

# Managing reductions in the number of vacant family quarters



Report by the  
Comptroller and Auditor General

---

Ministry of Defence

# **Managing reductions in the number of vacant family quarters**

Ordered by the  
House of Commons  
to be printed 19 April 2000

Managing reductions in the number of vacant family quarters

This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

*John Bourn*  
Comptroller and Auditor General

National Audit Office  
5 April 2000

The Comptroller and Auditor General is the head of the National Audit Office employing some 750 staff. He, and the National Audit Office, are totally independent of Government. He certifies the accounts of all Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources.

For further information about the National Audit Office please contact:

National Audit Office  
Press Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

Tel: 020-7798 7400

email: [enquiries@nao.gsi.gov.uk](mailto:enquiries@nao.gsi.gov.uk)

Web site address: [www.nao.gov.uk](http://www.nao.gov.uk)

# Contents

<b>Executive summary</b>	<b>1</b>
<hr/>	
<b>Part 1: Introduction</b>	<b>10</b>
The provision of family quarters	10
What was the scope of the National Audit Office examination?	19
<hr/>	
<b>Part 2: The scale and cost of vacant quarters</b>	<b>22</b>
Empty houses are needed to permit effective management of the system	22
Trends in vacancy rates	22
Why are family quarters vacant?	24
Why are quarters unavailable to entitled and eligible families?	26
There is significant over-supply of family quarters, which is costly	27
Reducing oversupply	28
<hr/>	
<b>Part 3: Planning for reductions in vacant quarters</b>	<b>29</b>
Strategic planning	29
What influences demand?	32
Recommendations on planning and forecasting	36
Defining an efficient management margin	36
Controlling the number of unavailable quarters	41
Recommendations on target setting	42
<hr/>	
<b>Part 4: Managing the estate to minimise vacant quarters</b>	<b>43</b>
Managing moves to minimise the need for vacant quarters	43
Recommendations on handling Service moves	47
<hr/>	
<b>Part 5: Disposing of surplus family quarters</b>	<b>49</b>
Identifying surplus properties	49
Releasing surplus quarters	53
Recommendations for identifying and disposing of surplus properties	58
<hr/>	
<b>Appendices</b>	
1: The methods we used	60
2: How other countries provide Service family housing	63
3: Process map of Service housing provision	71

# Executive summary

## Introduction

**1** The variety and pressure of operational demands, and the need for professional training and career development, necessitate frequent moves for members of the Armed Forces and their families. Families may spend only a short time in one place and may be in remote locations. The Ministry of Defence (the Department) consider it essential to morale and retention that Service personnel, while away on duty, have confidence that their families are safely and adequately housed. To this end, every married Service person is entitled to a family quarter, although they are not compelled to take up their entitlement. The Department provide around 63,000 family quarters in Great Britain to cater for the needs of some 84,000 entitled Service personnel and their dependants. The bulk of the estate, some 53,000 homes, is owned by Annington Homes Limited and leased back to the Department under the terms of a sale agreement drawn up in 1996. The Department, through the Defence Housing Executive (the Executive), nevertheless remain responsible for the management, maintenance and upgrade of the family quarters estate in Great Britain.

**2** In recent years, there has been an overall upward trend in empty and unavailable quarters - those that are used for purposes other than housing entitled or eligible families - and disposing of surplus quarters has been one of the Executive's key challenges. This Report examines the scale and cost of vacant quarters currently held; how the Executive plan to reduce vacant quarters; the management of the estate to minimise vacant quarters; and the arrangements for identifying and disposing of houses that are surplus to requirements.

## The scale and cost of vacant quarters

**3** The size of the family quarters estate has fallen from some 75,000 houses in 1991 to around 63,000 in 1999, a reduction of 16 per cent. Despite this, the number of empty properties in the family quarters estate has increased by 29 per cent over the same period from some 11,200 houses in 1991 (15 per cent of the total housing stock) to 14,425 in 1999 (23 per cent) leading to an increased oversupply. The family quarters estate contains a number of older properties built to meet previous military needs. They are not necessarily the right size and condition, or in the right location, to meet current demand. Around half the stock is in poor condition and needs upgrading, disposal or demolition.

**4** Analysis of the Executive's database of properties indicated that, as at September 1999, there was no immediate need for 9,514 houses (66 per cent of all vacancies) and that over 3,800 houses had been empty for more than 6 months, of which 346 had been empty for over three years. Of the remaining properties, over 4,900 had been allocated in anticipation of an agreed deployment, were being modernised or were awaiting disposal or demolition. More than 2,200 houses, were being used for purposes that did not contribute to the objectives of providing family quarters. For example, roughly half were misappropriated for other Defence-related uses such as family welfare centres, while the remainder were occupied by families whose entitlement had ceased, perhaps because of marriage breakdown, pending a move or re-housing, or were leased to third parties such as housing associations.

**5** Based on average costs, we calculated that, were the level of vacancies held at September 1999 to persist, the Executive would pay £39 million a year in rent and maintenance in respect of such properties awaiting incoming occupants, upgrading, in process of disposal or genuinely surplus. The Executive acknowledge that such a high level of empty houses and the associated costs are unacceptable and they are determined to reduce the size of the estate in line with demand. To this end the Executive disposed of nearly 2,000 houses in 1999, and plan to dispose of around a further 6,500 quarters by the end of 2001.

## **Planning reductions in vacant quarters**

**6** Inaccurate planning of the family quarters estate has the potential to add to the Executive's costs through the payment of rent and maintenance on vacant houses and, where demand has been underestimated, the rental of substitute private sector accommodation. To help them to deliver housing that meets the Services' requirements, the Executive introduced, in 1997, annual planning processes - which seek to identify, over a five year horizon, the size and disposition of the estate that will be required. One plan - the Long Term Housing Plan - focuses primarily on disposals and is based on consultation with local housing managers and Service commanders and analyses the estate on an area by area basis. Although an improvement on previous planning, in developing them further the processes should, for example, focus more closely on overall stock, demand and occupancy levels and analyse the Executive's performance against previous targets and forecasts and between area offices.

**7** If the Executive are to deliver the right housing at the right time it is imperative that the Services strive to define clearly their requirements. We found, however, that the Services were not always able to provide accurate forecasts. They are currently in a period of instability stemming from the Strategic Defence

Review of 1998 since a number of major decisions about the configuration and dispersion of the Forces, particularly affecting the Army, have still to be finalised. While such problems are not unique to the United Kingdom, they are mitigated in other countries by the choice of policy instrument for delivering Service family housing and by the arrangements for gathering data. Our enquiries of defence organisations in Australia, Canada and the United States of America show that in each case they seek to rely to a much larger extent on the local housing market to meet their Service family housing needs. The Executive have pointed out several factors that make the United Kingdom military housing task different from those of other countries, primarily that in many locations the United Kingdom does not have a ready or affordable rental market to support military requirements.

**8** A further factor in defining demand for family quarters is personal choice. Although Service families may be entitled to live in family quarters, they are not obliged to do so. And not all Service personnel elect to be accompanied on their tours of duty by their families. In 1997 and 1998, the Executive commissioned surveys of military personnel to identify why they chose to live in family quarters or private accommodation. Although only achieving 51 per cent and 23 per cent response rates respectively, the surveys indicated that a wide range of factors influenced personal choice. The main factors centred on the remoteness or otherwise of locations; the affordability of private sector accommodation; and the need to consider the non-Service spouse's career expectations and the stability of children's education.

**9** A key target for the Executive is to reduce the number of vacant quarters to 13 per cent of the estate by March 2002. That target was devised from a pragmatic assessment of what seemed possible in 1995, when it was set, rather than a detailed analysis of what level of vacancies were needed to run the housing system cost-effectively. The Executive accept that further reductions of the vacancy rate are desirable - a sentiment confirmed by their area managers, who estimated that an efficient percentage vacancy rate would vary from area to area according to circumstance. Currently, there is no formal interpretation of the Executive's overall target for areas: managers assumed that the target applied uniformly.

**10** In order to improve their strategic management of the estate the Department should:

- in improving their planning, include specific analysis of stocks, performance, quality of service and other indicators and how they relate to demand and the level of vacant property held;

- ensure that an assessment of demand for housing is an explicit part of the planning process and that outturn is compared with planning forecasts so that forecasting lessons can be learned;
- make routine, and improve the scope and quality of, their periodic survey of entitled staff views of family quarters. In doing so, they should seek to integrate the housing survey with other annual surveys by the three Services to deliver a joined-up programme of information gathering that minimises the burden on respondents;
- set individual area vacancy targets by reference to local operational factors, and a clear understanding of the need for empty properties for specific purposes, as well as in recognition of the speed of change that is feasible;
- derive the Executive's overall vacancy target from the sum of area targets;
- build on the limited mapping of influences on vacancy rates that we have undertaken, to improve their understanding of the family quarters system and so refine target setting;
- establish those constraints within current family quarters regulations that most affect vacancy rates and substitute housing costs, and review their continuing relevance - adjusting vacancy targets as appropriate; and
- monitor closely the number of houses that, while occupied, are unavailable for allocation to entitled and eligible families with a view to keeping such usage to an absolute minimum.

## **Managing estates to minimise vacant quarters**

**11** The Executive administer the family quarters estate through a network of 24 area offices. One of the key determinants of the need for a proportion of vacant quarters is the need to be able to handle moves of military units and individuals. The management practices areas adopt affect the level of vacancies.

**12** Unit moves, where a whole military unit is moved from one location to another en masse, account for around 10 per cent of all moves handled by areas. Although they involve the simultaneous movement of large numbers of families,



unit moves cause area managers little difficulty since such moves generally have a long lead time and managers are normally able to ascertain individual requirements well in advance of the posting date.

**13** The bulk of housing movements handled by area offices each year stem from the regular reassignment of Service staff between posts as part of their career progression and development. There are a number of inefficiencies in the allocation of housing in these circumstances which result in higher than necessary vacancy rates and associated costs. Although Service personnel usually receive around three months notice of a posting and are likely to apply for family quarters at their new location at an early stage, area managers that we interviewed said that personnel were often reluctant to notify them of their impending departure until, for example, they had secured a new address, their children had been accepted by a new school and they had arranged their removals. Areas therefore often received as little as two weeks notice of departure. This lack of advance notice inhibits sensible forward planning and leads to houses remaining empty longer than would otherwise be necessary since the Executive are unable either to allocate houses or carry out any essential maintenance work at an early stage. Areas may also rent unnecessary substitute accommodation from the private sector.

**14** In the absence of independent notification of postings, the Executive's current information systems can do little to alleviate these problems. Area offices do not routinely communicate with each other about Service personnel as they move through the housing system; and area staff are unable to use their current computer system to check whether their residents have applied to be housed elsewhere, or to inform colleagues in another area that an application has been received. The Executive are currently trialling the feasibility of providing incoming families in the Portsmouth area with early confirmation of new addresses. If successful, this initiative would also provide the opportunity for area managers to receive early advice of impending departures. The Executive also plan to introduce a new computerised information system by April 2001 which will provide an opportunity to enhance area managers' ability to administer the estate and improve communications.

**15** To reduce the number of vacant quarters held to cover moves, and to minimise the need for payments for substitute housing, the Department should:

- continue with the current sensible arrangements in place to handle unit moves, which generally work well;

- ensure that the Services provide posting information to housing staff, in advance of direct notification of imminent departure by the Service person in question;
- pursue their plans to introduce a new computerised information system which should improve facilities for areas to exchange information and interrogate each others' applicant and occupant data;
- ensure that when an application for accommodation is made to a new area, that area routinely informs the applicant's current area; and
- monitor the arrangements being trialled at Portsmouth for trickle posting notifications, and extend them if successful.

## **Disposal of surplus houses**

**16** As part of their annual planning exercise, the Executive liaise with the Services to identify surplus properties that may be disposed of over the following three years. The process is not straightforward. We found that such issues as the continued security of military bases following the release of housing situated behind perimeter fencing, and uncertainties about the future location of personnel created by the Strategic Defence Review, had made some Service commanders reluctant to declare properties as surplus, even though they lacked a clearly identified requirement for them. The Executive's position is further undermined in such circumstances since there are currently no direct financial incentives on the Services to assist with the identification and release of surplus houses - all rent and maintenance costs on vacant property are met by the Executive. And the Executive's management information systems do not enable them to track the realism of demands made by the Services to retain apparently surplus houses. The current consultation process is also too time consuming and unable to respond easily to any short-notice changes in demand for quarters. The Executive now intend to update their disposal forecasts on a quarterly basis.

**17** The Executive do not dispose directly of surplus properties on to the open market, but release such houses to either Annington Homes or the Defence Estates agency for eventual disposal, depending on the ownership of the quarters concerned. The release to Annington Homes of surplus houses owned by them is governed by the terms of the original sale agreement. Within the agreement the

Executive retain complete control of which houses are released and the timing of releases. However there are some constraints on how the Executive can return quarters to Annington Homes, and two in particular can cause difficulties:

- The Executive are required to return properties to Annington Homes in “good tenentable repair”. Where this is not the case, Annington Homes may claim financial compensation for the cost of any repairs needed to restore the property to the required standard. This “dilapidations” process requires the Executive and Annington Homes to inspect each house prior to handover to agree an appropriate level of payment and is staff resource intensive for both parties and can be time consuming;
- The sale agreement states that each property release must comprise at least 20 housing units or 10 per cent of an estate, and be contiguous with any other quarters released on that site. Single houses or small numbers that become surplus but are pepper-potted within estates are not therefore readily available for release. And the Executive have undertaken to minimise the number of mid-tour moves imposed on Service personnel, given the damaging effect to their morale that can be caused by frequent moves of home. Taken together, the effect of these constraints has been to delay the release of some empty houses for up to 18 months while the pepper-potted quarters are gathered into groups suitable for disposal.

**18** There are no constraints on the release to the Defence Estates agency of houses owned by the Department. There are, however, concerns over the speed with which the agency dispose of properties. For example, we found that the Defence Estates agency had taken two years to dispose of surplus properties in Aberdeen. The Executive currently bear the consequences of such delays since, although the agency are responsible for marketing and disposing of the properties, the houses continue to show as vacant on the Executive's management reporting system until they are finally sold and the maintenance costs remain with them. The Executive have proposed that, with effect from April 1999, the Defence Estates agency should become responsible for Department-owned surplus housing, and any associated maintenance costs, at the time at which the Defence Estates agency accept the properties for disposal.

**19** To improve the arrangements for identifying and disposing of surplus properties, the Department should:

- streamline consultation with the Services by promoting concurrent comment from various Service stakeholders, rather than the existing sequential and repetitive process;
- ensure that the costs of retaining surplus vacant quarters because of the Services' over-estimation of need are identified and made explicit within the planning and review cycle;
- ensure that discrete batches of surplus houses can be identified and released as part of the proposed quarterly updating process;
- investigate the possibility of simplifying the dilapidations process prior to release of houses to Annington Homes - for example, by devoting further resources to inspection - to speed disposals;
- consider, as a short term measure to speed the disposal of batches of properties, the limited use of specific programmes of mid-tour moves, and the payment of additional compensation to displaced families where this would be appropriate and cost effective, to relocate families within estates that have a significant number of pepper-potted vacancies; and
- introduce, as soon as possible, the proposed revised arrangements under which the Defence Estates agency would be provided with a financial incentive to sell properties quickly, by transferring maintenance costs for properties awaiting sale from the Executive to Defence Estates.

## Concluding comments

**20** The high levels of empty houses within the family quarters estate has been a long running problem. The Executive inherited vacancies of around 20 per cent at the time of their inception in April 1995, since when they have disposed of over 8,000 surplus properties and have drawn up plans to release around a further 2,500 homes a year over the next three years. Despite their best efforts, however, the problem has continued to grow. The reasons are diverse. Reductions in the size of the Armed Forces in recent years and falling take-up rates among Service

families have contributed to the oversupply. But, as this Report shows, there are also inherent weaknesses in the current system for allocating family quarters, and obstacles to timely disposals of surplus quarters, that need to be addressed.

**21** Implementation of the detailed recommendations contained in this Report would greatly assist the Executive in their quest to reduce the level of vacant housing within the family quarters estate. For example, we estimate that an initial reduction of vacant properties to 13 per cent of the total estate would achieve savings of £17 million, funding that could be used to the benefit of families through, for example, the stock upgrade programme. Implementing the recommendations will require co-ordinated action between the Executive, the Services and central branches of the Department.

**22** During the course of our review the Department, together with the Treasury, began a wider review of Defence housing policy, operations and organisation and will report to Ministers in the Spring. Members of the joint review team have taken note of our findings and recommendations in carrying out their work.

## Part 1: Introduction

**1.1** The Ministry of Defence (the Department) provide around 63,000 family quarters in Great Britain to accommodate some 84,000 entitled Servicemen and their dependants. Following the sale of the bulk of the family quarters estate in November 1996, some 53,000 homes are now owned by Annington Homes Limited and underleased back to the Department. The Department retain ownership of the remainder of the estate, located mostly in Scotland. Despite the sale, they remain responsible for the maintenance and upgrade of the entire family quarters estate, costing around £175 million a year. As at September 1999, some 23 per cent of the estate was vacant - including properties awaiting occupation, upgrading or in course of disposal - costing some £39 million annually in rent and maintenance.

### The provision of family quarters

**1.2** As a consequence of operational demands, training plans and for career development, military personnel and their families are moved around regularly, and in some Services, frequently. In recognition of this inherently mobile lifestyle and the often remote bases on which they work, the Department consider it essential to provide sufficient, good quality houses in the right locations for those Service personnel and their families who wish to live in family quarters. They consider that the ready availability of appropriate housing, and attendant welfare and support facilities, is fundamental to morale, retention and, ultimately, operational effectiveness.

#### Who is entitled to live in family quarters?

**1.3** Every married Service person is entitled to be provided with a family quarter. In addition, family quarters are provided to a range of other personnel including divorced or separated Service personnel where they have “custody” of their children and key civilian staff who, for example, are required by the nature of their duties to live on or near a military establishment. In the event of a marriage breakdown where the non-Service spouse has custody of any children, both the Service and non-Service spouses lose their entitlement to family quarters. Quarters are not provided to Service or civilian single personnel or personnel cohabiting with a partner who is not their legal spouse. Figure 1 lists the full range of personnel who are entitled to live in family quarters.

## Personnel who are entitled to family quarters

### Figure 1

*The figure lists the types of personnel who are entitled to live in a family quarter.*

- Personnel who are married, or who are single parents with parental responsibilities as defined by the Children Act 1989.
- Single personnel who are entitled by appointment, such as officers of Major or above who are commanding a unit.
- Single Service women who are pregnant (within 3 months of expected confinement date).
- Personnel attending Joint Service Command and Staff College.
- Foreign and Commonwealth Service personnel on official exchange or liaison appointments or attending Staff College.
- Married Ministry of Defence civilian personnel designated "key staff" ie required to be on-call outside normal working hours.
- Ministry of Defence police personnel recruited before 1 September 1994.
- Service widow/ers for an initial period of six months after bereavement.

Source: Tri-Service accommodation regulations

**1.4** In addition to the above entitled families, and with the agreement of local Service commanders, the Department allocate temporarily surplus quarters to eligible Service and civilian personnel such as married Service personnel on unaccompanied tours and civil servants from any Government department. In total, 24 categories of employee are eligible to occupy family quarters in this way. All allocations to eligible personnel are made on a temporary basis.

### What types of houses are families entitled to?

**1.5** The size of house to which personnel are entitled varies according to individual circumstances. Officers and entitled civilians are allocated family quarters according to rank and appointment (and equivalent military rank where appropriate), while other ranks' accommodation is determined by family size. The specific type of accommodation to which staff are entitled - in terms of floorspace, numbers of bedrooms, equipment and facilities - is laid down in the tri-Service accommodation regulations. Service personnel are charged rent ("accommodation charges") at a daily rate reviewed and determined annually by the Armed Forces Pay Review Body. Eligible personnel either pay accommodation charges determined in this way or at local market rates set by the Defence Estates agency, depending on their circumstances. All family quarters are graded for rent according to a four tier scale for condition, size and the proximity of the location to essential services. Individual accommodation charges reflect this grading.

Generally, however, accommodation charges increase in line with the size of house provided (Figure 2). The grading of property for accommodation charges is carried out by the Services.

**1.6** To assist their prioritisation of upgrade projects, the Department operate a marking system which categorises the quality of the housing stock against a range of pre-defined criteria for Standard 1 for condition. The marking system allocates points for a total of 106 property attributes covering, for example, building fabric, kitchen fittings and fitments, and energy efficiency. The Department aim to upgrade the bulk of properties for which there is a long term requirement to Standard 1.

### **How are families allocated a house?**

**1.7** When Service personnel are posted (moved from one job and location to another), either individually or as part of a unit, they may, if entitled, apply for a family quarter in their new area of work. The type of house that the family will be offered will depend on their entitlement which, as explained in paragraph 1.5, is based on rank for officers and family size for other ranks.

**1.8** Entitled families must be housed within certain time limits, and a confirmed address provided at least 28 days before the Service spouse is due to start the job to which they have been posted (known as the posting date). Where possible, to ensure that families can register with local services such as schools and doctors, they should be provided with a confirmed address 56 days before posting date. The family should then be housed within 28 days of the posting date. Figure 3 shows the process of posting, application to be housed, and housing allocation.



**Figure 2**
**Types, entitlements and charges for family quarters**

The figure shows the type and size of house that military personnel are entitled to, dependent on whether they are in command, their family size and rank, and how much they pay per month.

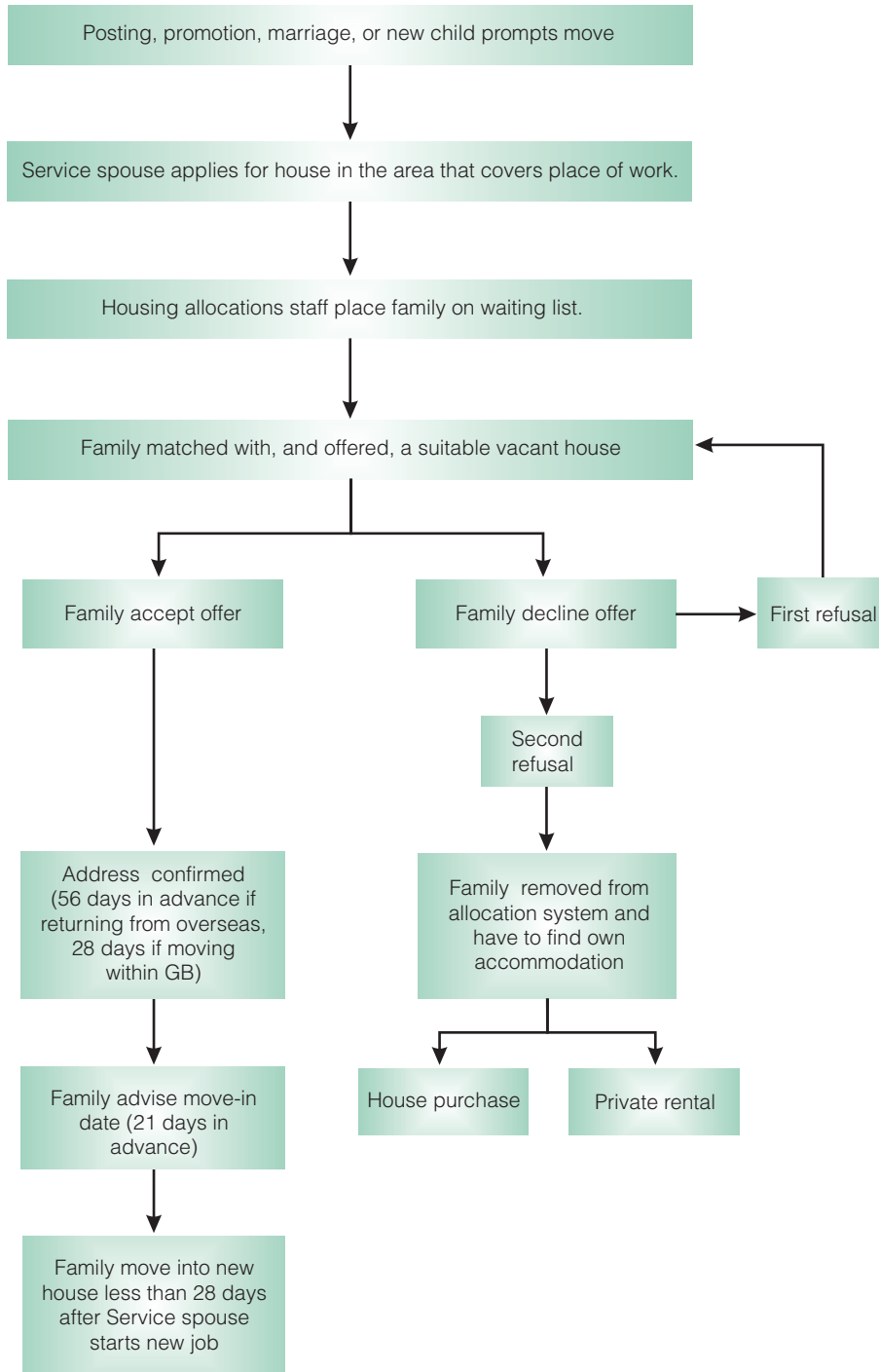
Type of House	Entitled Personnel			Average Accommodation Charge per month (£)
	Royal Navy	Army	RAF	
Type I (4/5 bedroom)	Admiral Vice Admiral Rear Admiral Major General RM	General Lt General Major General	Air Chief Marshal Air Marshal Air Vice Marshal	370.48
Type II (4/5 bedroom)	Rear Admiral Commodore Captain RN Major General RM Brigadier RM Colonel RM	Major General Brigadier Colonel	Air Vice Marshal Air Commodore Group Captain	334.58
Type III (4 bedroom)	Commodore Captain RN Brigadier RM Colonel RM Lt Colonel RM Commander	Brigadier Colonel Lt Colonel	Air Commodore Group Captain Wing Commander	294.43
Type IV (4 bedroom)	Lt Commander Major RM	Major	Squadron Leader	232.69
Type V Special (3 bedroom)	Lt Commander Major RM	Major	Squadron Leader	218.39
Type V (3 bedroom)	Lieutenant and below Captain RM and below	Captain and below	Flt Lieutenant and below	203.79
D (4 bedroom)	Applicants with 4+ children	Applicants with 4+ children	Warrant Officers Applicants with 4+ children	162.43
C (3 bedroom)	Warrant Officers Applicants with 2-3 children	Warrant Officers 1s Applicants with 2-3 children	Applicants with 2-3 children	152.39
B (2 bedroom)	Applicants with 1 or no child	Applicants with 1 or no child	Applicants with 1 or no child	141.44

Note: The cost per month is based on the appropriate accommodation charge for Grade 1 for Condition properties, averaged between furnished, part furnished and unfurnished housing rates.

Sources: Tri-Service accommodation regulations and Armed Forces Pay Review Body accommodation charges.

**Figure 3** The application and allocation process

The figure shows the process by which families apply for, and are allocated, a house.



Source: National Audit Office analysis

**1.9** In general, the Department do not accommodate officers in other ranks' housing, nor are other ranks accommodated in officers' quarters. While houses are allocated in line with the criteria at Figure 2, the Executive seek to widen the utilisation of the estate, and to take account of applicants' personal preferences, when it is practicable to do so. The "one down" mechanism enables the Executive to offer housing one type below the normal entitlement when there are no houses of the entitled type available, and where the applicant's family is small enough to allow them to be accommodated in such alternative housing. In such cases, personnel pay accommodation charges applicable to the type of family quarter occupied. The Executive may also offer an applicant accommodation above their normal entitlement if such property is available and it is unlikely to be allocated to an entitled family in the foreseeable future. In these circumstances, personnel pay accommodation charges appropriate to their normal entitlement and not the family quarter occupied. Personnel may also choose to apply for housing above or below their normal entitlement if these are available and to pay accommodation charges appropriate to the family quarter occupied.

**1.10** Where quarters of the right type are not available, even after the mandatory application of the one down mechanism, and Service personnel feel unable to wait for a suitable property to be provided, or choose not to occupy accommodation well below their entitlement, the Department place them in property rented from the private sector (known as Substitute Service Family Accommodation). Such property is broadly equivalent to the applicant's family quarters entitlement. In these circumstances, personnel pay only the accommodation charges applicable to their normal entitlement.

### **Who are the main stakeholders in providing service family housing?**

**1.11** Within the Department, the Deputy Chief of the Defence Staff (Personnel) is responsible for Service accommodation. Policy responsibility is delegated to the Assistant Under Secretary (Service Personnel)(Policy). The Defence Housing Executive (the Executive) have operational responsibility for managing the family quarters estate in Great Britain on a tri-Service basis - both that which is leased back from Annington Homes and that for which the Department have retained ownership (paragraph 1.1). Their responsibilities include:

- meeting the demands of the Services for suitable family housing in accordance with their stated long term needs;
- allocating specific houses to Service families;

- directing the maintenance and upgrading of housing in accordance with their objectives stated in their corporate plan;
- identifying surplus quarters and arranging for their release for subsequent disposal - Annington Homes dispose of the houses which are owned by them while the Defence Estates agency dispose of properties owned by the Department.

**1.12** The Executive are not responsible for providing family quarters for personnel stationed in Northern Ireland or overseas. This responsibility remains with the single Services.

**1.13** The Defence Housing Executive became an Agency on 1 April 1999. They administer the family quarters estate through a network of 24 area offices, grouped within seven regions. Figure 4 illustrates the organisation of the Executive and their relationship with other key stakeholders. Figure 5 shows the location and distribution of the family quarters estate for which they are responsible.

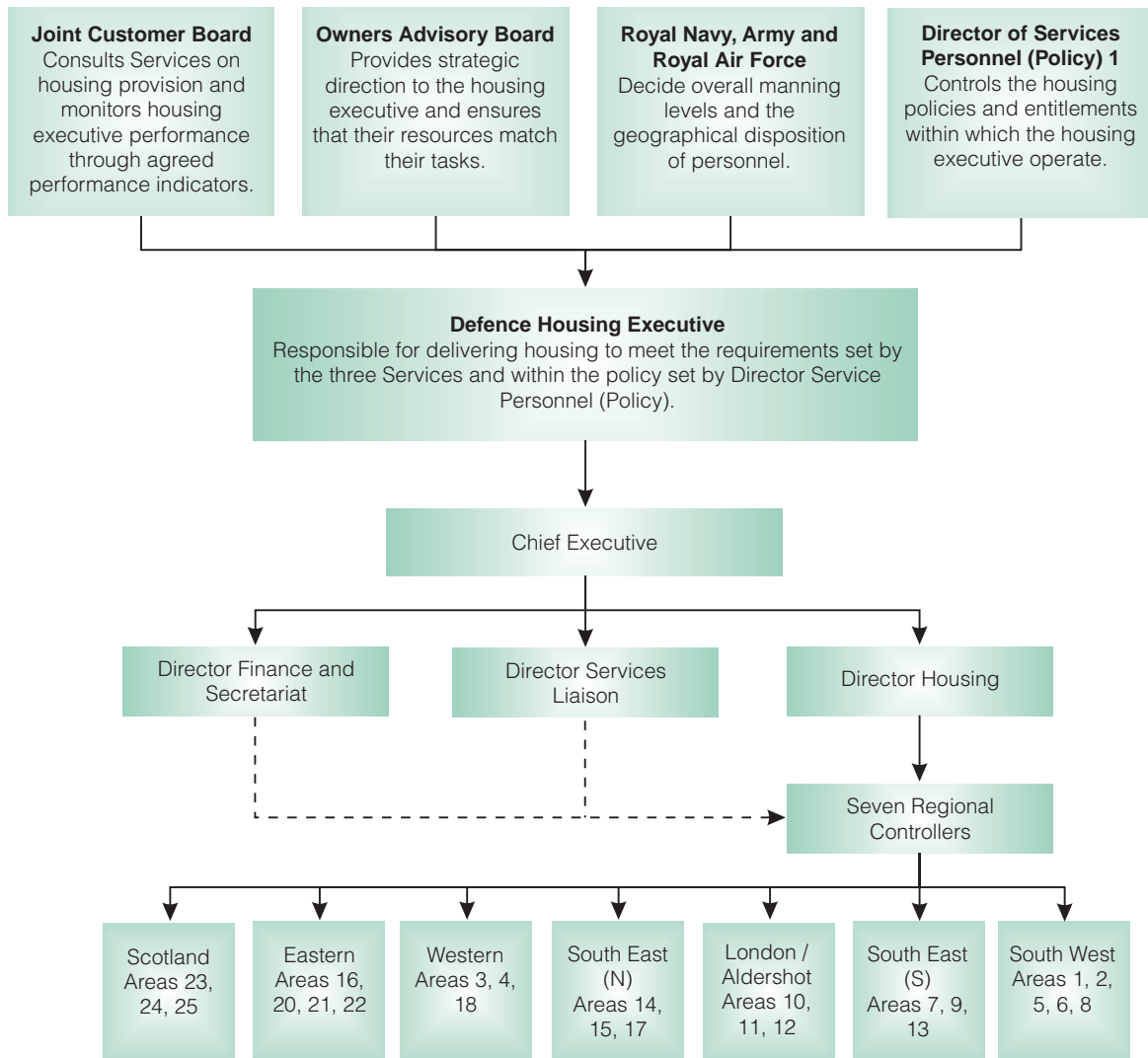
### **What are the overall costs of providing family quarters?**

**1.14** Although Service personnel who live in family quarters pay accommodation charges, the revenue accruing from families in quarters does not accrue to the Executive to offset rentals paid by them to Annington Homes. Furthermore, the income generated by accommodation charges does not equate to the full cost to the Department of providing Service family housing.

**1.15** Under the terms of the sale agreement, the Executive paid Annington Homes around £110 million in rent in 1998-99 and spent an additional £149 million on maintaining properties. The Department do not record separately details of the revenue from accommodation charges collected from entitled families. They estimate, however, that this amounted to some £79 million in 1998-99. In addition, they collected a further £5 million in charges levied on properties used for other Defence-related uses. This represents net expenditure of some £175 million, 68 per cent of expenditure in the year. Expenditure includes rent for empty and unavailable properties of some £28 million, since the Executive's payments to Annington Homes are based on the volume of property available to them rather than the level of occupancy achieved, for which the Executive remain responsible.

**Figure 4** Key Service family housing stakeholders, and the Executive's organisation

The figure shows the main stakeholders in Service family housing and how they influence the Defence Housing Executive in delivering housing. The figure also shows the structure of the Defence Housing Executive.

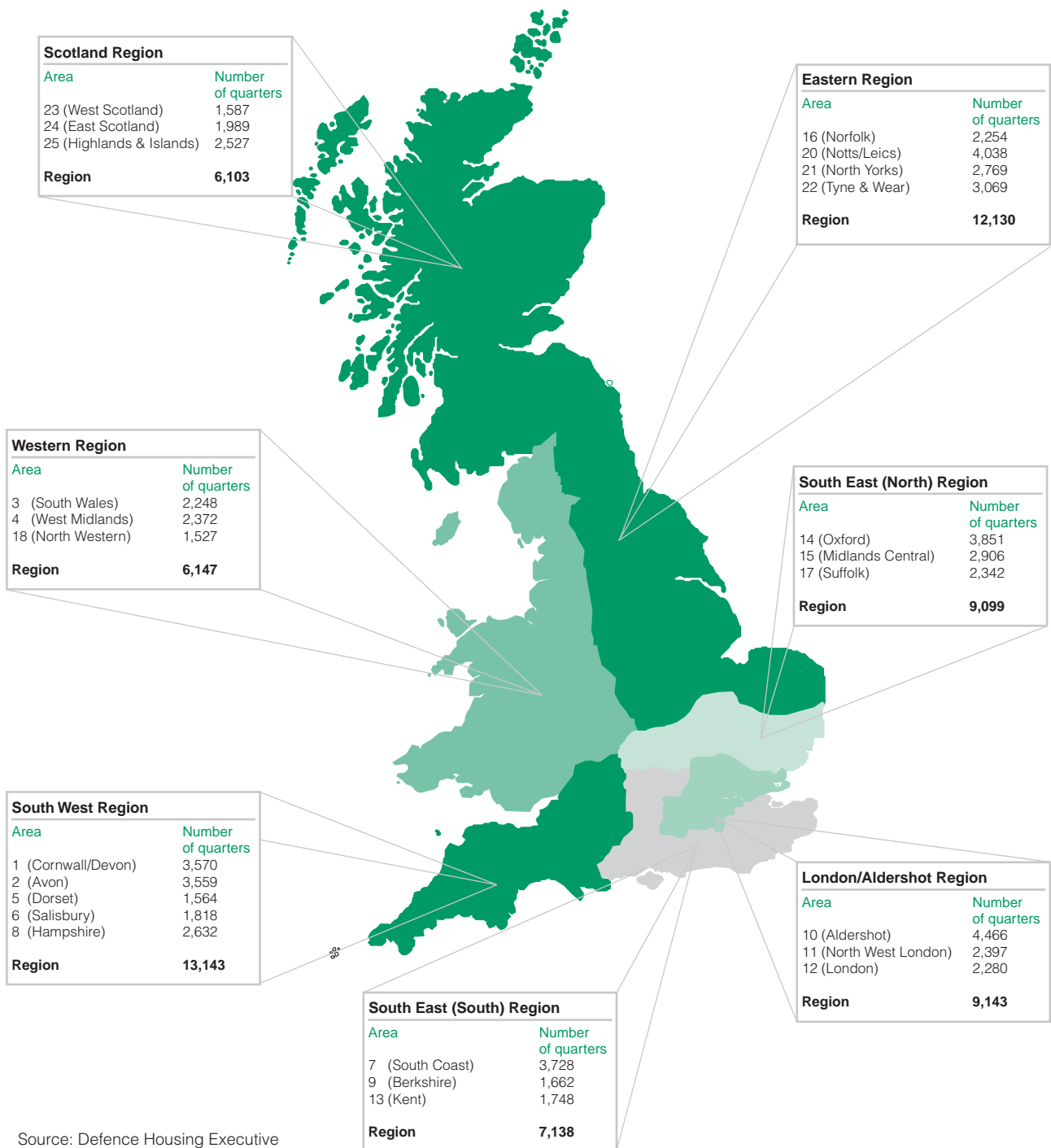


Source: National Audit Office

**Figure 5**

**The distribution of the family quarters estate in Great Britain.**

*The figure shows the distribution of family quarters in Great Britain in September 1999. Quarters in Northern Ireland and overseas, are excluded from the figure because they were not examined as part of this Report.*



Source: Defence Housing Executive

**1.16** Within these costs, we estimate that, in 1998-99, the Executive spent £39 million in rent and maintenance on empty family quarters and a further £4 million in rent and maintenance on houses that were unavailable to them to accommodate Service families since they were employed for other Defence-related uses. In total, of nearly 62,900 properties managed by the Executive, some 14,425 homes (23 per cent) were vacant and a further 2,200 houses (4 per cent) were being used for purposes other than housing entitled families as at September 1999.

**1.17** Despite this high vacancy rate, in some areas of the country the Executive have had to house Service personnel in property rented from the private sector because either locations lacked family quarters of any type or appropriate family quarters were not available (paragraph 1.10). In 1998-99, the Executive paid rentals totalling around £11 million for such substitute accommodation. As at August 1999, some 700 families were living in substitute accommodation.

**1.18** In addition to the above expenditure, the Executive incur costs on a programme of work to modernise and refurbish the estate. To assist them to carry out this work, the Executive were allocated £100 million from the proceeds of the sale of the estate to Annington Homes to supplement existing budgets for the upgrade programme. Under this programme, the Executive have a key performance target to upgrade 75 per cent of their properties substantially to Standard 1 for condition by March 2003. The Executive have set out to refurbish the poorest quality housing first. They spent £27 million on refurbishing properties in 1998-99, by which time they had completed the upgrading of 9 per cent of the estate. Achievement of the target is subject to available funding each year.

## **What was the scope of the National Audit Office examination?**

**1.19** This Report focuses primarily on the role of the Defence Housing Executive in managing the family quarters estate with a view to minimising the level of vacant housing held. While concentrating on the Executive, the Report also considers the activities of other organisations where these impact on the Executive's performance in minimising vacancies. For example, it covers the liaison with the Armed Forces in terms of forecasting demand for housing, and with the Service Personnel (Policy) branch of the Department who set the housing and entitlement policy within which the Executive operate. The Report does not consider the sale of the family quarters estate to Annington Homes in 1996 which was the subject of our earlier Report: "The Sale of the Married Quarters Estate" (HC 239 Session 1997-98).

**1.20** The issues we examined were:

- a) The scale and costs of vacant quarters (Part 2 of this Report);
- b) How the Defence Housing Executive plan to reduce vacant quarters (Part 3);
- c) Managing the estate to minimise vacant quarters (Part 4); and
- d) Disposing of surplus family quarters (Part 5).

In examining these issues, we had regard to the recommendations of the Public Accounts Committee on the management of the estate made in their 48th Report of Session 1997-98 on the sale of the married quarters estate (HC 518). In considering the disposal of surplus houses, we have concentrated on the steps taken by the Executive to release such property to Annington Homes or the Defence Estates agency as appropriate. We did not examine in this Report the steps taken by either of them to dispose of this property on the open market.

**1.21** Details of the methods we used to carry out our examination are at Appendix 1. Broadly, we:

- a) examined arrangements for managing the family quarters estate, and viewed examples of vacant property, at four of the Executive's area offices (Aldershot, Devonport, Kinloss and RAF Halton). During our visits we sought the views of local Service commanders and representatives of Area Services Families Associations on key issues affecting the provision of family quarters;
- b) visited the principal Service representatives to discuss arrangements for identifying and communicating long term manning levels and likely housing requirements;
- c) visited all relevant headquarters branches, interviewed management and examined papers as necessary (Defence Housing Executive, Defence Estates agency, Service Personnel Policy);
- d) analysed data from the Executive's management information system;
- e) conducted a postal survey of the Executive's 24 area offices to gather background data on accommodation moves and vacant properties not held centrally;
- f) visited Annington Homes to discuss issues affecting the release of surplus housing by the Executive;



- g)** identified arrangements adopted by selected overseas defence organisations (Australia, Canada and the United States of America) to provide Service family accommodation (Appendix 2); and
- h)** employed HVR Consulting Services Limited to map the processes and factors influencing the timely provision of appropriate family accommodation (Appendix 3).

We are grateful to the organisations, including the Department, who assisted in this work.

## Part 2: The scale and cost of vacant quarters

**2.1** This Part of our Report considers the trends in occupancy rates in the family quarters estate, the level of empty and unavailable properties within the estate, and the reasons properties can be, and are, empty or unavailable to house entitled families.

### Empty houses are needed to permit effective management of the system

**2.2** To ensure that they can house applicants within the time periods required the Executive have to keep a buffer of houses empty. This need arises because they must be ready to house applicants on request, and the precise timing and number of those requests is not wholly predictable. Effectively, the Executive must maintain a proportion of empty quarters of each type to be able to meet the demand for accommodation from entitled personnel.

**2.3** A number of quarters must also be held vacant to take account of other estate management factors. For instance, the number of empty quarters must reflect major refurbishment or modernisation programmes. And the mechanics of property disposal mean that a number of quarters will be vacant pending disposal.

**2.4** Together, these differing groups of empty houses form a management margin of vacant properties that is an unavoidable feature of current arrangements. The significance of the various factors leading to houses becoming empty or unavailable for Service families, and hence the extent to which the number of such quarters is held to a cost-effective level, are explored in the sections that follow.

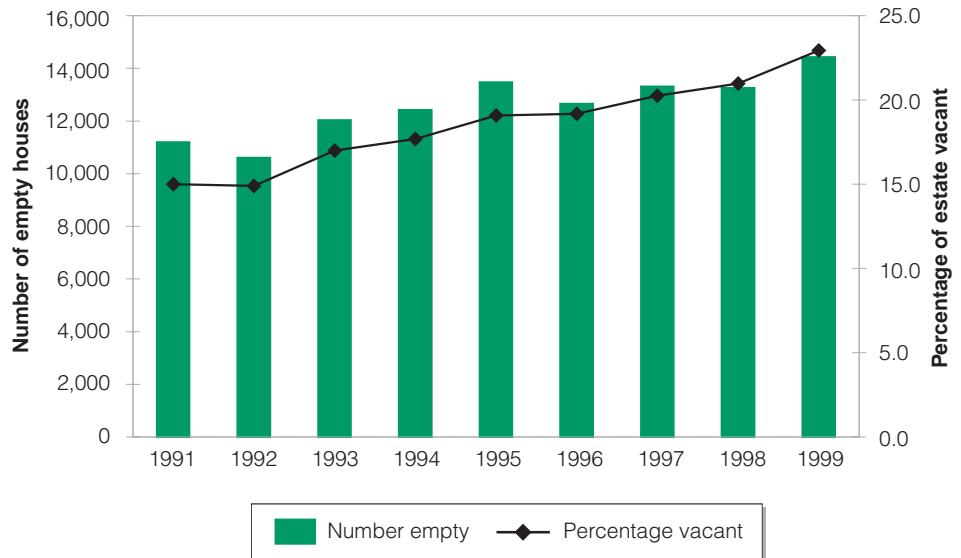
### Trends in vacancy rates

**2.5** The demand for family quarters has fallen steadily over the last eight years. The number of vacant properties has grown from nearly 11,200 in 1991 to 14,425 in 1999, an increase of 29 per cent. Measured as a proportion of total family housing stock this represents an increase from 15 per cent to 23 per cent. Figure 6 shows the trend in the number of vacant houses since 1991.

**The number and percentage of total family quarters vacant in each year since 1991**

**Figure 6**

*The figure shows that the number of vacant family quarters has grown since 1991 both in absolute terms and as a proportion of the total family quarters estate.*



Note: Figures for the number of vacant houses for the period 1991 to 1995 are taken from information provided to the Executive by the separate Services and may be less accurate than the later data. From 1996, when the Executive became operationally responsible for the family quarters estate, figures are taken from the Executive's own database.

**2.6** The increases in the vacancy rate in the family quarters estate have occurred despite the Department reducing the size of the estate over the same period. Around 12,400 houses have been disposed of in the last eight years, reducing total stock from some 75,300 to 62,900, a total reduction of 16 per cent. Thus, although the supply of family quarters has been decreasing, demand for quarters has dropped even faster, leading to increased oversupply.



Examples of vacant quarters at RAF Halton

## Why are family quarters vacant?

**2.7** The Executive have a database which holds information on the occupancy or otherwise of every house in the family quarters estate. Each vacancy has a descriptor attached to it that allows the Executive to analyse why any quarter is held empty. The vacant quarters fall into one of the six categories shown in Figure 7.

### Vacancy categories – why houses are empty

#### Figure 7

*The figure shows the categories that explain why houses in the family quarters estate are empty.*

Vacancy Category	Definition
Agreed Deployment	Houses which are vacant but have been allocated to a Service family and will be occupied in the near term.
Decant	Houses held vacant to provide space into which existing occupants can be moved to facilitate upgrade programmes or disposals
Modernisation	Houses that are empty during modernisation, and therefore not available for allocation.
Routine	Houses that are available for allocation but which are empty because of a lack of immediate demand.
Demolition	Surplus houses which are empty awaiting demolition.
Agreed Disposal	Surplus houses that are empty pending disposal either by release to Annington Homes or through Defence Estates.

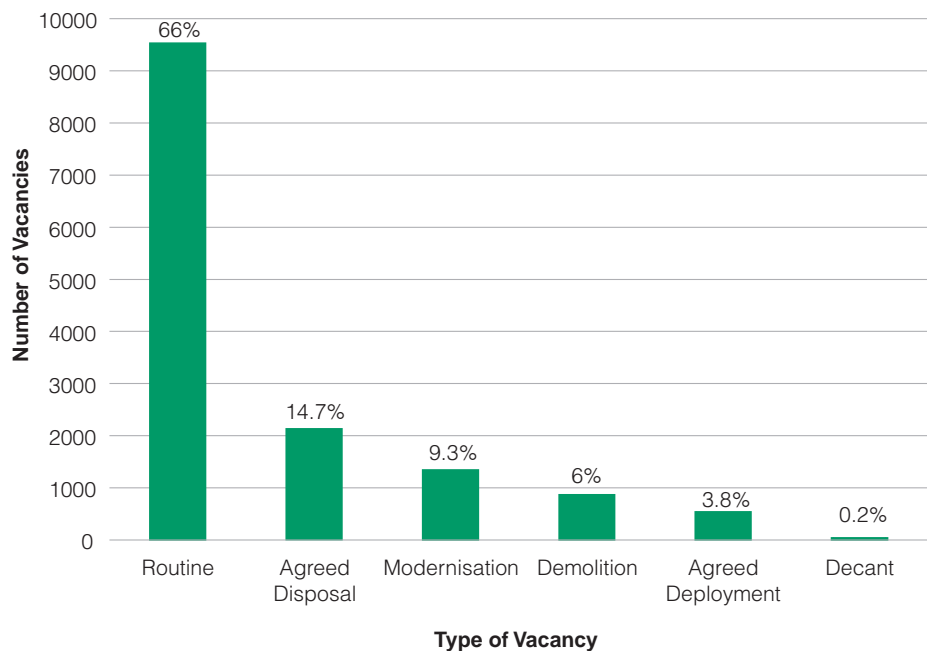
Source: Defence Housing Executive

**2.8** Figure 8 shows the total number of quarters in each vacancy category as at September 1999.

**Total number of vacant houses in each of the Executive's management categories in September 1999**

**Figure 8**

*The figure shows the total number of quarters in each vacancy category, and the proportion of total vacancies accounted for by that category. Routine vacancies account for two-thirds of all empty quarters.*



Source: National Audit Office analysis

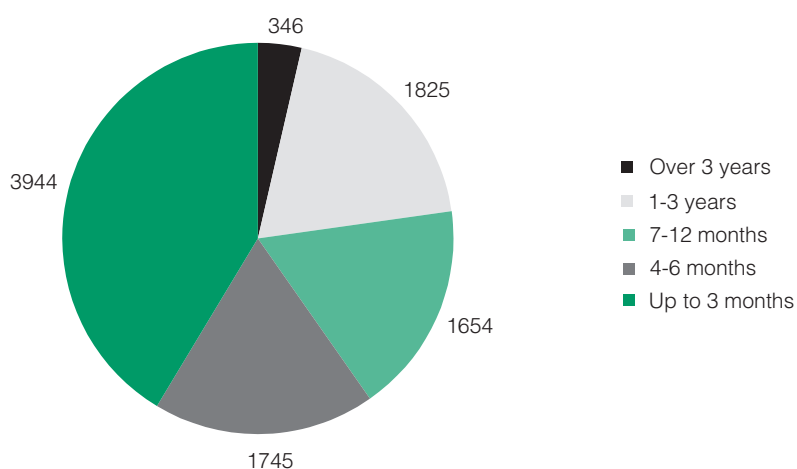
**2.9** This analysis shows that the largest number of empty houses falls into the routine category. This category comprises those quarters that are empty because there is no immediate need for them. Sixty six per cent (9,514) of all empty houses are in this category, representing some 15 per cent of total housing stock. Not all of these houses are necessarily surplus to requirements, however. Houses classified by the Executive as routinely vacant range from those that have just been vacated and will be required for another family (“transient” vacancies) to those which are not required but have yet to be agreed with the Services for disposal. The Executive’s database does not permit the ready quantification of the size of the “transient” housing population. An age analysis of the quarters within this category, however, shows that, as at September 1999, 3,944 houses (41 per cent) had been empty for less than three months while 2,171 houses (23 per cent) had been empty for over 12 months, of which 346 houses had been empty for over three years (Figure 9). The Executive’s best estimate of 5,000 vacant houses under offer to Service families is broadly consistent with these figures. Overall, our analysis shows that houses in this category tend to stay empty for longer than most

other types of vacancies. The Executive pay rent and/or maintenance while a property is vacant, so the longer houses remain empty, the higher the impact in cost terms.

**Routine vacancies - the number of quarters that have been empty by time band**

**Figure 9**

*The figure shows that, of houses classed as routine vacancies, over one-third have been empty for less than three months and nearly one-quarter have been empty for over 12 months.*



Source: National Audit Office

**2.10** Some of the vacant quarters, such as those that are either allocated for an agreed deployment, being modernised, used for decant or awaiting disposal or demolition are a product of the normal operation of the housing allocation system. At September 1999, these categories together accounted for 4,911 quarters, 34 per cent of vacancies and 8 per cent of total housing stock. Together with the transient routine vacancies (paragraph 2.9), these are the categories that are represented in a management margin that the Executive would need to operate the current system efficiently.

**Why are quarters unavailable to entitled and eligible families?**

**2.11** Around 4 per cent of the estate, over 2,200 houses, are used for purposes other than housing entitled or eligible families, and are not immediately available for allocation to entitled or eligible families. The reasons that these houses are unavailable are identified in the Executive’s database. These occupied but unavailable quarters fall into one of three management categories as shown in Figure 10.

**Figure 10**

**The reasons houses are unavailable to entitled and eligible families**

*The figure shows the reasons why houses are occupied but unavailable to Service families according to the Executive's management categories.*

Management Category	Definition
Illegal/Irregular Occupants	Houses that are occupied by someone who is not entitled after notice to vacate the property has expired – for instance non-Service spouses following marriage breakdown.
Leased Out	Houses that are surplus in the short term but for which there is an identified long term need and which are leased to third parties such as Housing Associations.
Misappropriations	Houses that are not used for normal residential purposes – for instance properties used for welfare facilities, offices or mess annexes.

Source: Defence Housing Executive

**2.12** Over half of the unavailable quarters are misappropriations, quarters used for non-residential but defence-related purposes. Many of these uses are welfare purposes, such as creches and family support centres, which provide a valuable link between the Services and the families of their personnel. These facilities can be particularly important when Service spouses are on deployment by allowing the Services to provide information and support, and enabling families in similar situations to support and help each other.

**2.13** Family quarters used for the purposes shown above also often produce a rental income, although this is offset by the rent and/or maintenance charges that still fall to the Executive. The properties that are misappropriated or leased out are often not brought back into use as family quarters, and may therefore be candidates for permanent disposal. Illegal or irregular occupancy, however, is usually only for a short period, and the quarters are brought back into normal usage.

## **There is significant over-supply of family quarters, which is costly**

**2.14** The fact that 26 per cent of the family quarters estate is vacant or used for purposes other than to accommodate entitled families shows that there is significant over-supply. The vast majority of such homes are empty. Empty houses cost the Executive significant sums. For those empty quarters that are owned by Annington Homes (who own 84 per cent of the estate in total) the Executive pay a rental charge and retain responsibility for, and the cost of, maintenance. For

empty houses that are still owned by the Department, the cash cost is limited to maintenance. The Executive pay an average rent per house to Annington Homes of £2,050 per annum, and spend an average of £937 per family quarter (both Annington Homes and Department owned) on maintenance. By September 1999, 16,629 houses were empty or unavailable to accommodate entitled Service families. If this level were to persist, based on average costs, it would cost the Executive £38 million a year in rent and maintenance – net of any income for occupied, but unavailable, houses.

## Reducing oversupply

**2.15** The Executive acknowledge that such a high level of empty and unavailable quarters, and the high financial costs that go with it, are unacceptable. They also acknowledge that the funding consumed by vacant quarters could be directed to other areas, such as the upgrade programme, which would be of greater benefit to Service families. To resolve the situation, the Executive need to address the issue of oversupply, and reduce the size of the estate more in line with demand. Doing so will require the Executive to address three key areas :

- Forecasting future demand, based on information from the Armed Forces, such that the Executive can form a strategic view of the size and distribution of the estate required to meet the Armed Forces' needs, and plan for the minimum number of vacant quarters needed to meet targets for housing entitled applicants;
- Removing constraints on the management of the estate that contribute to high levels of vacant quarters; and
- Disposing of vacant properties that have largely resulted from historical failures to align supply with demand – the key area here will be the effectiveness of the processes for identifying and releasing surplus quarters.

We consider these areas of housing planning and provision in the following Parts of our Report.



## Part 3: Planning for reductions in vacant quarters

**3.1** This Part of our Report examines the strategic planning of Service housing provision and whether it can deliver Service family housing with a minimum of vacant quarters. That goal requires the Executive to deal with the current problems of oversupply and to have a firm strategic view of what will be required in the future to avoid any recurrence of current difficulties. The emerging view of the balance between supply and demand then needs to be translated into appropriate targets – dealt with in the closing section of this Part.

### Strategic planning

#### Defining and planning for the Services' requirement

**3.2** To deliver housing that meets the Services' requirement the Executive need to have:

- a robust planning process that can deliver an accurate picture of both short term developments and requirements and also the longer term size and shape of the estate; and
- good information on housing demand from the Services to inform the planning process.

To assist them in this, the Executive have adopted a multi-level annual planning process. The process is relatively new - it began in 1997 and is still being refined.

#### Area planning

**3.3** Factors such as the condition of the local estates and the extent and progress of any upgrade programmes; the effect of changed patterns of military deployment; and any impacts on demand from entitled personnel due to the state of local housing markets and economies all influence the balance between the supply and demand for housing, and can only be readily assessed at local level. These factors underline the need for good area strategic planning, evaluating the demand for the family quarters estate over periods of several years that are

required to make any necessary adjustments to stock levels and mixes. A key efficiency issue within the planning process for all areas is the current high level of vacant properties.

**3.4** Since their inception, the Executive have supported largely autonomous area planning, within broad targets and performance indicators promulgated centrally. Recently, they have started to set general guidelines on the “best practice” process to yield a good housing plan. In view of the rising proportion of vacant houses in recent years, we reviewed area plans to see what factors had been considered in defining overall needs and the scale of disposals that were possible.

**3.5** We found that the best area plan contained a full analysis of the current stocks and vacancies position, and of the major moves of personnel in prospect, as well as a summary of any building projects in hand. The scope for disposal of vacant properties featured explicitly in the plan, although the final picture was clouded by uncertainty of the precise scale of demand following planned moves. But area planning did not explicitly address the potential influence on demand of trends in personal decisions on taking up entitlement to family quarters, or of local factors such as the location and condition of housing. Nor did it provide sensitivity analysis or exploration of alternative scenarios to yield insights into the significance of changes in demand or circumstances.

### **The Long Term Housing Plan**

**3.6** Area plans and planning forms the basis for a summary of the Executive’s proposals for changes in family quarters provision, known as the Long Term Housing Plan. The Plan focuses on disposals and new build projects, area by area. It provides an opportunity for the Executive, and senior military staff, to form an overview, over a five year horizon, of the size and disposition of the estate which will be required. Once a draft plan has been drawn together it is sent out to the three Services for comment. The Services can then, if they choose, object to any proposals for releases and seek to retain quarters in the estate.

**3.7** The 1998 Plan provided for disposal of 2,437 properties in 1999, based on the first estimates of the planning process detailed above. By December 1999, disposals in the year had reached 1,857 properties. No consolidated plans for either holdings, occupancy or disposal had been prepared for earlier years, and so no assessment of the quality of earlier planning could be made. We attempted to disaggregate the 1998 Plan figures to see whether over-forecasting of demand or under-implementation of disposal plans were the prime contributors to increased vacancy rates. But we found no explicit trail from Service estimates of overall

personnel deployments, through calculations of entitled personnel, to estimates of the proportion of entitled personnel who would take up their entitlement to housing, that could be compared with outturn demand for housing.

### **Corporate and business plans**

**3.8** There are two other important planning documents. The Corporate Plan, the first edition of which was produced in 1999, sets out the Agency's aims, objectives and management strategies, and summarises their planned resourcing five years forward. The Corporate Plan contains targets for disposals which are consistent with, though less specific than, the figures emerging from the Long Term Housing Plan. And there are key targets covering the quality of housing; the timeliness of housing entitled families; the responsiveness of repair services; and the unit cost of housing. Other targets encompass customer satisfaction and the completion of various administrative projects. A number of targets remain to be defined in light of further work. The Executive's Business Plan covers much the same ground as the Corporate Plan, but provides extra detail on the outputs required of the various Executive organisational areas. While these plans draw together a wide range of factors relevant to housing provision, there is no underlying model of the interaction of those factors. So, for example, the plans do not discuss any links between the effects of the upgrade programme or quality of housing allocation and maintenance services on demand, and hence on the level of vacant quarters.

### **Quality of planning to reduce vacant quarters**

**3.9** The new planning process is an improvement on previous planning, which failed to provide any overall view of housing provision. The new process is capable of further development, however, since several important factors were not well dealt with in the various plans, which did not:

- focus closely on overall stock, demand and occupancy, as well as disposals;
- contain any analysis or discussion of apparent variations in performance between the Executive's local housing areas;
- summarise the quality of performance against previous targets and forecasts;

- explicitly state assumptions about potential demand and take-up of entitlements, or of any turnaround in recent trends for declining demand;
- deal with more general housing issues, such as customer satisfaction, or quality of housing stock, which might influence future requirements.

Attention to these points would strengthen the substance of planning, and yield greater confidence and precision in plans to reduce vacant quarters, as well as providing a more developed sense of the importance of various factors which could influence future vacancy rates.

## What influences demand?

**3.10** There are two major elements that influence the demand for Service family housing. First, the size and disposition of the Armed Services and, second, the personal choices of Service personnel about whether or not to take up their entitlement to a family quarter.

### The Services' requirement

**3.11** If the Executive are to deliver the right number of houses, of the right type, in the right place at the right time, the Services must provide answers to questions such as:

- What is the size of the entitled population and how many quarters will be required?
- What is the composition of the entitled population in terms of rank and family sizes and how many quarters of each type will be needed?
- What is the geographical dispersion of the entitled population and where will housing be needed?

**3.12** Making accurate forecasts is not, however, an easy task. The Services are in a period of instability stemming from the Strategic Defence Review. A significant number of major decisions about the configuration and dispersion of the forces have yet to be finalised and the Services cannot provide robust information on their requirements beyond a two year horizon. The Army, the largest consumer of family quarters, is particularly badly affected. We discussed the situation with Headquarters Land Command who explained that as a result of the Strategic

Defence Review reliable forecasts of the numbers and locations of troops are available only within an 18 month horizon. This necessarily limits the accuracy of the long term estimates of housing requirements produced through the Long Term Housing Plan.

**3.13** While problems inherent in forecasting Service housing requirements are not unique to the United Kingdom, they are mitigated to some extent in other countries by the choice of policy instrument for delivering Service family housing and by the arrangements in place for gathering data. In Australia, Canada and the United States of America, the respective defence organisations seek to rely on the commercial housing market to accommodate Service families to the greatest extent possible (Appendix 2). Precise mechanisms for doing so vary, but in each country, government-owned housing is limited to those areas where the local market cannot provide housing, for example where military bases are in remote locations. In such cases the Services' requirement definition is less complex because it is more tightly focused on fewer specific locations.

**3.14** Arrangements for gathering data on which to base forecast requirements seem to be particularly well established in the United States, where the individual Services are responsible for meeting the housing needs of their personnel. In the case of the United States Navy, annual manpower plans for each location are used to forecast likely housing needs over a five year period. The five year projections include any significant changes, such as the planned relocation of ships to home ports or decommissionings. Information collected on personnel is taken from the pay system and regular family housing surveys, and is used to track demographic changes including reductions in personnel and changes in family size and to determine the projected need for housing at each location.

**3.15** The Executive pointed to several factors which set the United Kingdom's circumstances apart from other countries. In their view, for example, the United Kingdom does not have a ready rental market sufficient to meet military requirements which would restrict their ability to rely on private sector housing provision to the extent achieved elsewhere. Furthermore, the provision of rented accommodation to entitled personnel can prove very expensive, up to £2,000 per month in some locations for officers' housing. And other countries' Armed Forces are not subject to such a high level of operational deployments or routine movements of units as are experienced in the United Kingdom. This latter factor impacts on the stability of the Services' population from which forecast requirements for family housing are drawn.

### **Personal choices – to live in or to live out**

**3.16** Although a Service family may be entitled to live in a family quarter, they are not obliged to do so. They may, if they wish, live in their own house or rent from the private sector. These choices have a major impact on the demand for Service housing - which has recently been falling at around six per cent annually - and hence on the number of empty quarters. Service personnel also are free to choose whether they take their families with them on accompanied Service tours. Some choose not to do so and instead commute weekly and live in single accommodation at their place of work during the week. In the same way as families purchasing their own homes, this will reduce the demand for family quarters. There are a wide range of factors that influence Service families' choices about whether or not to live in family quarters.

**3.17** In 1997 and 1998, the Executive commissioned the Defence Evaluation and Research Agency to carry out surveys of military personnel to identify the basis for personal choices. The surveys achieved response rates of 51 per cent and 23 per cent respectively and a number of responses are difficult to interpret because of the likelihood of relationships between a number of the multiple-choice options offered. Nevertheless, and despite the relatively low response rates achieved, the surveys provide a guide to the factors influencing personal choices. The main factors centre on location, economics and lifestyle:

- **Location** - the availability of suitable local accommodation to purchase, and the extent to which personnel regard the location as within their "home area", influence rent or buy decisions.
- **Economic factors** - the state of the property market, relative house prices and interest rates are all important factors in decisions on whether to take up housing entitlements, as are the charges levied for staying in family quarters.
- **Lifestyle choices** - stability for families, and particularly children's education and spouses' careers, were prime influences in Service personnels' decisions to buy their own homes. Where moves were less frequent, as in the Navy, only 23 per cent of staff take up their entitlement to family quarters. More frequent moves, to a greater number of locations lead 78 per cent of entitled Army staff to use family quarters.

**3.18** Although these surveys have provided interesting information, they have not been structured in a way that makes interpretation of the information easy, nor do the Executive yet have a model, qualitative or quantitative, into which the information can be fed to generate views about likely future demand.

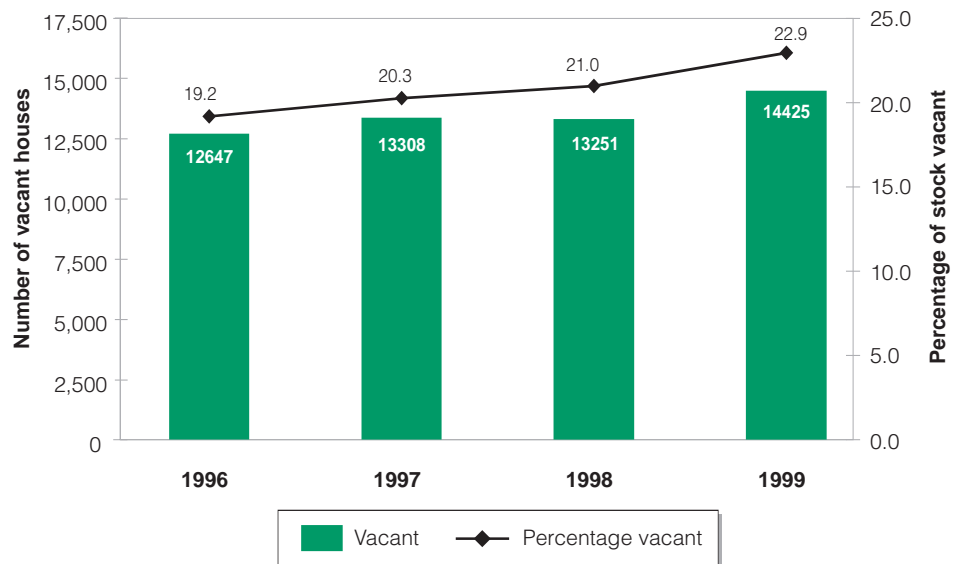
### Impacts of inaccurate planning

**3.19** Inaccurate planning will have one of two main effects – both of which add to overall costs. First, where demand has been overestimated the level of empty property will increase over time. Figure 11 shows that vacant houses have increased as a proportion of the family quarters estate each year since 1996 (when the Executive was established). This overall upward trend in empty properties across the estate indicates that planning has not accurately reflected outturn levels of demand. That the vacancy problem affects most areas indicates a widespread over-estimation of demand.

The trend in vacancy levels since 1996

**Figure 11**

The figure shows that the number of vacant houses in the family quarters estate has risen by almost 2,000 properties since 1996.



Source: National Audit Office analysis

**3.20** Secondly, where demand has been underestimated, and an appropriate family quarter is not available a Serviceman has to be housed in a property that meets his entitlement rented from the private sector, known as Substitute Service Family Accommodation. The cost of renting from the private sector is substantially higher than either the rent paid by the Executive for an Annington Homes owned property, or the cost of a quarter owned by the Department.

**3.21** In 1998-99 the Executive spent £10.5 million on 918 houses as substitute accommodation, an average cost of over £11,000 per year compared with an average cost of £4,500 per year for a family quarter - a total difference of at least £7 million had the Executive inherited the right types of quarters in the right places. In some cases where family quarters do not exist at present, the Executive have chosen to house Service personnel in substitute accommodation rather than to provide new build homes since they believe this to be the most cost effective option.

## **Recommendations on planning and forecasting**

**3.22** The Department should:

- in improving their planning, include specific analysis of stocks, performance, quality of service and other indicators and how they relate to demand and the level of vacant property held;
- ensure that an assessment of demand for housing is an explicit part of the planning process and that outturn is compared with planning forecasts so that forecasting lessons can be learned; and
- make routine, and improve the scope and quality of, their periodic survey of entitled staff views of family quarters. In doing so, they should seek to integrate the housing survey with other annual surveys by the three Services to deliver a joined-up programme of information gathering that minimises the burden on respondents.

## **Defining an efficient management margin**

**3.23** A key element for the Executive in successful strategic planning is the ability to define an efficient management margin. In Part 2 of this Report we explained that the current allocation process for family quarters makes it necessary for the Executive to have a proportion of the estate vacant at any one time - a management margin. To run the estate efficiently in the future the Executive need to define the minimum management margin that will allow them to meet the Services' requirements within established time targets.



### The Executive's targets for the numbers of vacant houses

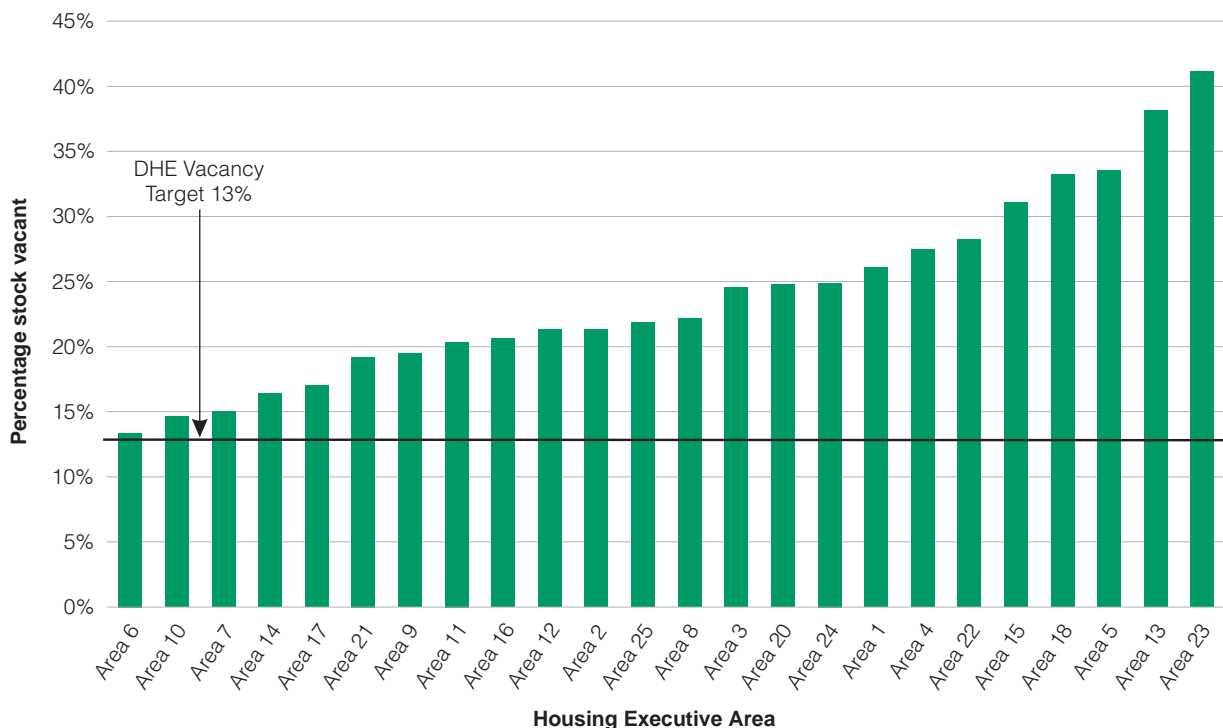
**3.24** The Executive have a key performance target to reduce the number of vacant quarters to 13 per cent of the estate by March 2002 and to 10 per cent of the estate thereafter. The Executive have not set equivalent targets to guide their local areas' performance. In their absence, area managers have adopted the corporate target as their own. Achieving the reduction to 13 per cent across the estate would almost halve the current vacancy rate of 23 per cent and reduce the cost of vacant quarters proportionately, producing savings in the order of £17 million a year.

**3.25** Figure 12 compares each area's vacant stock holding at September 1999 with the Executive's key target. It shows that there are wide differences in the vacancy rates achieved by areas and that significant progress will have to be made by some if they are to achieve a vacancy rate of 13 per cent by March 2002. Only three of the Executive's 24 areas currently have vacancy rates which approximate to the corporate target, and eight have vacancy rates of more than double the target.

**Figure 12**

**Percentage of houses vacant in each area**

*The figure shows the proportion of houses that were vacant in each housing area in September 1999, including properties in course of disposal. Very few areas are close to achieving the Executive's target level of 13 per cent vacancies.*



Source: National Audit Office analysis

### **The derivation of the targets**

**3.26** We examined how the Executive had arrived at their target vacancy rates. We found that the targets had been set in 1998 without reference to any analysis of what level of vacancy would represent optimum efficiency in the allocation process. The Executive could not provide a breakdown of either target that identified the component elements of overall vacancy rates - for instance what element of the 13 per cent would represent quarters vacant for agreed deployments or for modernisation programmes. The target vacancy rates, although an improvement on the then-current position, were arbitrary figures that the Executive felt were achievable within the timescales set. The Executive acknowledge that this level of vacancies does not represent a desirable management margin and that targets derived in this way provide no assurance that, if achieved, the system is operating efficiently.

**3.27** To promote efficiency, the target must relate to the factors that drive the allocation process and the size of the management margin. As part of our work we employed HVR Consulting Services Limited to map the process of Service housing provision, identifying all the variables involved and establishing the relationships between the variables. We then held a focus group to allow Service housing practitioners to scrutinise the process map and ensure its accuracy and completeness. Our consultants' work highlighted a number of key factors that influence the size of the management margin, and that should be taken into account in setting the target:

- Occupancy volatility - the number and frequency of moves in and out of family quarters;
- Time constraints - the targets to confirm address 56 days before posting and house within 28 days of arrival;
- Refurbishment and modernisation projects - the number of quarters requiring work and therefore unavailable and the amount of compensating decant space required;
- The availability of substitute accommodation - in areas where the private sector rental market is known to be limited, sufficient quarters will be required to meet Service needs;

- Travel to work regulations - the distance from place of duty that the Department specify as appropriate will affect the flexibility of the estate;
- The configuration of the estate compared with the entitlement criteria and the number of different house types.

**3.28** The influence that these factors have on the number of vacant quarters, and the relationship between individual factors, is illustrated in the process map at Appendix 3. For example, the severity of location criteria, which govern the distance from their place of work that people may be housed, can be seen to influence directly the level of vacant houses held since the criteria constrain the Executive's ability to house families in neighbouring areas. This can also affect the degree to which the Executive need to rely on substitute rented private sector housing. Taking another example, the process map shows that the Executive's ability to provide families with suitable accommodation efficiently would increase if the number of different entitlements were to decrease.

### **Local targets**

**3.29** The 13 per cent target adopted by local managers (paragraph 3.24) takes no account of variations in circumstances between areas. In practice, the management margins needed are likely to vary between areas. Those areas with stable populations, good quality housing stock and relatively few moves a year will be able to run efficiently with a small number of empty properties. Other areas where there are more moves, people are posted more frequently and where the stock needs significant modernisation will require higher management margins. Figure 13 illustrates the varying circumstances faced by the four areas we visited during our examination.

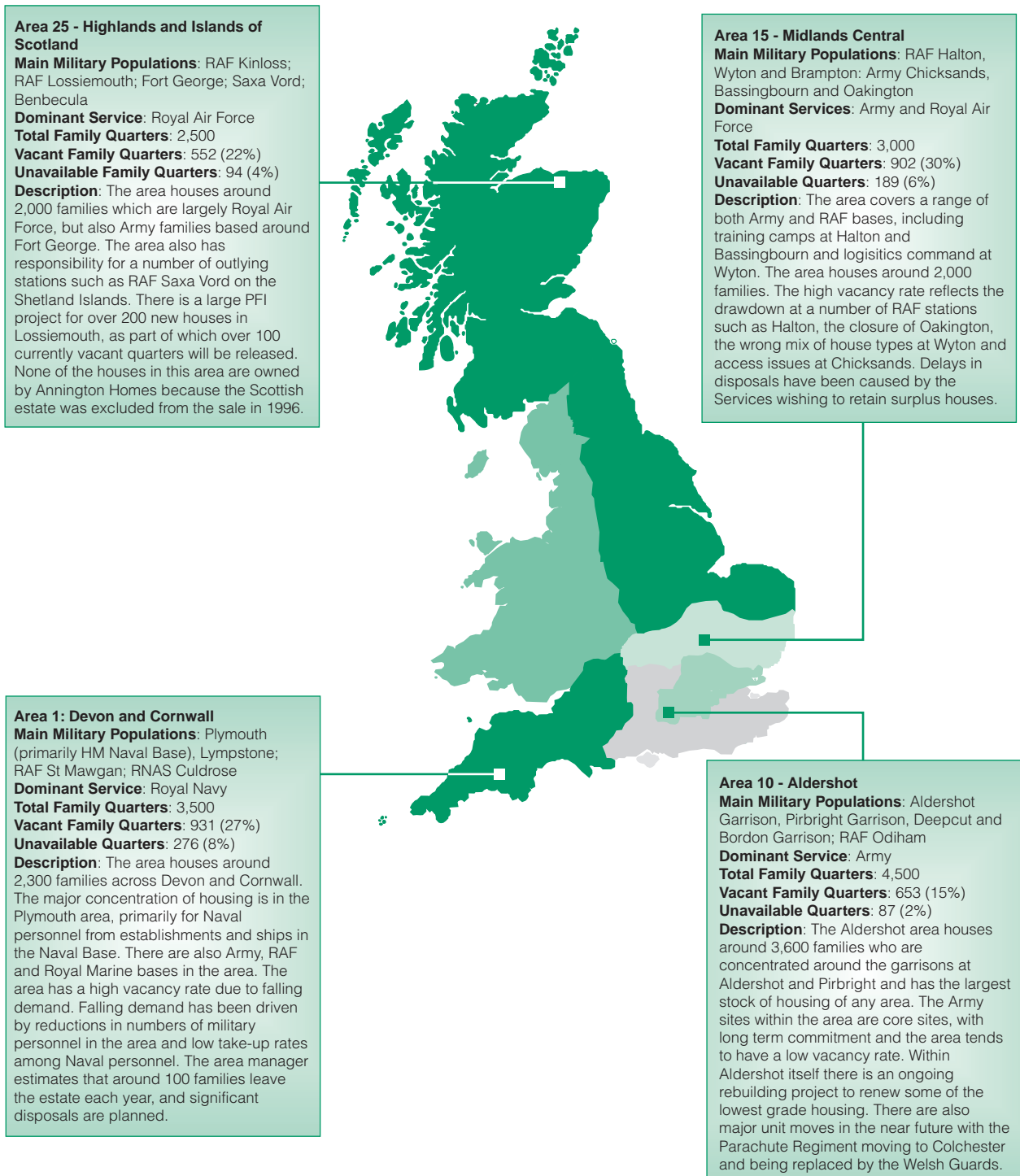
**3.30** Adoption of the 13 per cent target by every area is likely to build inefficiency and cost into the estate because the target provides an insufficient discipline on areas enjoying the more favourable circumstances. Over the longer term this will promote the growth of another body of surplus quarters.

**3.31** During our visits to four housing areas we asked area managers what they would regard as an efficient management margin. All of them said that 13 per cent was higher than could be justified and did not know how the target had been derived. They said that, dependent on refurbishment and modernisation programmes, the management margin should be somewhere between four and

**Figure 13**

**Key characteristics of the four area we visited**

The figure shows the locations covered by the four areas we visited and provides detail on the key issues affecting family housing in those areas.



Source: National Audit Office analysis

eight per cent of total stock. These findings were reinforced by the delegates at our process mapping focus group who considered that an achievable and efficient management margin would be less than ten per cent of total stock.

**3.32** The area managers all said that management margins would vary from area to area, and all had different approaches to how to define the target levels appropriate to them. In Aldershot, the area manager had estimated an efficient margin, excluding those properties earmarked for refurbishment and modernisation, by reference to a number of the factors listed in paragraph 3.27. As with the rest of the Executive, his area has to house people within 28 days of arrival. Given that constraint, the manager had measured how many moves-in were conducted every 28 days in his area, and concluded that this was the number of empty quarters that he needed every month. For Aldershot this is around 200 quarters, five per cent of the estate - well below the 13 per cent target for the Executive as a whole.

## **Controlling the number of unavailable quarters**

**3.33** The long-term vacancy target adopted by the Executive is not designed to monitor those family quarters that are misappropriated, irregularly used or leased-out. As discussed at paragraph 2.11, these houses are used for a range of purposes, including meeting social or welfare needs, and are not immediately available for allocation to entitled or eligible Service families. Such usage does not contribute to the objectives for family quarters, although it can generate some income and can contribute towards wider Defence objectives.

**3.34** The significant over-supply currently available within the family quarters estate has provided the Executive scope to permit this alternative usage of their stock without detrimental effect upon the service provided to entitled or eligible families. In the long term, however, as the Executive move towards their aim of achieving tighter management margins the scope to use stock in this way will reduce and the use of housing for such non-core purposes may detract from the Executive's ability to meet their prime objectives. The Executive therefore need to control and monitor closely the number of unavailable quarters within the estate, both to ensure that such usage represents good value for money and that it does not inhibit their ability to house entitled and eligible families. Such monitoring would also eliminate any incentive to increase alternative usage as a way of meeting the management margin target for empty properties.

## Recommendations on target setting

**3.35** The Department should:

- set individual area vacancy targets by reference to local operational factors, and a clear understanding of the need for empty properties for specific purposes, as well as in recognition of the speed of change that is feasible;
- derive the Executive's overall vacancy target from the sum of area targets;
- build on the limited mapping of influences on vacancy rates that we have undertaken, to improve their understanding of the family quarters system and so refine target setting;
- establish those constraints within current family quarters regulations that most affect vacancy rates and substitute housing costs, and review their continuing relevance - adjusting vacancy targets as appropriate; and
- monitor closely the number of houses that, while occupied, are unavailable for allocation to entitled and eligible families with a view to keeping such usage to an absolute minimum.

## Part 4: Managing the estate to minimise vacant quarters

**4.1** This Part of the Report examines the operational management of the estate by the Defence Housing Executive's area offices. It highlights constraints within the current housing system that result in empty quarters and additional costs to the Executive. It considers how the constraints might be lifted to allow more efficient operational management of the estate and a reduction in the number of vacant homes within the housing stock.

### Managing moves to minimise the need for vacant quarters

**4.2** As noted at paragraph 1.9 and Figure 3, the Executive administer the national housing stock through a network of 24 area offices, each of which is responsible for between 1,500 and 4,500 family quarters. The areas are led by an area manager who is responsible for the day-to-day operation of the local estate.

**4.3** The areas' core business revolves around the processing of applications for housing received from Service personnel and, in response to these, allocating housing of an appropriate standard within the time targets in the tri-Service accommodation regulations. Other responsibilities include:

- maintaining, refurbishing and modernising the local housing stock;
- liaising with local Service commanders about their units' housing requirements;
- identifying and releasing surplus property to Annington Homes and/or the Defence Estates agency; and
- providing input to central strategic planning initiatives, such as the Executive's long term housing plan, and monitoring local performance against targets set by the Executive's annual corporate and business plans.

The efficiency with which area offices manage housing moves bears directly on the volume of vacant quarters that need be held within the estate.

## **Area offices manage around 20,000 individual moves each year**

**4.4** Each year, the Executive's area offices, together, manage a total of over 20,000 individual housing moves. The need to rehouse military families on such a scale each year reflects two types of personnel movements within the Services:

- Unit moves - where a whole military unit is moved from one location to another en masse; and
- Individual moves - known as trickle postings, where individual Service personnel are posted from one job to another in a different area as part of their planned career progression.

## **Unit moves cause little difficulty**

**4.5** Unit moves account for around 10 per cent of annual house moves within the family quarters estate, and are largely concentrated within the Army. Unlike the other Services, the Army operate a system known as the "arms plot" whereby combat units, such as infantry and armoured regiments, are moved once every two years as part of their training and readiness cycle. Unit moves are much less frequent in the Royal Navy and Royal Air Force and tend to occur only where a ship or flying squadron is re-based.

**4.6** Although unit moves, by their nature, require the simultaneous movement of large numbers of families we found that they caused area managers relatively few difficulties in practice. Such moves generally have a long lead time and area managers become aware of impending moves at least twelve months ahead of their implementation. In addition, though not precisely mirroring each other, the structures of the units involved in these moves will normally be relatively similar so, to a large degree, the housing requirements of the incoming unit will resemble those of the unit moving out.

**4.7** To minimise any uncertainties about units' demands for housing, the Executive's staff liaise closely with incoming units before they arrive to assess more precisely their requirements and to ensure that all housing applications are submitted well in advance of the move date. This makes it more likely that sufficient appropriate accommodation will be available on arrival.



**4.8** Two of the four area offices that we visited (Aldershot and Kinloss) were in the process of planning a unit move when we visited them. In both areas, the incoming unit was not due to arrive until April 2000, but both areas had already held preliminary meetings with the incoming units to identify their housing requirements. At Aldershot, more than 90 per cent of the applications from the new unit had been received by the time of our visit in July 1999. In both areas the incoming unit was replacing a similar unit moving out. Neither area manager expected the unit moves to cause substantial problems.

**4.9** On the basis of evidence provided during our visits, the Executive's procedures for handling unit moves are functioning well. The long lead times associated with these moves are key to the efficiency of the process and enable area offices to plan with a degree of certainty the utilisation of their available housing stock. For example, they are able to reduce the number of houses held vacant to accommodate incoming units, and to minimise the period for which any quarters remain vacant. They are also more likely to be able to match as closely as possible their stock availability to the needs of the incoming unit, thereby minimising the potential costs associated with renting temporary substitute accommodation from the private sector.

### **Trickle postings - poor information causes inefficiency**

**4.10** All three Services move staff between posts regularly as part of their career progression and development. This will often require a change of location, involving staff moving from one Executive area to another. Trickle postings account for around 90 per cent of the moves handled by area offices each year. In contrast to the process for managing unit moves, we identified a number of problems which inhibit the efficient allocation of housing, resulting in higher than necessary vacancy rates and associated costs.

**4.11** Service personnel usually receive around three months notice of a posting. It is then their responsibility, rather than the Services, to notify the Executive of their impending move. Those personnel wishing to live in family quarters at their new location normally apply almost immediately to the appropriate area office. This generally provides sufficient time to ensure that new arrivals are housed in accordance with the Executive's guidelines.

**4.12** While the new area will have received a housing application some two to three months in advance, however, the area managers that we interviewed were concerned that they often received little notice of an individual's posting out of their areas. Service personnel appeared to be reluctant to notify the Executive that their quarters were to become vacant until, for example, they had secured a new

address, their children had been accepted by a new school and they had arranged their removals. Area managers reported that they generally received as little as two weeks notice of departure. In some extreme cases, area staff were not advised of a move until the individual handed back the keys to their quarter.

**4.13** This lack of advance notice of impending departure inhibits area offices' forward planning capability and makes the allocation of quarters inefficient in three ways:

- area staff are unable to inspect the house and schedule any cleaning or maintenance work until just before it becomes vacant. Late inspection will extend the time over which the property is vacant awaiting cleaning and minor works and delays the date at which the quarter becomes available to new families;
- areas do not as a matter of practice offer accommodation to new applicants until a quarter is empty. Because applications from incoming staff are normally lodged two to three months in advance of their arrival the newly vacated quarter is likely to remain vacant between families for at least that time, during which the Executive continue to pay rent and/or maintenance. Such lengthy gaps between occupants are inefficient, costly, and add to the level of vacant properties in area management margins;
- substitute accommodation may be rented unnecessarily from the private sector if area staff are unaware that suitable quarters are likely to be vacated in time to meet the needs of new arrivals. Under the terms of the assured shorthold tenancy agreements governing the renting of property in the private sector, applicants are committed to living in substitute accommodation for a minimum of six months once they have taken up residence. Any quarter that could otherwise have housed the family may therefore remain vacant for up to six months until they are free to vacate the substitute accommodation.

**4.14** We found that area offices do not routinely communicate with each other about Service personnel as they move through the housing system. For example, area staff are not informed by colleagues in other areas when applications for housing in those other areas are received from one of their current occupants.

**4.15** The Executive's management information system reflects this lack of horizontal communication. Within their current computer system, area staff cannot interrogate applicant or occupant data in another area. This information is

available only to the Executive's central staff for monitoring and planning purposes. Area offices therefore have no computerised facility either to check if their occupants have applied to be housed elsewhere, or to inform colleagues in another area that an application has been received.

### **Initiatives to improve the trickle posting process**

**4.16** In August 1999, the Executive instigated a six-month trial in the Portsmouth area to test the feasibility of providing incoming families with confirmation of new addresses 56 days in advance of their arrival, rather than 28 days as required under current arrangements. Earlier notification of actual addresses will enable families to arrange their domestic affairs in the new area, such as school registration, with more certainty. The outcome of the trial will be evaluated in the Spring of 2000.

**4.17** If successful this initiative is intended primarily to benefit Service families, but it also offers scope for the Executive to address the central weakness of the trickle posting system - that of reliance on outgoing occupants to notify area managers of their impending departure. Without independent notification by the Services themselves the Executive's housing allocations in response to trickle postings will remain inefficient.

**4.18** The Executive plan to introduce a new computerised information system by April 2001. This will provide an opportunity to enhance area managers' ability to administer the family quarters estate and to improve communications between area offices.

## **Recommendations on handling Service moves**

**4.19** The Department should:

- continue with the current sensible arrangements in place to handle unit moves, which generally work well;
- ensure that the Services provide posting information to housing staff, in advance of direct notification of imminent departure by the Service person in question;
- pursue their plans to introduce a new computerised information system which should improve facilities for areas to exchange information and interrogate each others' applicant and occupant data;

## Managing reductions in the number of vacant family quarters

- ensure that when an application for accommodation is made to a new area, that area routinely informs the applicant's current area; and
- monitor the arrangements being trialled at Portsmouth for trickle posting notifications, and extend them if successful.

## Part 5: Disposing of surplus family quarters

**5.1** This Part of the Report considers the arrangements used by the Defence Housing Executive for identifying and disposing of quarters that are surplus to requirements. Given the current significant over-supply of housing, this process is the Executive's main short term tool for adjusting supply to meet demand and significantly reducing the number of vacant quarters held in the estate and thus their costs.

### Identifying surplus properties

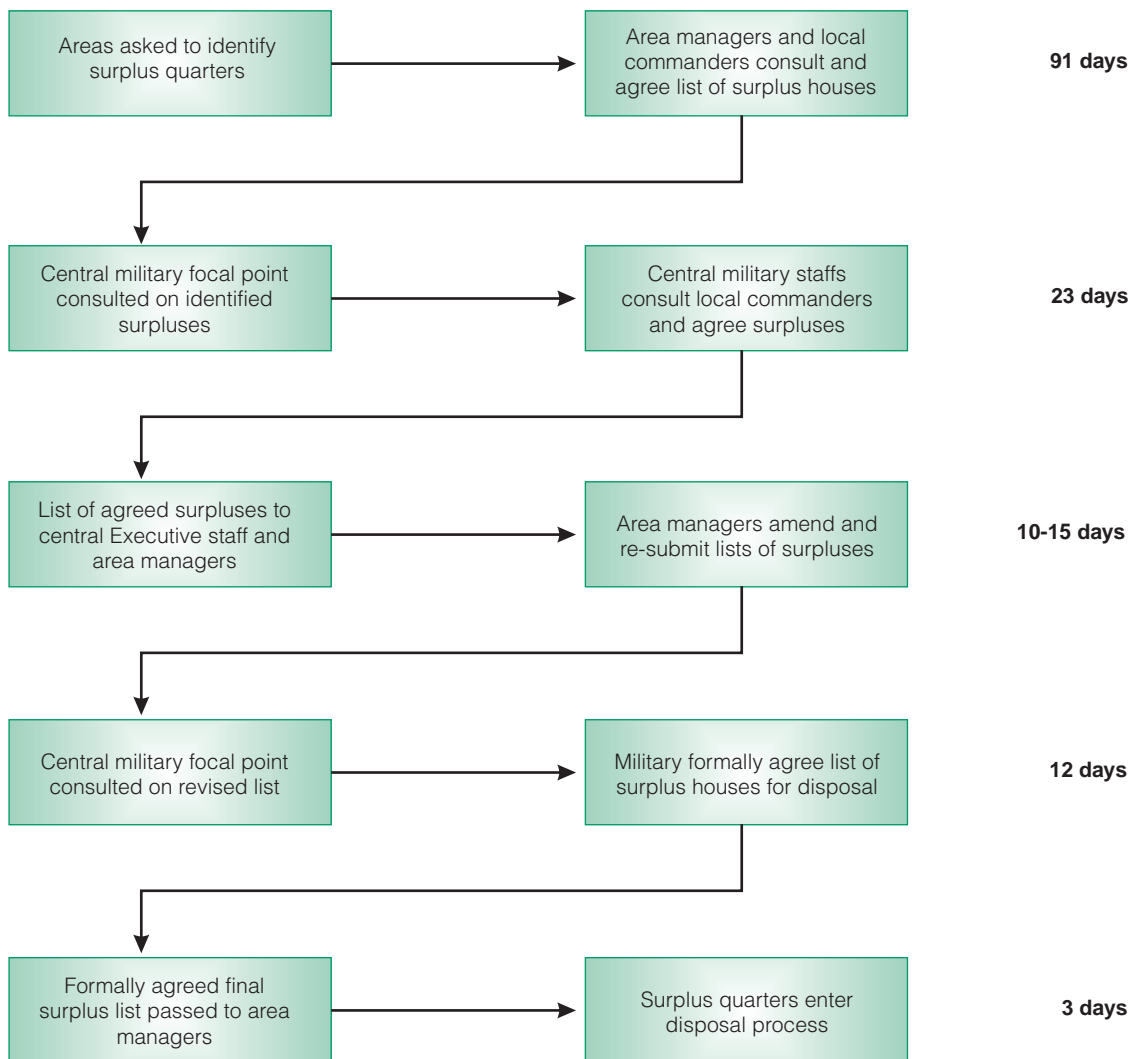
**5.2** As part of the Executive's annual long term housing planning exercise, area managers identify properties in their area that they consider to be surplus to the military's requirements. The Executive then compile a consolidated disposal plan for the following three years. Figure 14 shows the process through which surplus properties are identified.

#### The role of the Services in identifying surplus properties

**5.3** As Figure 14 shows, the Executive do not identify surplus properties in isolation. They undertake a substantial amount of consultation with the Services at a number of stages during a five month period. The Services are consulted at both local and central levels during which they may seek to revise the Executive's initial proposals. Generally, the Executive will not proceed to disposal where the Services can demonstrate an identified requirement for the properties identified as surplus or where there are well founded security issues associated with their release. An example of a security issue affecting the release of quarters in some areas is where empty housing is located within the boundary of the military base itself ("behind the wire") – see Box 1.

**Figure 14** The process for identifying surplus properties

The figure shows that the process for identifying surplus properties, involving repeated consultation with the Armed Services, can take up to over four and a half months.



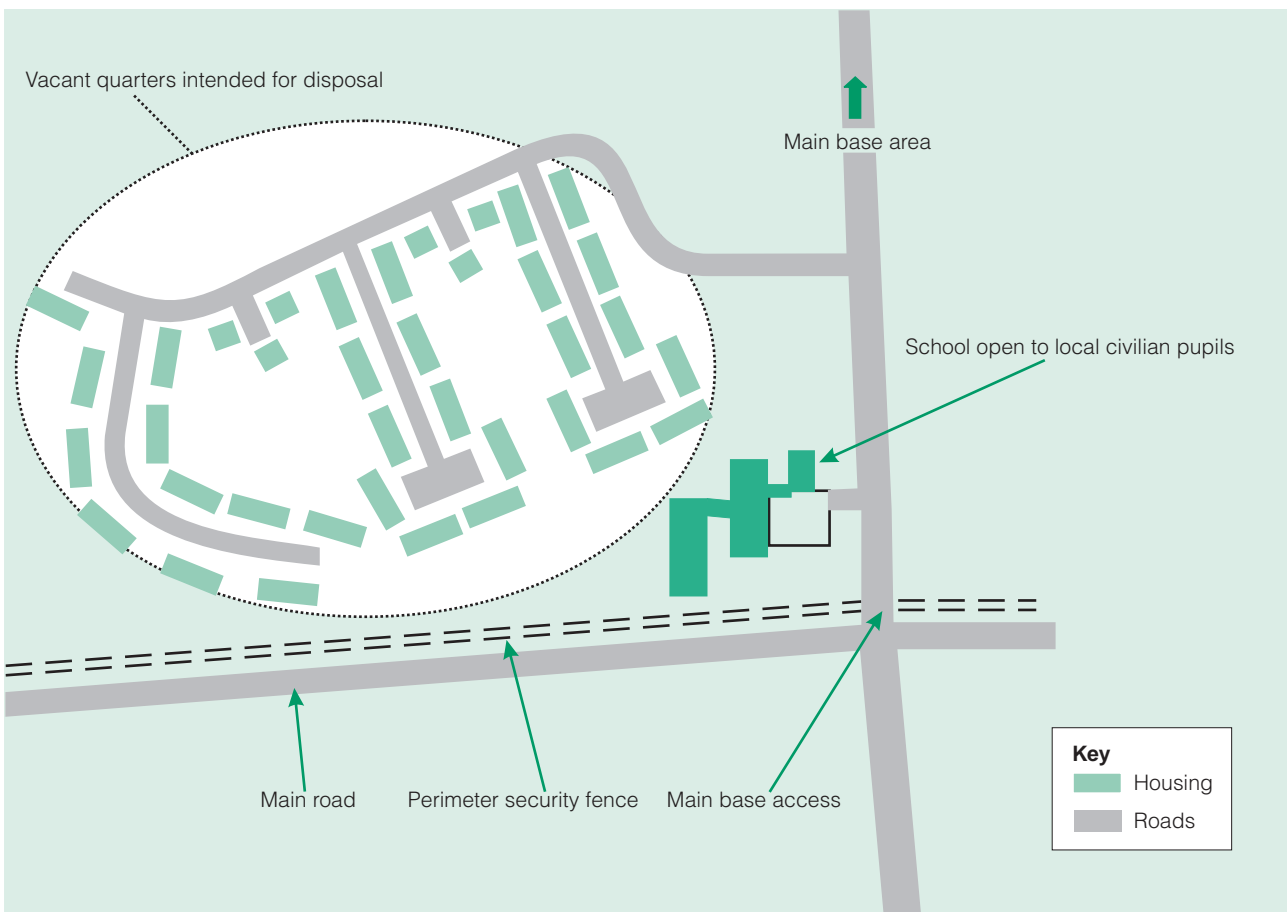
**Approximate Total: 140 days**

Source: Defence Housing Executive

**Box 1**

**Housing behind the wire**

Three hundred and eighty two houses at Chicksands, Bedfordshire, are all located within the perimeter fencing of the military base. Of these, 116 houses built to the specifications of the previous occupants of the site, the United States Air Force, have been empty for five years.



Although the Executive have now proposed that these houses should be released in 2000-01, the local commander's concerns about the impact of resiting the perimeter fence on his ability to maintain the security of the base, and the provision of suitable access to the released site have prevented earlier disposal.

Source : Ministry of Defence

**5.4** Area managers interviewed during our visits to the Executive noted that identifying surplus properties is often not straightforward. Although it may be relatively easy to identify properties that should be disposed of in the near-term since these are likely to be quarters that have been vacant for a long time, it is more difficult to identify houses that should be released in future years. As noted at paragraph 3.12, following the Strategic Defence Review, some elements of the Services are currently uncertain about their location, staffing and therefore housing needs over the medium term. They are therefore sometimes reluctant to declare properties as surplus, even though they do not at present have clearly

identifiable requirements for them. This may manifest itself as houses simply held empty or as properties that the Services agree to be temporarily leased out to third parties. Area managers confirmed that the Executive had very little control in this situation because their primary function was to meet the stated housing requirements of the Services, and they could not second guess what these requirements might be.

**5.5** The Executive's attempts to agree the release of such properties with the Services are further undermined since there are no financial incentives on the Services to identify and release surplus houses. At present, while a quarter is vacant, all rent and maintenance costs fall to the Executive, even where the Services have requested that apparently surplus property be retained. This situation allows the Services to retain as many empty houses as they wish, without any financial responsibility for that decision.

**5.6** The influence that the Services exert in identifying and agreeing surplus properties for disposal can be substantial. For example, in the 1998 planning round, following local consultation, area managers had identified 1,450 surplus quarters for release in 1999. After consultation with the Services central chains of command, 226 properties were withdrawn at the Services request, although a further 118 houses were added. The number of properties finally agreed as surplus was, therefore, 1,342, representing an attrition rate of over 7 per cent. The Executive were unable to identify how many of the 226 quarters retained at the request of the Services remained empty at September 1999, and the potential annual cost to the Executive in rent and maintenance.

**5.7** Figure 14 illustrates that the identification of surplus properties is a time-consuming process, partly because of the substantial consultation involved. From requesting proposals from area managers to finalising the disposal plan can take up to five months, during which time many of the properties will be empty. Because of its bottom-up, consultative, annual nature the process of identifying surplus quarters cannot easily respond to any short-notice changes in demand for quarters – induced either by changes in the Services' requirements or reductions in the number of personnel choosing to live in family quarters. In practice, at the time of our fieldwork, if a batch of surplus quarters was not included in the disposals plan for any given year there was a delay of a further year before they were processed and any disposal action begun. The Executive now intend to update their disposal forecasts on a quarterly basis.



## Releasing surplus quarters

**5.8** The Executive do not dispose directly of surplus properties on to the open market. Having agreed with the Services those quarters which are surplus to requirements, the Executive follow one of two routes to release surplus quarters for eventual disposal, reflecting the split ownership of the estate. The quarters are released either to Annington Homes or, for those properties still owned by the Department, to the Defence Estates agency.

### Releases to Annington Homes

**5.9** The process for releasing surplus quarters to Annington Homes is governed by the terms of the agreement drawn up at the time of the sale of the majority of the estate to Annington Homes (the sale agreement). Figure 15 shows the stages involved in disposing of properties through Annington Homes. Once the quarters are handed back to Annington Homes, the Executive's rental payments under the agreement are abated accordingly. While the Executive have complete discretion as to the timing and location of property releases, the sale agreement does place some constraints on the return of properties to them.

**Examples of quarters released to Annington Homes at RAF Halton**



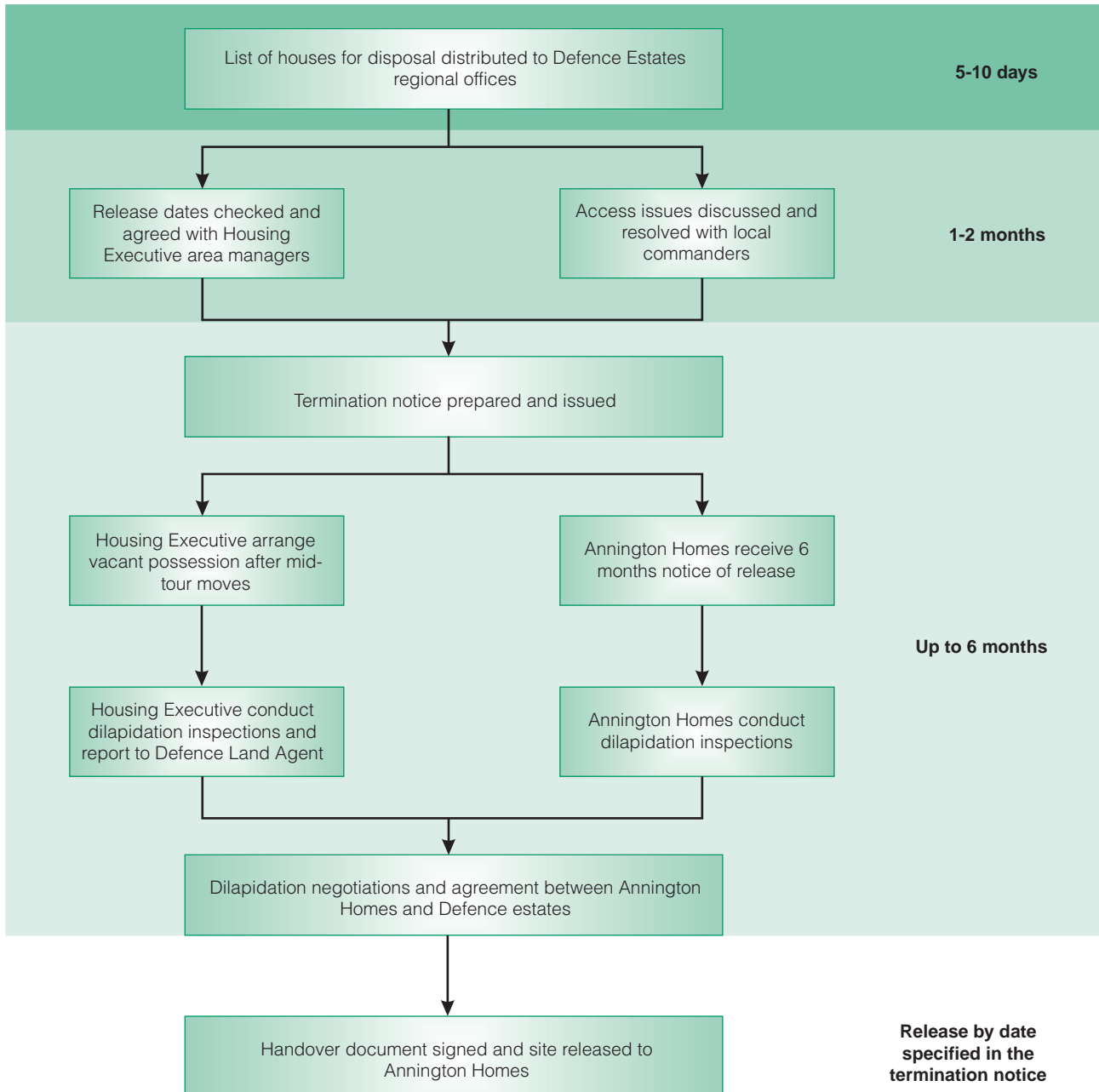
### Six months notice and dilapidations

**5.10** The Executive are required to provide a minimum of six months notice to Annington Homes of any releases and guarantee that, at the end of the notice period, properties will be transferred with vacant possession and in “good tenenable repair”. Annington Homes will, however, accept quarters before the end of the six month notice period provided that negotiations on the financial compensation to be paid to them by the Executive for any dilapidations to the property are complete.

**Figure 15**

**The process for releasing surplus houses to Annington Homes**

*The figure shows the processes and time needed for releasing surplus houses to Annington Homes*



Source: Defence Housing Executive

**5.11** The “dilapidations” process is managed by the Defence Estates agency on behalf of the Executive. It requires both the Executive and Annington Homes to inspect each house in order to agree an appropriate level of payment to compensate Annington Homes for the cost of any repairs needed to restore the property to the required standard. Given that the dilapidations claim for each house can vary significantly depending on the condition of the properties in question, the dilapidations process is staff resource intensive for both parties and can take six months or more.

### **Number and location of quarters**

**5.12** The 1996 sale agreement with Annington Homes requires that the size of each property release within individual sites should be at least 10 per cent of an estate, or 20 housing units whichever is the lower. Any releases must also be contiguous with any other quarters released on that site. This is to prevent the “pepper-potting” of released properties among quarters retained by the Executive that might otherwise cause access and security difficulties, and constrain Annington Homes’ ability to sell or redevelop the properties.

**5.13** The frequency with which Service personnel may be required to move home during their careers can be damaging to morale. In recognition of this, the Executive have undertaken with the Services to minimise the number of mid-tour moves imposed on their personnel (where a family is moved within an area mid-way through a posting). Area managers noted that, when coupled with this condition of the sale agreement, the undertaking constrains area offices’ management of their housing stock where parts of an estate have been declared surplus to requirements even though some quarters within the site are still occupied. Rather than move the incumbent families to other properties elsewhere to achieve fully vacant sites, area staff wait for them to be posted and, in the meantime, do not allocate existing empty properties to incoming families. As a result, although the site as a whole may have been vacant for only 3-6 months



**The photographs show why, given the layout of estates, pepper-potted vacancies can hamper disposals.**

when handed over to Annington Homes, a proportion of the site may actually have been vacant for up to 18 months previously. During this time, the Executive will have continued to incur rental and maintenance costs on all vacant housing on the site.

### **Guaranteed release and minimum payment profiles**

**5.14** The 1996 sale agreement requires the Executive to have released a minimum number of houses to Annington Homes each year. The releases are to be made in line with a cumulative schedule so that by year 25 of the agreement (2021) Annington Homes will have taken possession of at least 13,200 houses.

**5.15** There is no cap on the maximum number of quarters that can be released in a year, and the Executive have exceeded the minimum guaranteed releases in each year since the sale. For example, by 1999, the Executive had released 2,926 homes against a minimum guarantee of 1,376.

**5.16** The sale agreement contains a minimum rental payment profile, from which a minimum holding level can be inferred. Should sufficient quarters be released to move below this level, the Executive would be required to continue to pay the rent levels specified in the minimum payment profile. The only saving to them would be the maintenance costs.

**5.17** The occupancy level implied by the minimum payment profile also covers a period of 25 years from the date of the sale, and shelves down over time. The implied holding for 1999 (three years after the sale) is roughly 47,500 quarters, falling over the following five years to between 32,500 and 37,500 quarters (dependent on assumptions on rent inflation). The Executive currently manage 53,000 Annington Homes owned quarters, and expect to release around 3,000 homes in 2000. There is, therefore, little prospect of the Executive reducing their housing stock below the implied holdings profile in the short term.

### **Releases to Defence Estates agency**

**5.18** Surplus family quarters that are still owned by the Department are disposed of by the Defence Estates agency. The process is relatively simple - the Executive identify the surplus quarters and instruct Defence Estates to dispose of them to a buyer. There are no constraints on the numbers, location or timing of disposals.

### **Disposing of quarters through Defence estates is a slow process**

**5.19** There are, however, concerns over the speed with which the Defence Estates agency dispose of properties. The Executive, centrally, and all the area managers we spoke to, considered that the process takes far too long. Best practice guidance on securing the better use of empty homes issued by the Department of the Environment, Transport and the Regions suggests that, wherever possible a property should be disposed of before it becomes empty, and certainly within six months of it becoming empty.

**5.20** The Defence Estates agency told us that, while specific reasons may vary according to individual circumstances, there are a number of constraints that may delay their disposal of surplus family quarters. These include:

- the need to sell houses to housing associations, sometimes in return for nomination of rights. Sales can be delayed where housing associations lack adequate funding;
- the need to ensure the future supply of utilities to houses, once sold. This could be problematic where utilities were previously supplied by military bases and it was difficult to provide access to, for example, public sewerage systems;
- the siting of quarters behind the perimeter fencing of military bases;
- the absence of a suitable market for surplus houses, for example in remote areas; and
- the need to dispose of surplus houses as part of a wider disposal package. This was a contributory factor in the sale of quarters in Aberdeen in February 1999, noted during our visit to the Kinloss area office. The Defence Estates agency had taken two years to dispose of the surplus properties, which had been empty since at least 1996, since they had needed to resolve a number of planning issues associated with the wider development site.

**5.21** The consequences of delays in such disposals currently fall on the Executive. Although it is the Defence Estates agency's responsibility to market and dispose of the surplus quarters, the houses continue to be reported as vacant within the Executive's management information system until they are finally sold.

And the maintenance costs remain with the Executive. Although they try to minimise the amount of maintenance work undertaken on these quarters they cannot be completely abandoned due to the detrimental effect on their eventual sale value. Also, the longer a quarter remains vacant, the more the Executive risk incurring additional maintenance costs through vandalism to the properties.

**5.22** During 1999, the Executive discussed with the Defence Estates agency the introduction of revised arrangements for the transfer of Department-owned surplus housing. The Defence Estates agency have agreed that responsibility for surplus housing should be transferred to them at the point at which they accept the properties for disposal. The houses would then be removed from the Executive's housing database and the Defence Estates agency would bear any associated maintenance costs incurred while awaiting disposal. The Executive expect to introduce the revised arrangements retrospectively from April 1999.

## **Recommendations for identifying and disposing of surplus properties**

**5.23** The Department should:

- streamline consultation with the Services by promoting concurrent comment from various Service stakeholders, rather than the existing sequential and repetitive process;
- ensure that the costs of retaining surplus vacant quarters because of the Services' over-estimation of need are identified and made explicit within the planning and review cycle;
- ensure that discrete batches of surplus houses can be identified and released as part of the proposed quarterly updating process;
- investigate the possibility of simplifying the dilapidations process prior to release of houses to Annington Homes - for example by devoting further resources to inspection - to speed disposals;
- consider, as a short term measure to speed the disposal of batches of properties, the limited use of specific programmes of mid-tour moves, and the payment of additional compensation to displaced families where this would be appropriate and cost effective, to relocate families within estates that have a significant number of pepper-potted vacancies; and

- introduce, as soon as possible, the proposed revised arrangements under which the Defence Estates agency would be provided with a financial incentive to sell properties quickly, by transferring maintenance costs for properties awaiting sale from the Executive to Defence Estates.

## **Appendix 1**

### **The methods we used**

#### **We examined arrangements for managing the family quarters estate at the Executive's area offices**

We carried out detailed fieldwork at Aldershot (Army), Devonport (Army and Navy), Kinloss (Army and RAF) and RAF Halton (Army and RAF). In agreement with the Executive, we selected these four area offices to be broadly indicative of family quarters estate management arrangements across the three Services. The Executive continue to own the family quarters estate in Scotland and the visit to Kinloss therefore enabled us to compare and contrast arrangements applying to these houses with those owned by Annington Homes in other areas.

At each area office, we interviewed the Area Manager and his staff to discuss the nature and composition of the local estate, with particular focus on the issues affecting: the reasons for, and trends in, the scale of the void housing sector; the identification and release of surplus housing; the identification of an efficient management margin; the identification of medium and long term housing requirements; the handling of individual movements of entitled personnel within each area; and liaison with local Service commanders. We examined supporting records as appropriate. We also visited several family quarters estates and viewed a selection of empty houses to aid our understanding of the issues involved.

#### **We sought the views of Service representatives**

As part of the above area visits, we interviewed a selection of local Service commanders on key issues affecting the provision of family housing locally, including their perceptions of the effectiveness of the Executive's area offices in dealing with Service personnel's moves, the factors affecting Service personnel's decisions to live in family quarters or in the private sector, and the identification and release of surplus property. We also held discussions with representatives of Area Services Families Consultative Groups to assess their level of satisfaction with the family housing provided by the Executive.



In addition to discussions held locally, we met with members of the Command staff for each of the Services to discuss their arrangements for identifying and communicating long term manning levels and likely housing requirements to the Executive, including the impact of the Strategic Defence Review. We examined supporting papers as necessary.

### **We visited relevant headquarters branches**

We reviewed documents and held meetings with key members of the Defence Housing Executive, Defence Estates agency and Service Personnel Policy (1c1). In addition, we analysed performance data held on the Executive's management information system with particular focus on the nature and distribution of the family quarters estate and of the void property sector within it.

### **We conducted a survey of area managers**

We undertook a postal survey of all of the Executive's area managers to obtain additional information for 1998-99, not available centrally, on: the size and composition of the Service population within each area who were entitled to be housed in family quarters; the number of, and reasons for, personnel moves within each area; the number of entitled personnel housed in substitute family accommodation rented from the private sector and its cost, and the reasons for it; and the numbers of surplus family quarters released for subsequent disposal by either Annington Homes or the Defence Estates agency. We achieved a 100 per cent response rate.

### **We visited Annington Homes Limited**

Annington Homes own 84 per cent of the family quarters estate administered by the Executive. We therefore interviewed representatives of the company to discuss their perception of the Executive's management of the estate and, in particular, the identification and release of surplus houses to Annington Homes under the terms of the sale agreement drawn up at the time of the sale of the family quarters estate in 1996.

## **We identified arrangements adopted by overseas defence organisations for providing Service family accommodation**

We liaised with representatives of the Defence Housing Authority, Australia, the Canadian Forces Housing Association and the United States Naval Forces Europe based in London. We identified arrangements for providing family accommodation, the identification and monitoring of housing needs, and the disposal of surplus housing in each country. The results of our enquiries are recorded at Appendix 2.

## **We identified the processes and factors influencing the provision of family quarters**

To do this, we appointed HVR Consulting Services Limited to map the key factors and decisions which impact on the timely provisions of service family housing of an appropriate standard and type to match demand, thereby minimising the level of vacant housing held. Following the design of an initial influence diagram, the consultants chaired a workshop discussion with selected area managers, Service and central staff to refine and agree the factors identified (Appendix 3).

## **Appendix 2**

# **How other countries provide Service family housing**

### **Australia**

#### **Provision of housing**

**1** The Defence Housing Authority was established in 1988 to provide Service family housing on behalf of the Department of Defence. It was vested with houses owned by the Department on establishment. The Authority is classed as a government business enterprise and can raise capital on the open market to buy houses for Defence purposes.

**2** In addition to housing provision, the Authority is to become responsible, from July 2000, for such tenancy management services as housing allocation, property inspection and cleaning and rental assistance.

**3** Since 1996, the Authority has changed the way that it provides housing. Rather than relying on borrowing, it has embarked on a programme to reduce debt by increasing the involvement of private investors through a sale and leaseback scheme.

**4** Under the scheme, the Authority initially purchases houses of the required type and in the required location from developers at a discount. It then sells the properties at market value to individual residential property investors. The properties are leased back by the private investors to the Authority at market rent for up to nine years, with a further three year option. The Authority is responsible for maintaining the properties, for which it charges the private investors a management fee.

**5** The Authority is debt free and aims to have 60 per cent of all off-base housing provided by private investors by 2002. Of nearly 22,000 houses provided by the Authority, around 9,000 are leased from private investors either by direct leasing or through the sale and leaseback scheme. The remaining 13,000 homes are owned by the Authority or are on-base. The Authority is now investigating new ways of financing this stock, which is primarily located on-base and in regional and remote areas.

**6** Some 91 per cent of Service families live in military housing. The remainder either rent or own their own homes.

**7** Service families who live in military housing pay rent at a subsidised rate which is based on their rank entitlement. The Department of Defence pay the Authority the full market rent and the member's contribution is deducted from their pay.

**8** Where suitable Authority housing is not available, and they do not live in their own home, personnel receive a rent allowance with their pay to rent a house on the open market. The rate of allowance varies according to rank and location and is calculated so that the contribution paid by personnel broadly equates to the rental that they would pay as a member's contribution (deducted from their pay) for housing provided by the Authority. Personnel who buy their own home may receive a housing loan interest subsidy under the Defence Home Owner Scheme.

**9** All personnel are responsible for meeting their own gas and electricity bills. Those personnel living in military housing pay a contribution towards water charges while staff receiving rent allowance must reimburse their landlord for any water charges incurred.

### **Identifying and monitoring housing needs**

**10** The Department's Directorate of Housing are responsible for identifying Defence housing requirements over a five year period on a regional basis. They do so in consultation with the individual Services who calculate the projected disposition of personnel between units and the impact of unit moves. In projecting the likely composition of the family quarters estate required, the Directorate of Housing factor into their calculations allowances for 3 per cent of vacant properties and for a proportion of Service families in each area who will wish to rent property from the private sector. The Defence housing requirement is updated monthly.

**11** Where they do not own a suitable property in the area to which they are posted, all personnel with dependants (spouse and/or children or other people approved, exceptionally, by the Chief Defence Force) are eligible to live in Service family housing. Entitlement to specific types of housing unit is determined first by rank and then by age and gender of the personnel's dependants, other than the spouse. Where there is insufficient housing of a specific type to match an individual's entitlement, the Authority may offer houses above or below entitlement.

**12** Postings within the Australian Armed Forces are made on an individual basis. In general, personnel receive six months advance notice of posting, although this can be much shorter in some cases. Personnel should apply for family housing at the new location immediately upon receipt of their orders.

### **Disposal of surplus housing**

**13** The Authority will assume responsibility for the management of vacant properties from July 2000 when tenancy management services are transferred from the Department (paragraph 2). Generally, the Authority aims to minimise the number of vacant houses held, although the Department may hold vacant properties from time to time due to short-term fluctuations in demand or where houses require repair or refurbishment. As at January 2000, seven per cent of the housing stock provided to the Department of Defence by the Authority was empty.

**14** Properties no longer required by the Department are returned to the Authority for disposal. The disposal programme is managed so as not to distort local housing markets, and where necessary, houses are leased to private tenants pending their sale. The Authority employs private sector estate agents to dispose of surplus properties.

## **Canada**

### **Provision of housing**

**15** Canadian government policy is that government-owned housing will be provided only where the local market cannot provide housing for families. The Department of National Defence own the majority of military housing units in Canada, although some properties are leased from the private sector over 20 year periods.

**16** In 1995, the Department established the Canadian Forces Housing Agency as a Special Operating Agency to manage the provision of Service family housing on a self-sustaining basis. The Agency began operating in April 1996. The ongoing management of the housing portfolio, around 19,000 houses, is carried out by a network of housing management offices established at bases across Canada.

**17** Around 30 per cent of Service families live in military housing. The remainder rent or own private sector housing.

**18** Service personnel living in private sector housing do not receive a housing supplement with their salary. The Government do, however, reimburse estate agents and legal fees to those personnel buying their own homes. Personnel living in rented accommodation, and who are required to serve in locations where such accommodation charges are 12.5 per cent or more above the national average, receive a taxable accommodation assistance allowance. The allowance is based on the number of dependants, rank and location in each case.

**19** Occupants of Service housing pay rent by way of monthly pay allotments. Rents are set at local market rental values which is intended to ensure that personnel occupying Service family housing do not receive benefits which are not equally and fairly available to personnel who rent local private sector housing.

**20** To inform the setting of up-to-date fair market rents for Service housing, the Canadian Forces Housing Agency appoint consultants each year to evaluate the value of housing at all Canadian Forces sites. The appraised value of a house is calculated as if it were located in the adjacent local community. Historically, some appraisal values have been well below market values and, in 1997, the Agency began phasing rents towards market rates over several years in these cases.

### **Identifying and monitoring housing needs**

**21** In September 1999, the Canadian Forces Housing Association, in consultation with the Canadian Forces, were undertaking a housing requirement study to assess market factors and the housing aspirations of Canadian Forces' personnel on a site-by-site basis. The information gathered is intended to form the basis of planning for the future.

**22** Downsizing of the Canadian Forces has led to the Agency holding a surplus of housing on a number of bases across the country. In addition to the site specific exercise noted above, the Agency has appointed consultants to carry out a study of the rationalisation of the existing portfolio to determine the condition of the housing stock and the cost of bringing all housing up to a minimum standard. Both studies are to be completed by March 2000.

**23** Service families and single personnel with dependants are entitled to live in Service family housing, although any surplus housing may be offered to single members of the Canadian Forces and civilian families employed by the Government of Canada.

**24** Each housing manager, in consultation with local Service commanders, is responsible for allocating Service housing. This is based on a proportional distribution formula by rank and family size, adjusted to take into account local circumstances. Senior officers are allocated official residences by virtue of their position.

**25** Usually, Canadian Forces' personnel are posted individually. Exceptionally, whole units may be moved en bloc as a result of base closures or restructuring initiatives.

**26** The Canadian Forces have an active posting season from May to September each year. Normally, Service personnel receive four months notice of any posting. An individual may apply for Service family housing any time after notification, although their name will not be placed on a waiting list until 60 days before the effective date of posting.

### **Disposal of surplus housing**

**27** The Agency does not yet have a performance target to limit the number of vacant properties within the housing stock. This will be introduced following the conclusion of the two reviews noted at paragraphs 21 and 22 above.

**28** At September 1999, between 12 – 15 per cent of housing provided by the Agency was vacant. This was due in part to force reductions and the poor quality of the housing stock. Vacancy rates at any specific locations vary according to the location, the local market, the number of Service houses available and the number of families at the location.

**29** The allocation of Service housing, established by housing managers in consultation with local commanders, is reviewed at least annually to ensure as far as possible that vacancies do not arise within any entitled group. Where vacancies do occur, houses are allotted to members of another group who then retain occupancy for the duration of their posting, even though an entitled person may subsequently be posted to the location.

**30** Where housing is surplus to requirements, housing is considered for allocation to single Service personnel or civilian employees working at the military base. Housing identified for disposal is passed to the Canada Lands Corporation for processing.

## United States of America

Note: This section focuses on the provision of housing for United States Naval personnel and their families. The arrangements described, however, are similar in all essential respects to those adopted by other American forces.

### Provision of housing

**31** The Department of Defense have oversight responsibility for Service family housing and establish overarching policies that apply to all Services. Each Service manages its housing based on specific needs and delegates responsibility for day-to-day management to local base commanders.

**32** In general, the Services minimise the extent to which they own and provide family housing. Wherever possible, they rely on the commercial housing market to meet their needs. On average, therefore, only 25 per cent of families live in Navy housing. This percentage varies greatly by specific location, depending on the availability of suitable, affordable community housing in the area.

**33** Most Service personnel rent their family housing from within the local community. Within certain restrictions, such as reasonable travel to work limits, personnel are free to rent the accommodation of their choice. In some cases, the Navy lease accommodation from the private sector.

**34** Unless assigned to Navy housing, Service personnel receive a housing allowance within their pay. This is not paid at a national rate. Rather, it is calculated to be sufficient to cover average rents for accommodation of the type and standard to which individuals are entitled within their locality. They are free, however, to rent housing of a higher or lower standard than that deemed appropriate to their needs. In these cases, personnel either supplement the housing allowance from their own resources or retain the difference.

**35** Occupants of Navy housing forfeit their housing allowance, and in this sense Service housing is not provided “rent free”. They have no further expenditure on their homes, however, since they receive utilities free of charge.

### Identifying and monitoring housing needs

**36** The Navy use current and projected strengths and establishments for each location, taken from Chief of Naval Operations’ annual manpower plans, to forecast likely housing needs over a five year period. Information collected on



personnel includes pay grade, whether accompanied, with dependants, or single. The five year projections include any significant changes, such as planned relocation of ships to home ports or decommissionings. Each base is required to participate in the annual reviews to ensure that the information collected is as accurate as possible. The information is used to track demographic changes including reductions in personnel or changes in family size.

**37** The Navy also consider the supply of community housing at each location using reports provided by private sector consultants with expertise in housing forecasting.

**38** All personnel with dependants (spouse and/or children) are eligible for Service family housing. Except for senior officers, where rank is the sole criterion, entitlement to specific size and type of housing units is dependent first on rank, including within enlisted ranks, and then by family size.

**39** Where there is insufficient accommodation of a specific type at any time, personnel may be housed in units of higher or lower grade than that to which they are entitled, subject to availability. This allocation remains fixed for the duration of an individual's tour of duty.

**40** The Navy do not conduct unit moves other than exceptionally if a ship changes home port. Virtually all Naval postings are therefore trickle postings. Personnel generally receive three to four months notice of posting and are eligible to apply for family housing at the new base before moving, upon receipt of official orders. Outgoing personnel are required to notify their existing housing administrators of their impending transfer 30 days before their move.

### **Disposal of surplus housing**

**41** The Navy aim each year to achieve 99 per cent occupancy of Service housing provided by them. They estimate that they achieve occupancy rates of around 95 per cent in practice.

**42** Where property is surplus to requirements and the Navy foresee a continuing need for the land they may dispose of housing in several ways:

- combine individual units to make larger houses;
- convert accommodation to other uses;

- demolish housing.

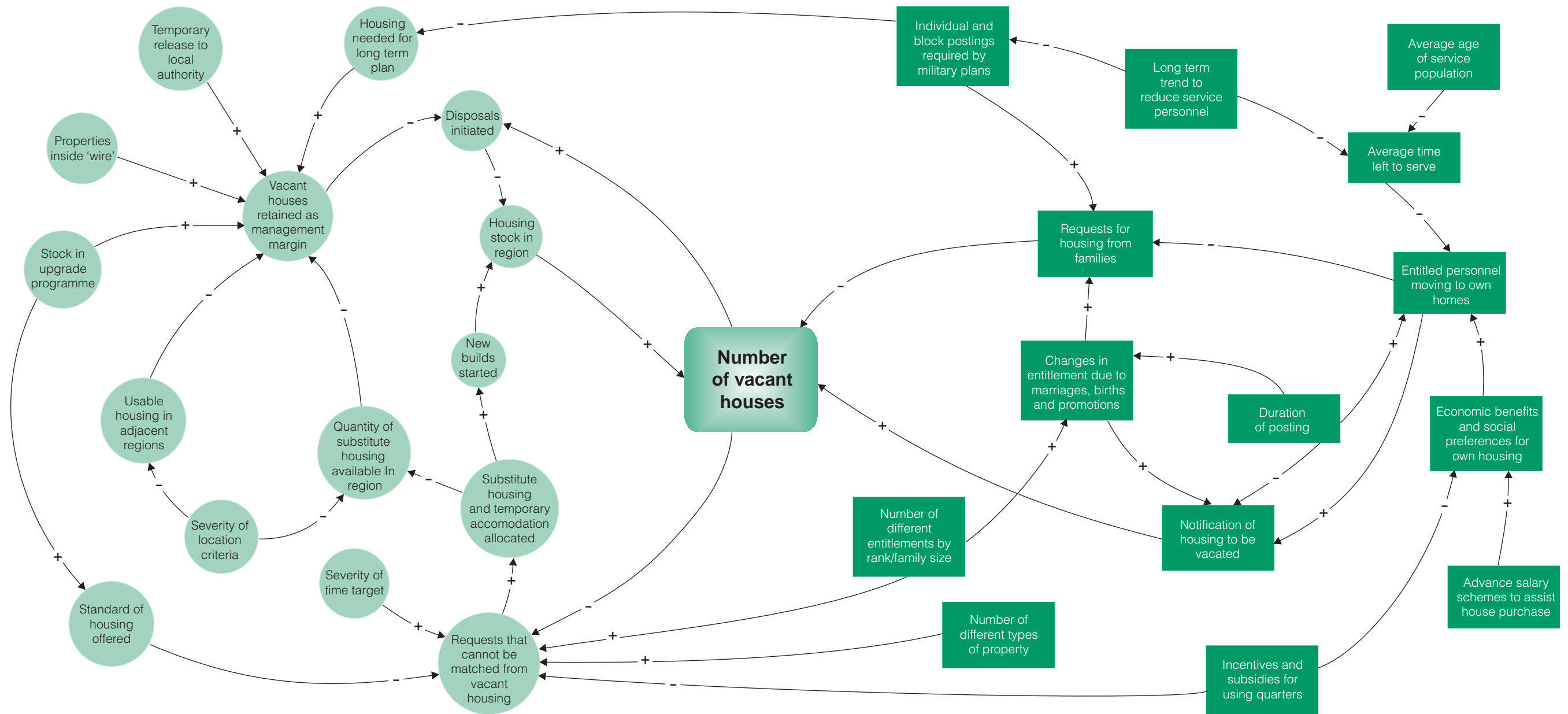
**43** Where they do not need to retain the land, the Navy may declare whole estates surplus and seek to dispose of them through a screening process which requires that they offer the housing, in the following sequence, to:

- other federal agencies;
- state agencies
- local agencies (for social housing needs); and finally
- highest bidder by auction.

**44** Exceptionally, where military bases are closed in their entirety resulting in a major impact on the local community, the Navy may offer housing to the local planning agency without having first adopted the above screening process. In these circumstances, the base, including any housing, is handed over as a package to the local development agency.

# Appendix 3

## Process map of Service housing provision



### Interpretation and explanatory notes

The diagram shows the variables at work in providing service family housing. The diagram splits into two sides - the supply and demand sides.

For ease of interpretation, supply and demand side variables are in the different shapes and colours as shown.

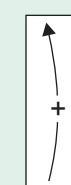


The diagram clearly shows that the key interface between the supply and demand sides is the number of empty houses. This is the key measure of whether supply and demand are in balance and therefore how efficiently demand is being met.



Influence diagram notation consists of arrows that show which factors influence each other. The + and - signs show how one factor influences another.

+ shows that there is a positive relationship between two variables, so if the variable at the tail of the arrow were to increase then the head variable would also increase, or if the tail variable were to decrease then the head variable would decrease.



- shows that there is an inverse relationship between the variables such that if the tail variable increases the head variable will decrease or if the tail variable decreases then the head variable will increase.

