems, drainage systems, roofing—you break it down to those levels. We are collecting that data and information now, and it is vital that we keep going on that.

Q100 **Mrs Trevelyan:** Mr Lovegrove, you are proposing under the new ministerial statement to hand over these assets to command authority even though there really isn't that information yet.

Stephen Lovegrove: No, we are handing over the funding for them.

Q101 **Mrs Trevelyan:** Without an assessment of what it is they are taking on.

Graham Dalton: As DIO, we continue to manage those assets, but at the moment, under the existing arrangement, I second-guess within a confined infrastructure budget with which we can afford to do a mess building or a hangar or a security fence. I will have the same data, I will have assessments of what those three functions might need, but it becomes the command's decision what they prioritise and whether they want to take money from other operations or other areas to do all of those or none of them.

Q102 **Mrs Trevelyan:** But do you have that level of system detail yet for commands to be able to make those decisions about funding?

Graham Dalton: That is what I am building at the moment.

Q103 **Mrs Trevelyan:** And how long do you expect that to take?

Graham Dalton: That is active in the course of the current financial year and running into the next financial year.

Q104 **Chair:** Just briefly on the cost of re-provision, are you factoring in, if you close a facility, the cost of having to re-provide it? You are confident those figures are right. You are nodding, General Poffley.

Lieutenant General Poffley: We are confident that there is an assessment made of what the re-provision costs would be if you were going to go like-for-like. Quite clearly, what we are now doing is challenging everyone who has made that assessment by saying, "Do you need to re-provide at exactly the same level, or are there some compromises you can make?" It is a capability-informed judgment as to precisely what the re-provisioning costs will be going forward.

Chair: I will come back to that in a moment, but I do not want to interrupt Mr Boswell for too long.



Q105 **Philip Boswell:** Thank you, Chair. Back to Ms Taylor. How will delegation of the estate budgets to the commands enable more cost-effective use of the estates? I refer specifically to page 40, paragraph 3.26, which stipulates: "Delegation in itself will not address the shortfall in funding because Commands' budgets are already stretched." It goes on to say that "strong controls will be required to ensure that the Commands attach sufficient priority to the estate." How will you enable more cost-effective use of estates, and what will you do, Ms Taylor, to ensure that the commands attach sufficient priority to investing in the estate, given that we know how much boys like new toys?

Julie Taylor: Indeed. We touched on some of this earlier. The value for money of this must ultimately be measured by the value for money across the whole of the capability, not just the estate part of it. We are expecting the commands to be much more mature in making those decisions. We will have the central safeguards that my colleagues have spoken about in terms of both the capability coherence function, but also DIO's assurance. That said, we recognise that it is easy to be short-termist about the estates and it can be somewhere to go if you have a short-term problem. It takes years for estate issues to materialise so we are not complacent at all about the need for maturing that. One of the things we are going to say is that the commands will not be asked to take this on until such time as they demonstrate to us that they have the long-term maturity, will be making the right decisions, and have the management information that we just talked about. There will be a big milestone in the summer about getting condition information—

Q106 **Philip Boswell:** You mentioned "more mature" and "central safeguards". Can you give a specific example of the central safeguards that will enable this?

Julie Taylor: The two main central safeguards will be, first, through our annual planning process and the capability coherence function we will ensure that we can see what our commands are intending to do with the estate and the condition of the estate, and that it is coherent and in line with our strategy. That is a very important safeguard. Secondly, DIO has responsibilities as an expert adviser to pull the whole picture together and to give advice back to the Permanent Secretary about whether the whole estate is being managed to a suitable level. Those will be the two primary safeguards.

Stephen Lovegrove: Ultimately, I should say I have no doubt this is the right way to go, but if, in the final analysis when we have had enough time to look at it, it doesn't work, delegations can be withdrawn.

Q107 **Chair:** Individually?

Stephen Lovegrove: They can be withdrawn individually. They can be withdrawn en masse.

Chair: So if you find that one of the forces hasn't got the capability and is doing a bad job, you will just withdraw it. Yes or no?



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Stephen Lovegrove: There are some very big things that the centre reserves to itself all the time. Complex weapons are one and obviously the successor is another.

Q108 **Chair:** But you can withdraw them very quickly.

Stephen Lovegrove: Yes. We want to let the system settle down.

Q109 **Mrs Trevelyan:** What you are saying is that on the basis that centrally the Department has completely failed to look after its superstructure, commands will be shouted at if in one year they decide not to invest because they make a balance-of-risk decision or a balance-of-capability decision. That is quite interesting, even in a Department that has realised it needs to get it right.

Stephen Lovegrove: I would not characterise it as shouting, but we will certainly have a discussion as to whether we think the commands are properly discharging the responsibilities we are giving to them.

Mrs Trevelyan: Which the Department has singularly failed to do itself for many years.

Stephen Lovegrove: There is no argument that the estate is in comparatively poor condition in certain areas, but for much of the time that has been to do with the frontline commands who were in charge of the estate in 2011. Some of these problems have been in gestation for many decades. We are trying to find the right answer.

Q110 **Philip Boswell:** Moving on to the specifics of the contract, which give me some serious concern, I refer to the NAO Report, paragraphs 3.6 to 3.12 on pages 34 and 35: "In 2014 the Department signed a 10-year gain-share contract with Capita, supported by AECOM and PA Consulting. However, there were fundamental weaknesses in its approach, in particular...DIO had not yet transformed and started operating effectively before the strategic business partner became involved. These conditions were essential to gaining maximum value from its decision to engage the private sector in this way (paragraphs 3.7 and 3.8)". So why go ahead, Ms Taylor? Was it because you were out of your depth?

Julie Taylor: The decision was a balance of judgment at the time. I am not saying that we think we would make the same decision with the benefit of hindsight, but the decision was a balance of judgment about the urgent need to get some expertise in, in order to start making the sorts of savings we needed to make, against the completion of the transformation and then entering the contract. The actual nature of the arrangement with Capita was that Capita were happy to take on completing the transformation—

Philip Boswell: I'm sure they were. We'll come on to that in a minute.

Julie Taylor: So the mitigation was that although—the key transformation milestones that had not been met were to do with the management information and also the nature of the organisation, but it was part of the negotiation that Capita agreed our transformation plan and then took on



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that job themselves. I think it is probably fair to say that there were some very good areas of performance within the contract and some less good areas. I think Capita would agree with us that the transformation side of it has not been as strong as perhaps some of the delivery side has been.

Q111 Philip Boswell: Another core element is that “the Department had not maintained a robust baseline of costs within the contract, and contractual safeguards do not ensure that savings from how DIO operates are sustainable, which was the primary aim of the contract, rather than one-off cost-cutting.” This goes to the heart of the contract. “The contract does also allow the partner to agree one-off savings with the Department (paragraphs 3.9 and 3.10)”. So why did the Department decide to proceed with the contract when it had not completed its planned transformation? Why go ahead?

Julie Taylor: I think you have pointed out two issues. The completion of the planned transformation I have hopefully just covered. We felt the transformation could be completed by Capita. That has not completely happened in the way we were expecting. But on your second set of points, around the sustainability of the savings, it is the case that, going forward, we would be able to see whether savings were sustainable when we had better management information. We have had a period of two years where we probably have not had enough management information to actually determine whether that saving is truly sustainable.

Q112 Philip Boswell: How did the decision to go ahead when you were not ready impact on the benefit that the Department could achieve through the contract?

Julie Taylor: It is not calculable.

Q113 Philip Boswell: Correct. You can’t know, which is shocking, quite frankly. Mr Lovegrove, why did the Department fail in terms of basic contract management by not setting appropriate safeguards and having all KPIs in place before the start of the contract?

Stephen Lovegrove: I think we would accept that it would have been much better to have had all the KPIs in place. The decision at the time, as Ms Taylor was indicating—

Philip Boswell: If they were the right ones, of course.

Stephen Lovegrove: The balance of advantage, it was deemed, was with going ahead with the contract because we had an urgent need for that kind of capability in DIO. I think all the KPIs bar two have now been settled. That is still not an ideal situation by any stretch of the imagination, but as I say, it was a fine judgment at the time.

Q114 Philip Boswell: I have not seen the contract. Was it a schedule of rates? Did you have variation rates?

Stephen Lovegrove: Julie, you have seen more of the contract—

Julie Taylor: Could you just clarify the question for me?



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Q115 **Philip Boswell:** Was there a schedule of rates? Did you have labour mark-up for variations—

Julie Taylor: Yes. The contract is quite a complex contract. Some things are done on time and materials and mark-up; some other things are done on gain-share.² The gain-share—

Q116 **Philip Boswell:** What is the highest percentage mark-up on variations for any item? 100% or—

Graham Dalton: Perhaps I can help a little. It is not a conventional, consultancy-type contract. It is based upon a fee for provision of a management team and then it incentivises the contractor to put in people, who are not directly paid for, to go and make the savings, which are then shared between the MOD and the contractor.

Q117 **Philip Boswell:** Okay. For the gain-share contract you mentioned to work, it is generally accepted that there have to be uniform—well, there are lots of models for these contracts, but for the reasons we have discussed, there have to be uniform, clear and shared objectives. The scope and definition need to be clear. And for the items we have discussed, plus the fact that the contractual regime to measure performance is under-developed, how can you be of the same mind? How can you know that you are even facing in the same direction?

Julie Taylor: The original intent was that we would be able to see, and we still can see actually, cost reductions, and the vast majority of the gain-share is done on that. I think your point is a good one, that these need to be sustainable rather than one-off cost reductions, but we are able to see where the contractor has saved us money.

Q118 **Chair:** How do you know that in the first two years the low-hanging fruit hasn't been gathered? You've had a review two years in—it's not been a great success, has it?

Julie Taylor: I think we have every reason to believe that a commercial operator will have gathered in the low-hanging fruit. The goal with the discussion with Capita now is to make sure that, if we stay with the arrangement, they are incentivised in a much longer-term way.

Chair: "If" you stay in the arrangement? That's a big if. Mr Boswell.

Q119 **Philip Boswell:** Ms Taylor, scope and clear definition are critical. Typically on gain-share, it should only consider actualised savings, not avoided costs. Is that the case?

Julie Taylor: That's right, yes.

Q120 **Philip Boswell:** And that's the case in this scenario?

Julie Taylor: That is the case in this scenario, yes.

Q121 **Philip Boswell:** Okay. The contract had no robust baseline, with 91 sites

² Clarification from witness: "*The contract contains a schedule setting out the rates of gain share.*"



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included and 1,048 not included; DIO had not transformed and started operating effectively; performance metrics underdeveloped. It's a golden opportunity to make money, is it not, Mr Dalton?

Graham Dalton: The strategic business partner did not come in with a view to exploiting it; it was coming in to complete a transformation. And the differences we've made, and I think the reported knowledge, are things like the information management system—the thing that's at the heart of knowing what assets we've got and what condition they're in—and that has been working to schedule and to budget since early 2015. So the idea is to get in and get some better asset and estate management in there.

Q122 **Philip Boswell:** Okay. Mr Lovegrove, why did the Department not make it a condition of the contract that the strategic business partner had to demonstrate that the savings it had achieved were sustainable?

Stephen Lovegrove: I'm afraid I can't answer that question specifically, although I think that actually a number of the savings that have been achieved are sustainable.

Just as a general point, we have accepted the Report, so we would accept that the state of the information in DIO and indeed DIO itself were insufficiently mature to optimise this contract. We have accepted that and that is, among other things, one of the things that we're looking at in the review that we're doing now.

Graham Dalton: On this point, it's a terminology and language thing. Sustainable savings are things where you take an action and you keep saving money, year after year, and everyone agrees that they're really, really good. But even non-sustainable ones—it doesn't mean they're costing money. You're recovering something that either—things like electricity meters were provided in buildings. The supply was cut off and the buildings demolished a while ago, but the bills keep coming in. That's not non-sustainable. You go in, you hit it once and you make the recovery. It's still a good thing to do. It takes a lump of cost out, but the sustainable ones keep going year after year, and help—

Q123 **Chair:** So the MOD was paying for the meter to be read?

Graham Dalton: I use that as an example. I think every large infrastructure company around the country has got the odd meter around the place with estimated bills.

Q124 **Philip Boswell:** Ms Taylor, the NAO says that the audit trail that the strategic business partner has kept to support the savings it has claimed is poor. So you don't have an audit trail, or the strategic business partner doesn't have an audit trail. How confident are you in the savings that are being claimed?

Julie Taylor: The nature of the information systems at the moment means that there are all sorts of pieces of information everywhere. This will be improved when the new information system is in. But to date, we have had to take a risk-based approach.



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Q125 **Philip Boswell:** A “risk-based approach”? A competent professional should get this right. This is not to be toyed with. To not have the right people in place—you don’t need a new system. This stuff’s been done for centuries, correctly, on target and on budget. You don’t need a new system to get it right. To blame a system is simply wrong. You got it wrong. Anyway, I will stop there.

Chair: Mr Boswell has quite a lot of experience in this area, so he is reining himself in. Mr Boswell, carry on.

Q126 **Philip Boswell:** There is a very serious concern I have. The Department, Mr Lovegrove, estimates that nearly 50%, or £43 million, of the fees is paid as profit to the partner. The business partner has not been willing to confirm this profit percentage. Do you stand by that estimate?

Stephen Lovegrove: The 50%?

Q127 **Philip Boswell:** Circa. There may be overheads, or head office costs; who knows?

Stephen Lovegrove: That is our best estimate at the moment, in the context of what Capita and the consortium have told us.

Q128 **Philip Boswell:** Okay. Mr Dalton, given your recent appointment, what is your assessment of the strategic business partner’s performance since the contract commenced in 2014?

Graham Dalton: I look at the things the partner has achieved. We have talked about estate information and asset information, and that is really important; I do not think we can underestimate the value of that. The work we have done on some of the major programmes and projects that really—

Q129 **Philip Boswell:** Sorry, for asset info, you have 91, but there are 1,040 you do not have. It is patchy information.

Graham Dalton: No. First, this is where having a system really is worth having. The integrated management system, IMS, links what we have got, the condition it is in and the costs attributed to it—

Q130 **Chair:** But paragraph 3.31 on page 41 talks about collecting “most of the data recommended by the Committee”—us—“for 318 of 1,366 sites...These 318 sites account for the majority of DIO’s running costs. However, these data are not stored or managed as part of core data sets through the IMS”.

Graham Dalton: This is where we are running with quite a dynamic position at the moment. The report—

Q131 **Chair:** I just think, so we don’t overclaim, we need to be clear where we’re at.



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Graham Dalton: We've had a further phase of the integrated management system, IMS, go live in December, which is bringing data off a number of other disaggregated databases, and collating that—

Q132 **Chair:** So you're saying it's moved on since the Report?

Graham Dalton: It has moved on, and it is continuing to move on, and we are—

Q133 **Chair:** So where are you at now, if it was 318? That was the most data you had. Are those 318 now all on the IMS site?

Graham Dalton: We have asset data on what we've got, all consolidated on there, and we are building this condition information that tells us for each of the things, at system level, what is going on. To answer Mr Boswell's question, the major programmes like Army basing, where I think the Report credits the strategic business partner, we are getting that back on track. The Successor programme up at Faslane is a really important programme we have really got to grips with. Other things we are doing include improving the recruitment processes. There is a lot in there that has been good, but it has come from a lower base than we wanted and expected to be in.

Q134 **Chair:** It is hard for you, because you are a Capita employee, but do you think there are things that the strategic business partner, Capita, and its partner companies could have done better? Are there mistakes that you look back on now, thinking "We made a mistake there," or "Something could have been done better"?

Graham Dalton: It is the nature of us who work in the projects and infrastructure business that, when we look back, there are always things we would like to have done better. We have said that we would have liked to get on top of the housing contract faster and quicker, but we were effectively mobilising two contracts in parallel. That is hindsight.

Q135 **Philip Boswell:** Okay. Lieutenant General Poffley, Mr Dalton stated that the recruitment process went well. Would you agree with him?

Lieutenant General Poffley: In terms of some of the specialists that I am now working with, I would say they are very high-quality people.

Q136 **Philip Boswell:** Why can't you recruit an Army, then?

Lieutenant General Poffley: They quite clearly are slightly different skill sets. What I would say is that, from a point of view of whether you can recruit an Army, you patently are the subject of a whole raft of different variables, none of which, I would suggest to you, are necessarily down to Capita's performance in the context of the estate.

Q137 **Philip Boswell:** Thank you. We will take the recruitment success with a pinch of salt.

I refer to page 36, paragraph 3.17: "Between June 2014 and July 2016 the Department paid £90 million in fees to the strategic business partner (Figure 15 on page 38). This was net of £1.5 million service deductions to

reflect DIO not achieving agreed KPIs (paragraph 3.12) and £3 million retention until negotiations on the fees are complete. This level of fee is broadly in line with the expectations of the Department when it let the contract. The Department estimates that nearly 50% (£43 million) of the fees paid is profit to the partner.” There is a subnote 32 marked there. The paragraph continues: “The business partner has not been willing to confirm this profit percentage.” The subnote 32 says: “Up to 31 March 2016. This is before Capita’s corporate overhead costs are taken into account.” Mr Dalton, your overhead costs, what are they—2% or 3%—at head office?

Graham Dalton: I am not in a position to give figures. Capita is a listed company and we report results in common with market standards.

Q138 **Philip Boswell:** Okay. Is it a good deal for the taxpayer when the partner makes a gross margin of approximately 50% on the basis of mixed performance?

Graham Dalton: The assessment of profit is the Department’s assessment and it is not a figure that I would recognise. In Capita it is not disaggregated on to the contract. As a strategic business partner, we have worked hard and put in a lot of resource, particularly to go and save money that would otherwise have been spent.

Q139 **Chair:** Sorry, but they are separate points. You may have done a good job or not but it is the profit margin that Mr Boswell is talking about and that is an extraordinarily high—unbelievably high—profit margin.

Graham Dalton: As I said, that is not a figure I recognise. Capita reports its commercial figures to the market annually. I think the market would say that the percentage is a lot less than that. This is intended as a 10-year programme. It was set up around a 10-year programme.

Q140 **Philip Boswell:** This is what accountants do best. Let’s assume it is 50% profit. Would you agree, Mr Dalton, that would be daylight robbery?

Graham Dalton: I simply don’t recognise it.

Q141 **Philip Boswell:** Let us assume for this exercise. Would 50% to the public purse contract be daylight robbery?

Graham Dalton: I do not recognise the 50% figure and I would not expect it to be that.

Q142 **Philip Boswell:** Let us accept that you don’t recognise it but let’s say someone else had a 50% profit margin on a public contract, would you say that was daylight robbery?

Graham Dalton: I would be surprised if anyone had a 50% margin on a public contract.

Q143 **Philip Boswell:** So would we. The irony is that somebody may be wearing a mask and a stripey top but the MOD have got the guns. Anyway, moving on, Mr Dalton, does the Defence Infrastructure Organisation have the skills and capabilities it needs to cope during this



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period?

Graham Dalton: We have some; we don't have them all. We have got to do quite a bit more on skills around project and programme management. I need to build the skills and capability around commercial management, particularly some of the innovation that goes to market. With the agency that I ran before, we did a lot of commercial skills development. We have got to do some on converting that asset information and costing so that the frontline commands can use that information constructively. So those are skills we have all got to develop within DIO.

Q144 **Philip Boswell:** Understood, yet you were brought in, Mr Dalton, to bring all this expertise that was not in the Ministry of Defence, so why haven't you brought it?

Graham Dalton: We have brought quite a bit in; things like the soft facilities management—that is, catering contracts that are just going through the award process at the moment—will enable us to live within the constrained budgets that we have got, and they have come from those commercial skills.

The project management, programme management examples I gave you, such as Army basing and the Faslane base, are exactly from the skills that we brought in to get those back on track. I was talking with my programme director on the phone just yesterday morning, working through how we are sending the programme management capability further out through the organisation. What we need are broader skills and taking it further across the business.

Q145 **Chair:** When you say broader skills, you mean within the MOD for MOD employees, or are you talking about more Capita people?

Graham Dalton: Yes. To hire them as MOD.

Q146 **Chair:** Mr Lovegrove is nodding.

Stephen Lovegrove: I am very keen on skills transfer into the basic civil service. I think that is the best way forward.

Chair: I think on what we are hearing from what Mr Boswell is winking out, yes absolutely. Mr Boswell.

Q147 **Philip Boswell:** Finally, Ms Taylor, say it is £43 million profit, circa 50% profit mark-up. Should you just not use some of this waste of taxpayers' money to get it right in your Department, to get adequate in-house experience across? Mr Lovegrove, rather than give it to a private company in the private sector, are you not simply compounding your earlier mistakes by carrying on with Capita?

Julie Taylor: As we started this, we described ourselves as in discussion with Capita. I think we are looking to change the arrangement fundamentally. That is the conversation we have opened with them. And I am going to go back to the board in March with a proposition about how we have a more sensitive approach which actually gets us better aligned with what the MOD wants and needs from Capita. I should say that they



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can understand that we are not entirely happily with the arrangement and they are expecting us to renegotiate it.

Stephen Lovegrove: I place a great deal of weight and importance in carrying the right kind of expertise within the civil service to be able to do these important jobs. I know that sometimes we find it difficult to recruit the types of people into the civil service that we would like, often because of pay restraint. That is one of the factors—not the only factor—why we end up with arrangements such as this. I am pleased to say that the Treasury is changing the way in which it is prepared to think about remunerating commercial skills in Government, and that is something that I think we need to think about quite carefully.

Q148 **Chair:** We are seeing Mr John Manzoni and others on Wednesday and a couple of other times in the next six weeks—this is a subject we return to often. How much of a factor was the pay in you having to go into partnership with Capita—what percentage, roughly?

Stephen Lovegrove: I am afraid that I just cannot answer that question. I was not in the Department two years ago.

Q149 **Chair:** But you considered it significant enough to mention it.

Stephen Lovegrove: I would have been surprised if it was not a factor in my predecessors' minds. I think Capita has provided 30, 40 people—something like that—

Graham Dalton: Plus a management team.

Stephen Lovegrove: Plus a management team. So if it is the case that the option was to try to get exemptions in pay and all the rest of it for 30, 40 people, I would have been surprised if that was not a factor in their minds.

Q150 **Chair:** So in short you could have recruited some of these people but the pay was possibly a factor, or likely to be a factor.

Stephen Lovegrove: It is constantly a problem—particularly in some of the areas such as IT skills, cyber-skills and commercial skills—that we find ourselves in a highly competitive marketplace, and sometimes we do not get all the people that we would like.

Chair: This is something that we as a Committee are very alert to, so we will mull this over as we put together our report.

Q151 **Charlie Elphicke:** The hon. Member for York Central, Rachael Maskell, has expressed concern about rebasing in the city of York that she represents. York is a garrison town stretching back to Roman times—some 2,000 years. First, she expresses concern that the 2013 Army basing programme promised that the barracks would stay open and now suddenly there is a complete U-turn. Can anyone explain what is going on?

Lieutenant General Poffley: Quite clearly, at the point at which those original decisions were taken, we were following through the Army basing



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plan as it was envisaged. In 2015, through the SDSR we made some judgments about the make-up of the brigades that might return to the UK and what their role would be, and that has forced some changes.

Q152 Charlie Elphicke: She also says that the MOD has not done an economic and social impact assessment. Does the MOD do those kinds of assessments? If not, why not?

Lieutenant General Poffley: It is certainly a factor. The level of assessment is something that I am not particularly briefed on. I would need to come back to you as to the level of assessment that was done in that particular part of the country, but it is certainly a factor that is taken into account.

Q153 Charlie Elphicke: Are Gurkha troops involved? They are much loved by us in east Kent as well. We do not think that the Gurkhas are being well treated, and they are excellent soldiers. So what additional support will be given to the Gurkhas and what consideration has the army given to these crack troops?

Lieutenant General Poffley: Certainly, wherever we have got the Gurkhas deployed, we are very conscious of their cultural background and indeed the longevity of them as a very fine part of the British army. So, in each of the sites we have Gurkhas deployed we make sure we are catering for their individual needs, which almost universally requires us to have things like the appropriate cultural facilities for them to conduct their religious beliefs in the way they would wish.

Q154 Charlie Elphicke: Finally, she tells me that the French army did a rebasing-type plan on the same kind of basis that is being done—you are leading it, General—and the French say that it all ended up in muddle and confusion and they have found different ways of doing things. To what extent have you had discussions with counterparts in France? What lessons are there to be learned on how these things can be carried through more efficiently?

Lieutenant General Poffley: There is certainly a regular dialogue between us and the French—not just the Army but across defence. We absolutely share our experiences and undoubtedly the Army basing plan and its subsequent iterations have been informed, I am sure, by those conversations.

Q155 Charlie Elphicke: Have you drawn any lessons?

Lieutenant General Poffley: I am not aware of any specifics associated with the French model but I absolutely know that the infrastructure staff inside the headquarters at Andover have been in regular dialogue with their French counterparts, and I have no doubts that infrastructure would have been one of the subjects. I would have almost assumed—but I don't know—that they would have shared the lessons from their own experience.

Q156 Charlie Elphicke: But, Lieutenant General, you are in charge of this whole area, aren't you? Have you not thought that it might be worth



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going to speak to the French to hear at first hand what they have found—what improvements there could be and what lessons could be learned?

Lieutenant General Poffley: At the strategic level I similarly have a dialogue with my French counterpart and we share our experiences in terms of how we have directed our plan. I have to tell you that they have been keener to learn lessons from us, rather than the other way around. That may go to the quality of the work that has been produced. Again, many of our international partners have very different sets of circumstances. Their terms and conditions models are very different and, indeed, their *modi operandi* from a capability point of view significantly vary. We can draw some lessons but they are not universally transferable.

Q157 **Chair:** I want to pick up on a couple of other points in the very thoughtful contribution from the hon. Member for York Central. One simple one is this: she tells me that the Ministry of Defence is obligated to provide 48 hours' notice of such major changes to the Member of Parliament and others, and that this did not happen in this case. Is that right?

Lieutenant General Poffley: I am not aware that it was not, but I would be delighted to follow it up and come back to the Committee.

Q158 **Chair:** If you could, because I think that that is something that matters to all Members of Parliament. Most people come to their MP because they expect that we get certain access privileges. That is an important general point. She has asked parliamentary questions about the cost of the refurbishment of the barracks, but to date, and I quote, "the responses have been evasive", so if you could detail the issues around York for our benefit and that of those in York that would be helpful as well.

She raised a couple of points about the social capital element, which Mr Elphicke touched on, and particularly she talked about education, about schools in Fulford and Fishergate being particularly good at working with armed forces families and apparently being a model across north Yorkshire, where there has been some very good work integrating armed forces children into schools. Of course, if the families are moving the children are moving. Has any thought been given to the upheaval in education of this, and to the lessons to be learned, at least, if people are moved to a new area—that schools learn lessons from areas that have been used to working with armed forces children?

Lieutenant General Poffley: Absolutely. If you take the example of Colchester, where they have frequent dialogue with the local authority, that has been used and lessons have been learned and have been communicated into those areas where you are seeing, particularly, folk being brought back from Germany, where there is an expectation that a need that was provided for in Germany is replicated back in the United Kingdom. That requires some detailed negotiation with local authorities in many cases. So, yes, that dialogue absolutely takes place.

Q159 **Chair:** She also raises a very thoughtful point about employment. If there are more super-barracks, there will be a larger pool of people seeking what is often scarce employment. For spouses and partners particularly,



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that will be a real concern. Have you given any consideration to the wider family? This really goes to the heart of what Ms Trevelyan was raising at the beginning, about retention. If the whole package doesn't work for the family, there will be a risk to retention, ultimately. That is a really important point. Have you considered this?

Lieutenant General Poffley: It is absolutely part of our capability judgment. We have a stream of activity that looks at the people dynamics of any decision we take in the capability space, whether that is buying new equipment or starting to construct new force structures. In the case of the infrastructure programme, absolutely front and centre is what the impact is on spousal or partner employment and, indeed, whether the local economy can support that sort of initiative. Where it cannot, that clearly causes us to have a judgment about whether we need to ameliorate or mitigate that through other means, and that, inevitably, is quite difficult in this area, but it is absolutely to be considered as a factor.

Q160 **Chair:** It is difficult. You can't give people a job if there isn't one there. I have one final question. You talked about having a centre for all defence music in Winchester. Is that a plan to change military music? Are you doing away with regimental bands?

Lieutenant General Poffley: There are no plans at the moment to do that, but inevitably, it makes sense on a tri-service basis—where we have common skills across each of the three services, we look to centre in schools of excellence, such that they share across each of the three services. If you go to Worthy Down, you will see quite a lot of ministrations being done, delivered on a—

Q161 **Chair:** So there would still be individual armed forces bands.

Lieutenant General Poffley: Correct. There will indeed.

Philip Boswell: I have drafted something based on what has been said. Ms Taylor, you said earlier that the contract is very complicated. These are typically set up to obfuscate the real effect of contracts, as I am sure you know. Mr Dalton, I do get front-end loading for cash flow, and I understand front-end contracts, but with alleged 50% profit, I am minded to ask the NAO if it is willing to help in a forensic audit of the DIO set-up with Capita and partners, which would look into the development of the contracts, with a focus on negotiation through to execution phase, terms and conditions and remuneration sections in particular—the reason being that 50% profit is an absolute disgrace. It must be addressed. This is not rocket science. Transparency is essential, and we should be looking at the revolving door within the industry. The potential for 50% profit is an indicator that there is at least negligence and perhaps even something more sinister. I am minded to put that on the record and have a word afterwards.

Chair: Okay; we can consider that afterwards. I think you get the seriousness of our concerns when we were preparing for this about how this contract has been let. A final word from Anne-Marie Trevelyan.



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Q162 **Mrs Trevelyan:** I want to clarify a couple of things, Mr Lovegrove, in relation to the 55,000 homes you are committing to DCLG to meet, which I know is quite a challenge. Will the Department maintain control of any joint ventures you set up and so on, and will the profits come back to the Department?

Stephen Lovegrove: We will operate principally within "Managing Public Money". Sometimes we will be setting up joint ventures, and sometimes we won't. Most of the time, the money will be coming back to the Department; that is correct, although ultimately, obviously, we are all in the hands of the Treasury as to how they wish to treat these kinds of things.

Q163 **Mrs Trevelyan:** Indeed. In relation to the £1 billion you have committed to the Treasury you will make in this wider Footprint strategy review, should you not meet that, what happens? If you exceed it, what happens?

Stephen Lovegrove: That will be a subject for a future discussion with the Treasury.

Q164 **Mrs Trevelyan:** Okay. On the 91 sites you have committed to dispose of, can I have confirmation from you, General Poffley, that whoever has that command will be empowered to make decisions, and if it is the wrong decision and the figures that are your basis at the moment are wrong, that command will have real input into whether the site should be closed or re-provisioning should be done in a different way?

Lieutenant General Poffley: I can absolutely give you the assurance that they will have real and substantive input into the considerations on the disposal or otherwise of any site.

Q165 **Mrs Trevelyan:** On the last point, in terms of the future accommodation model—while I do not need to ask permission, I would love your support—I am minded to ask the NAO to have a look at your proposals once they are finalised, so that before you roll out the pilot in 2018, everybody is very clear about the vision and reality of that holistic value-for-money risk. Your support will be welcome in that.

Stephen Lovegrove: We very much welcome the NAO's involvement in that. The point you make about seeking to get a more inclusive and holistic assessment that is not merely about numbers on the one side and gut instinct on the other is well made and fully taken.

Chair: Thank you very much for your time. As ever, our transcript will be up on the website in the next couple of days, uncorrected. You will get a copy as well. I am not sure when we will produce our report; after February recess is pretty likely. I cannot give you a date at this time. Thank you for your time.