



National Audit Office

Memorandum

for the House of Commons
Committee of Public Accounts

Ministry of Defence

Service Family Accommodation

JUNE 2016

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Key facts

50,000

Service Family Accommodation units in the UK

50%

of those living in Service Family Accommodation were satisfied with the standard of their accommodation in 2016

81%

of service families living in Service Family Accommodation will see a rent increase under the new charging system

£886 million the amount the Department has spent on maintaining, upgrading and purchasing Service Family Accommodation between 2009-10 and 2014-15

87% percentage of the Department's Service Family Accommodation units which meet the government's Decent Homes Standard

£192 million the savings the Department secured on its National Housing Prime contract, one of the Next Generation Estates Contracts, over five years in comparison to the value of the previous contracts

32% level of satisfaction with response to maintenance requests for Service Family Accommodation in 2016

29% level of satisfaction with quality of maintenance for Service Family Accommodation in 2016

63% level of satisfaction with the value for money that Service Family Accommodation represents in 2016

Part One

Introduction

1.1 This memorandum has been prepared to support the Committee of Public Accounts' (the Committee's) consideration of the Ministry of Defence's (the Department's) provision of accommodation to its service personnel. It focuses on accommodation provided to service families in the UK because of recent decreases in service personnel's satisfaction with Service Family Accommodation and the introduction of the new Combined Accommodation Assessment System to calculate charges that service families pay. It does not look at wider issues related to the Department's management of its estate.

1.2 The memorandum is based on publicly available information and data provided to us by the Department. This data has not been subject to a full audit. It has been cleared with the Department, who have agreed the facts and their presentation.

The Department's provision of Service Family Accommodation

1.3 Because of the requirement that service personnel are mobile and the remote nature of many of the locations in which they serve, all regular service personnel are entitled to subsidised accommodation. Those meeting specific criteria, relating primarily to marital status and number of dependent children, are entitled to Service Family Accommodation.¹ The Armed Forces' Pay Review Body, which provides independent advice to the Prime Minister and the Secretary of State for Defence on the remuneration and charges for the Armed Forces, has found that service families greatly value the provision of subsidised accommodation, and consider it an important part of their overall package.

¹ Service personnel are entitled to Service Family Accommodation where they are aged 18 or over; are married or in a civil partnership; or have permanent custody of children.

1.4 Housing is one of the four areas covered by the Armed Forces Covenant.² Its principles are enshrined in law and the Defence Secretary is required to report annually on progress made by the government in honouring the Covenant.³ The Covenant sets the following goals with respect to housing:

- Where serving personnel are entitled to publicly provided accommodation, it should be of good quality, affordable and suitably located.
- Service personnel should have priority status in applying for government sponsored affordable housing schemes and service leavers should retain this status for a period after discharge.
- Those injured in service should also have preferential access to appropriate housing schemes, as well as assistance with necessary adaptations to private housing or service accommodation while serving.⁴
- Members of the armed forces community should have the same access to social housing and other housing schemes as any other citizen, and not be disadvantaged in that respect by the requirement for mobility while in service.⁵

1.5 In 2009 the Committee of Public Accounts reported on Service Family Accommodation. The Committee found that a third of families described the condition of their house as poor, while a quarter of families considered their property to be poorly maintained. The Committee also raised concerns about the percentage of vacant properties and the complexity of the system for allocating properties to families.⁶ This memorandum has been prepared for the purpose of informing the Committee about recent issues relating to Service Family Accommodation and consequently does not cover all of the issues raised in the previous report. The Committee's previous recommendations are set out in Appendix One.

The New Employment Model

1.6 Following the Strategic Defence and Security Review 2010, and in recognition of the fact that the employment model for service personnel had not changed significantly in over 40 years, the Department set up a programme to develop a New Employment Model for the Armed Forces.^{7,8} The New Employment Model covers four broad policy areas: pay and allowances; accommodation; training and education; and terms of service. The Department will implement the model through a rolling series of changes up to 2020.

2 The Covenant sets out the relationship between the nation, the government and the Armed Forces. It exists to redress the disadvantages that the armed forces community may face in comparison to other citizens, and to recognise sacrifices made by them.

3 Armed Forces Act 2011.

4 The majority of adaptations to Service Family Accommodation are to support family members.

5 The other areas covered by the Covenant are healthcare, education and the operation of inquests.

6 HC Committee of Public Accounts, *Ministry of Defence Service Families Accommodation*, Forty-first Report of Session 2008-09, HC 531, October 2009.

7 HM Government, *Securing Britain in an age of uncertainty: The Strategic Defence and Security Review*, Cm 7948, October 2010.

8 House of Commons Defence Select Committee, *The Armed Forces Covenant in Action? Part 2: Accommodation*, June 2012.

1.7 Within the accommodation element of the New Employment Model, the Department has sought to deliver increased domestic stability for service personnel and their families through providing realistic housing choices and reducing their dependency on housing provided by the Department, for example, through support for home ownership. The Department has introduced the Forces Help to Buy Scheme to support service personnel to get onto the property ladder and since its launch in April 2014, this scheme has helped more than 6,400 military personnel to purchase property.

1.8 As a result of work conducted under the New Employment Model, the Department has assessed that the current model of directly providing accommodation to service personnel is becoming less attractive to service personnel and their families, increasingly unaffordable for the Department, and less effective at meeting the Department's operational and business needs. For example, the current accommodation model bases entitlement to Service Family Accommodation on marital status and rank and does not reflect the diversity of today's service families. In the Strategic Defence and Security Review 2015, the government committed to develop a new accommodation offer to help more service personnel live in private accommodation and meet their aspirations of home ownership.⁹ This work, known as the Future Accommodation Model, aims to deliver, from 2018, a more flexible, attractive, and better value-for-money approach to accommodation for military personnel and the Department. The Department is still developing the new model, in close consultation with the single services and service personnel. We expect to be able to include some further information in our report in the autumn.

The management of Service Family Accommodation

1.9 The management of Service Family Accommodation is the responsibility of the Defence Infrastructure Organisation within the Ministry of Defence. The Defence Infrastructure Organisation is responsible for delivering the estate that the Department needs to enable its military personnel and civilian staff to live, work, train and deploy at home and overseas. It does this primarily through contracting with private sector providers to build, upgrade and maintain its estate. The private sector provider with responsibility for maintaining Service Family Accommodation and administering the charging system for that accommodation is CarillionAmey, through the National Housing Prime contract, one of a set of contracts known as the Next Generation Estates Contracts that support the entire UK estate. The relationship between the Defence Infrastructure Organisation and the other parts of the Department and the private sector with which it engages to manage Service Family Accommodation is set out in Appendix Two.

⁹ HM Government, *National Security Strategy and Strategic Defence and Security Review 2015: A secure and prosperous United Kingdom*, Cm 9161, November 2015.

1.10 Since 2010, the Department has recognised that rationalisation of its estate is essential to balancing its books and providing the military capability it believes it needs to meet its strategic objectives. In addition, making better use of the estate and releasing land for house building are key government priorities, and the Department is contributing to these objectives. The National Audit Office is currently working on a value-for-money study reviewing the Department's progress in these areas and examining developments since our last report on this subject in 2010.¹⁰ We intend to publish this report in the autumn.

1.11 The remaining parts of this memorandum set out:

- The provision and condition of Service Family Accommodation (Part Two).
- The introduction of the Combined Accommodation Assessment System (Part Three).
- The Department's management of the National Housing Prime contract (Part Four).

¹⁰ Comptroller and Auditor General, *A defence estate of the right size to meet operational needs*, Session 2010-11, HC 70, National Audit Office, July 2010.

Part Two

The provision and condition of Service Family Accommodation

2.1 The Ministry of Defence (the Department) manages a large and diverse estate of some 50,000 units of Service Family Accommodation in the UK. Accommodation ranges from two bedroom flats to large houses; from the historic to modern buildings; and is situated on Armed Forces bases or within the community.

2.2 As at 1 March 2016 the full time trained strength of the UK Armed Forces was 140,570. At that point 40,572¹¹ Service Family Accommodation properties were occupied by service personnel and their families and, of these, 937 were Substitute Service Family Accommodation.¹²

Type of provision of Service Family Accommodation

2.3 Since 1996, most of the Department's housing stock in England and Wales has been owned by, and leased back, from Annington Homes. **Figure 1** overleaf provides further information about this deal. The remainder is owned by the Department, provided through a PFI deal, or sourced from the open market. **Figure 2** overleaf shows the breakdown of Service Family Accommodation in the UK by type of provision. The Department retains full responsibility for management of the properties owned by Annington Homes, including maintenance and upgrade.

¹¹ Around 10,000 Service Family Accommodation properties are empty of which around half of these have been empty for more than 12 months.

¹² Substitute Service Family Accommodation is privately rented properties which are provided to service personnel and their families where they are entitled to Service Family Accommodation but there is not suitable accommodation present.

Figure 1

Details of the Department’s deal with Annington Homes

In 1996 the Department sold four-fifths of its Service Family Accommodation (around 55,000 units) to Annington Homes for £1,662 million. Under the deal the Department retained the freehold, but Annington Homes held a 999-year ‘head lease’ while the Department rented the properties back from Annington Homes on a 200-year ‘under lease’.

The Department’s objectives of the sale were:

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

Under the terms of the deal, Annington Homes bears the risk and rewards associated with the release of surplus properties and the future value of the estate. In contrast, the Department has greater flexibility in managing its housing needs by renting rather than owning houses, but continues to bear the cost of maintaining these properties, and bears the consequence of any volatility in the rental market. The Department can return a property to Annington Homes with six months’ notice, but must bear any dilapidation costs before it does so. The Department no longer receives a share of the disposal proceeds. A 50:50 gainshare of proceeds ended after the first 15 years of the contract.

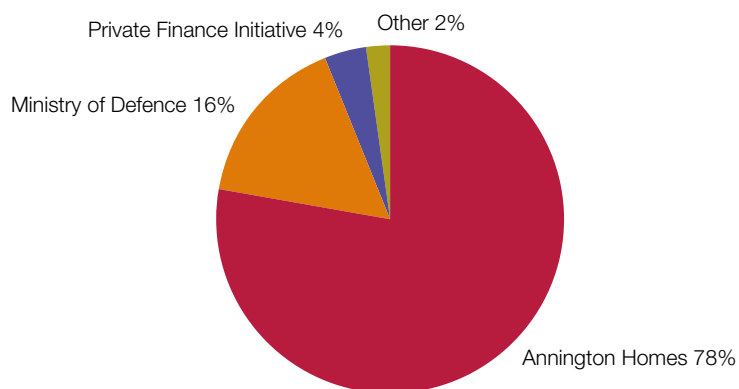
Annington Homes was created in November 1996 with the purchase of the properties from the Department. It is owned by an investment fund managed by Terra Firma Capital Partners Ltd.

Source: National Audit Office

Figure 2

The breakdown of Service Family Accommodation controlled by the Department in the UK by type of provision

The majority of the Department’s Service Family Accommodation is provided by Annington Homes



Note

1 The total number of homes controlled by the Department is 49,699.

Source: Ministry of Defence

Funding for Service Family Accommodation

2.4 Between 2009-10 and 2014-15 the Department invested £886 million in Service Family Accommodation. **Figure 3** shows that, of the total £514 million (58%) related to small scale improvements and maintenance, £147 million (17%) to larger capital improvements, and £225 million (25%) to the purchase of new properties.

The condition of Service Family Accommodation

2.5 Up until April 2016 the Department measured the condition of its Service Family Accommodation by surveying its properties and had committed to only allocating families to properties in Standard 1 or 2 for condition. These two standards had the least number of defects (such as rising damp, a leaky roof, faulty electrical sockets, etc) and provided the majority of desired attributes (such as double glazing, thermal insulation, fitted wardrobes, etc). The Department's data, as set out in **Figure 4** overleaf, shows that the proportion of Service Family Accommodation assessed as Standard 1 or 2 rose from 93.9% in 2009, to 99.5% in 2015. The percentage of properties assessed as Standard 1 also increased from 35.8% in 2009 to 53.8% in 2015.

Figure 3

The Department's expenditure on Service Family Accommodation between 2009-10 and 2014-15 (£m)

Type of expenditure	Year						Total
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	
Improvements (resource)	31	29	37	49	38	38	222
Maintenance	67	55	47	42	40	41	292
Improvements (capital)	20	15	11	15	58	28	147
Purchases	13	9	29	18	116	40	225
Total	131	108	124	124	252	147	886

Note

1 Improvements that increase the life of a property (eg replacing a roof with a superior type of tile or upgrading a heating system) are treated as capital expenditure, while improvements that bring the property back to its original standard of utility are treated as resource expenditure.

Source: Ministry of Defence

Figure 4

The surveyed condition of UK Service Family Accommodation between 2009 and 2015

	2009	2010	2011	2012	2013	2014	2015
Stock by condition (000s):							
Standard 1 for Condition	15.8	21.8	21.9	21.1	23.0	24.8	25.7
Standard 2 for Condition	25.6	24.0	24.0	24.8	23.9	22.5	21.9
Standard 3 for Condition	2.4	1.2	1.2	1.0	0.6	0.2	0.2
Standard 4 for Condition	0.3	0.2	0.2	0.2	0.1	–	–
Not Recorded	5.8	1.8	1.8	1.9	1.8	1.9	1.8
Total	49.9	49.1	49.2	49.0	49.4	49.4	49.6
Percentage of Service Family Accommodation which is Standard 1 or 2 (excludes Not Recorded)	93.9	97.1	97.1	97.5	98.5	99.5	99.5
Percentage of Service Family Accommodation which is Standard 1 (excludes Not Recorded)	35.8	46.2	46.3	44.8	48.3	52.2	53.8

Notes

- 1 All Service Family Accommodation is rated by standard of condition on a scale of 1 to 4, with 1 being the highest and 4 being the lowest. The rating is achieved by assessing a property against 102 different attributes organised under eight categories: building fabric; health and safety; electrical; security; sanitary; kitchen; bedroom; and energy efficiency. For example, major rising damp, one of the 14 attributes within the building fabric category, would result in 12 points being allocated to this category. These points would mean that, on this aspect alone, the property would automatically be no higher than Standard 2 for Condition. However, if there is minor rising damp then a score of 3 would be awarded and the property could still achieve Standard 1 for Condition, depending on the remaining 13 attributes. Differences between the Standard for Condition scored against properties could, therefore, be for a range of different missing attributes or defects in the property. If all 102 attributes are fully met and they are in a good condition, then the property will be Standard 1 for Condition.
- 2 Totals may not sum due to rounding.

Source: Service Family Accommodation bulletin, 2015

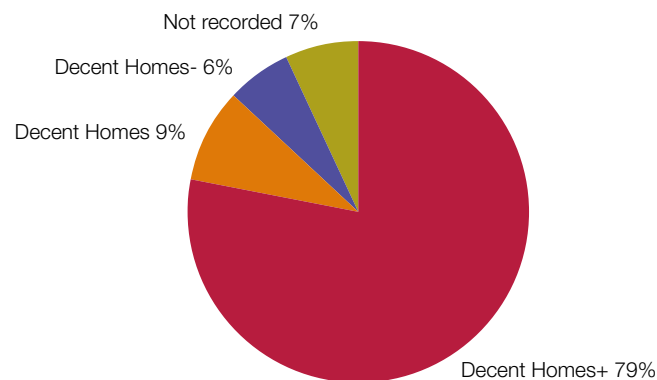
2.6 In April 2016 the Department changed the way that it measured the standard of Service Family Accommodation by adopting the Decent Homes Standard, the government’s minimum standard for all those housed in the public sector. It also stated that from that point forward it would only house families in properties which meet this standard. **Figure 5** shows the criteria against which a property is assessed to determine whether it is a decent home. In April 2016, the Department assessed that 87% of its Service Family Accommodation properties meet or exceed the Decent Homes Standard.

Figure 5

The criteria which Service Family Accommodation must meet to be classified as a “Decent Home” and the percentage of homes meeting the Decent Homes Standard

A Decent Home is determined by the national standard and requires Service Family Accommodation properties to meet all of the following four criteria:

- it meets the statutory minimum standard for housing;
- it is in a reasonable state of repair (assessed from the age and condition of a range of building components including walls, roofs, windows, doors, chimneys, electrics and heating systems);
- it has reasonably modern facilities and services (assessed according to the age, size and layout/location of the kitchen, bathroom and WC and any common areas for blocks of flats, and to noise insulation); and
- it has a reasonable degree of thermal comfort. This is assessed using the Government’s Standard Assessment Procedure for measuring energy efficiency.



Notes

- 1 “Decent Homes+” and “Decent Homes-” are broadly comparable to “Standard 1 for Condition” and “Standard 3 for Condition” respectively.
- 2 Data are accurate as at 30 April 2016 and will not agree with the data on “Standard for Condition” in Figure 4 as that data covers the period to 2015 only. The Department attributes the significant increase in the numbers meeting its “Decent Homes+” internal standard to inconsistent and incorrect assessment of condition under the legacy 4 tier grading system and significant investment in the estate in recent years not captured under the old system.

Sources: Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/461589/1539_14SJD_NEM_Model_Final.pdf; and departmental data, unpublished

Satisfaction levels with Service Family Accommodation

2.7 Despite improvements to Service Family Accommodation, a significant proportion of service personnel remain dissatisfied with the standard of their homes. **Figure 6** shows that up until 2014 there had been improvements in the satisfaction levels in relation to the overall standard of Service Family Accommodation and in the perceptions of the value for money that the accommodation represents. However, in 2015 and 2016 satisfaction levels decreased. Satisfaction with responses to maintenance requests and the quality of maintenance has been consistently lower and significantly decreased in 2016. The latest figures show that in 2016 only 32% of service personnel living in Service Family Accommodation were satisfied with the response to requests for maintenance and only 29% were satisfied with the quality of maintenance. In Part Four we set out the maintenance arrangements for the defence estate.

Figure 6

The percentage of Armed Forces Personnel who were satisfied with specific aspects of their accommodation between 2007 and 2016

Satisfaction levels with	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
The overall standard	52	50	50	58	–	56	57	60	57	50
The value for money	64	60	63	70	–	72	71	74	71	63
The response to requests for maintenance/repair to my current accommodation ²	–	–	–	–	–	46	46	46	42	32
The quality of maintenance/repair work to my current accommodation ²	–	–	–	–	–	38	39	40	37	29

Notes

1 Responses for 2011 were not reported as they were unreliable.

2 Options for these questions were considerably different prior to 2012.

Source: Armed Forces Continuous Attitude Survey

Part Three

The introduction of the Combined Accommodation Assessment System

3.1 Service personnel pay a monthly charge for property. This charge is significantly below the market rate to reflect the requirement on them to move regularly and the fact that families often have little choice as to where they live. In 2013 the Ministry of Defence (the Department) undertook research which showed that the majority of service personnel pay less than 12% of their salary on service accommodation charges, in comparison to those outside the services who pay on average between 20% (owner occupiers) and 40% (private renters) of their salaries on accommodation costs. The Department's research also shows that all Service Family Accommodation is heavily subsidised, by between 38% and 48% for officers, and by between 51% and 60% for other ranks.¹³ As accommodation forms an important part of the overall package for military personnel, charges are set by the Department on the recommendation of the Armed Forces' Pay Review Body.

The old four-tier grading system

3.2 Until April 2016, the Department determined charges for Service Family Accommodation using a four-tier grading system (4TG) whereby the charge for a specific property was determined by its scale, condition and location.¹⁴ However, the Department identified a number of elements of this system which were leading to unfair and inappropriate charges. These included the fact that:

- many of the criteria used to form judgements about the property had become out-dated. For example, charges were determined in part by proximity to a telephone box but with no reference to broadband speed;
- the system was complex and subjective, with the result that it was being applied inconsistently by different officers; and
- it was time-consuming to apply, meaning that properties were often not reassessed until several years after they had been upgraded and therefore families were often not being charged at the correct rate.

¹³ The figures representing the percentage of subsidy may increase beyond the stated ranges if local housing market averages are higher.

¹⁴ Based on these three assessment criteria the Department applies an additional reduction to the Armed Forces' Pay Review Body set top charge level for a specific property type to account for any deficiencies.

3.3 The Department's concerns were echoed by the Armed Forces' Pay Review Body in its 2016 report which stated it had "commented over a number of years that the existing four-tier grading system (4TG) was unfit for purpose, led to inappropriate charging in many instances and was regarded as unfair and not transparent".¹⁵ The Naval Families Federation also stated that the 4TG system was "overly complicated, inconsistent, and confusing, with great differences in standards and costs across the country".^{16,17}

The new Combined Accommodation Assessment System

3.4 As a result of these concerns the Department introduced a new system for determining the charges on Service Family Accommodation called the Combined Accommodation Assessment System (CAAS). This replaces the previous four-tier system with a new nine-band system. Charges for individual properties are still determined by reference to the scale, condition and location of the property, but the criteria used have been updated. In particular, the Department is now using the government's Decent Homes Standard to judge the condition of the property, and does not intend to allocate any families to properties which do not meet this standard from April 2016. The design and implementation of the new system has been directed and overseen by the New Employment Model Programme Steering Board, which is chaired by the Chief of Defence People and includes senior representation from each of the forces.

3.5 Both the Army Families Federation (AFF) and the Naval Families Federation (NFF) welcomed the introduction of the new system.¹⁸ The Army Families Federation noted that it was a "step forward to identify the needs of a modern family and reflect this in the charging system". The Naval Families Federation noted that it would "provide much more certainty", where "independent assessment should reassure our families that the rental charges they pay are fair".¹⁹

3.6 Access to subsidised accommodation is part of the overall package of benefits of joining the services and, as such, the top band for a specific type of property was, and will continue to be, recommended by the Armed Forces' Pay Review Body. Under the new system, the remaining bands are then determined by reducing the charge by 10% per band according to the condition, location and size of the property. **Figure 7** gives an example of the hypothetical charging mechanism for a "typical three-bed house" under the old and new systems.

¹⁵ Armed Forces' Pay Review Body, *Armed Forces' Pay Review Body*, Forty-fifth Report 2016, Cm 9213, March 2016.

¹⁶ The Naval Families Federation is a charity that aims to support and represent Royal Navy and Royal Marines' families.

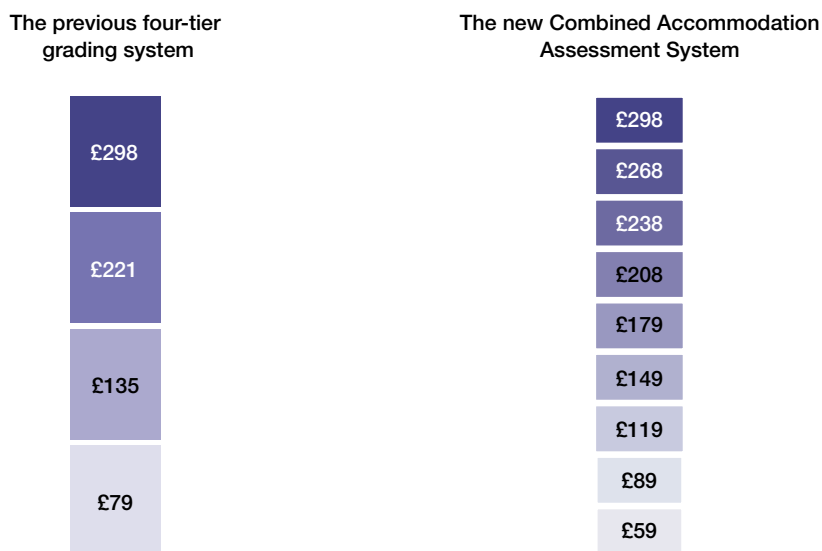
¹⁷ Internal Department communication on the introduction of the Combined Accommodation Assessment System.

¹⁸ The Army Families Federation is a charity that aims to support and represent Army families.

¹⁹ Internal Department communication on the introduction of the Combined Accommodation Assessment System.

Figure 7

An example of the charging mechanism for a “typical three-bedroom house” under the old and new systems



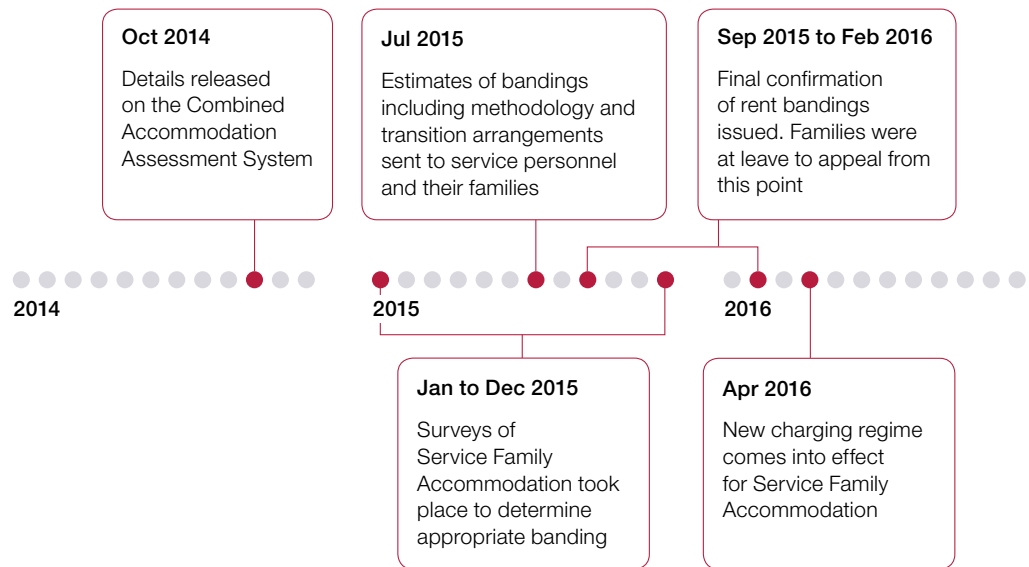
Source: Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/366803/NEM-CAAS-V3.pdf

The timetable for the introduction of the Combined Accommodation Assessment System

3.7 The timetable for the introduction of the new system is set out in **Figure 8** overleaf. The Department announced its intentions in October 2014 and began surveys on properties in January 2015 to determine to which band they should be allocated. In July 2015, families received an initial estimate of the likely band into which they would fall and information about how this had been determined. The Department issued final confirmation of these bandings between September 2015 and February 2016. Families were able to appeal against the banding of their property from the point at which they received their final confirmation letter.

Figure 8

The timetable for the introduction of the new Combined Accommodation Assessment System



Source: National Audit Office analysis of Ministry of Defence data

The process for allocating homes to appropriate charging bands and moving to the new bands

3.8 The Department assessed the appropriate banding for individual properties using a combination of surveys and extrapolation of survey results. In order to determine the appropriate number of surveys to undertake, and where it was reasonable to extrapolate the results, the Department allocated properties into groups with the same characteristics in terms of age, design, condition and energy rating. Within each group the Department carried out a minimum of two surveys. Where the results of the survey were the same, the Department extrapolated the results across the rest of the group. However, where the results differed, the Department created two new groups and repeated the process.

3.9 The Department contracted with two independent surveying companies to undertake surveys on their behalf. To date, these companies have carried out surveys of approximately 80% of all occupied Service Family Accommodation properties and the Department intends that ultimately all properties will be surveyed. The Department has commissioned a third company to quality assure the results of the surveys and in addition both CarillionAmey and the Department undertake quality assurance reviews.

3.10 Before commencing its survey, the Department assessed that 40% of families were paying the right amount, 55% were being undercharged, and 5% were being overcharged. This was because it knew that, under the previous system, charges had not been consistently reviewed when upgrades and other work had taken place, leading to widespread under-charging. After the survey work the charges to 2% of families stayed the same, 81% increased and 17% reduced. The Department has projected that by 2022 £35 million in additional receipts a year will be generated from the introduction of the new system. The Secretary of State for Defence has committed that all additional receipts resulting from the new system will be reinvested back into military accommodation. This includes energy efficiency measures which the Department estimates will benefit approximately 8,000 families.

3.11 The Department has put in place transitional arrangements for those families whose rents have increased by more than one banding. If a family is in a property that is in a lower band than the original, they will immediately be charged the reduced amount. However, if a family is in a property which has been put in a higher band than it was in previously, the transition to the new banding is managed incrementally and the charge will increase by one band per year until the final band is reached. For those with large increases the transition is being spread over a number of years up to 2021. The Department is seeking to ensure that in the first year families face an increase of no more than £40 per month for junior officers and £30 per month for other ranks. For those properties that will face further increases on the transitional pathway to their final band, monthly charges from April 2017 are due to rise by no more than £78 for senior officers, £46 for junior officers, and £36 for other ranks.

3.12 Families who do not agree with the banding to which their property has been allocated are able to appeal. In a written answer to a Parliamentary Question, the Minister for Defence Personnel and Veterans stated that in the period between 1 February 2016 and 17 April 2016 the Department had received a total of 1,675 challenges against bandings.²⁰ As at 25 April 2016, 377 (23%) had been processed and 24 (1.4%) had resulted in a change in banding. The Department has received fewer challenges than it expected but advised us that the complexity of each challenge had led to a backlog of work. CarillionAmey, the administrator of the system, told us that it has brought in additional resources to clear the backlog of challenges and anticipates that it will be removed by the 6 June 2016. The Department quality assures CarillionAmey's response to each challenge.

²⁰ Available at: www.theyworkforyou.com/wrans/?id=2016-04-19.34612.h

Part Four

The Department's management of the National Housing Prime contract

4.1 To meet its objectives of building, maintaining and servicing the infrastructure that supports the delivery of defence capability, the Defence Infrastructure Organisation contracts with private sector companies to build capital projects, and to deliver soft and hard facilities management services.²¹

The Next Generation Estates Contracts

4.2 From 2014, the 10 contracts that the Ministry of Defence (the Department) had in place previously to deliver capital projects and hard facilities management services began to expire. The Department initiated a programme known as the Next Generation Estates Contracts to replace them with a mixture of prime contracts and capital works frameworks. The bidding process for the contracts lasted over two years. **Figure 9** shows details of these contracts, the winning contractors, the contract value and what they are contracted to deliver.²²

4.3 CarillionAmey won five of the six prime contracts, all of those for which it bid. It is a joint venture owned by Carillion plc and Amey plc and was formed in 2014 for the purposes of bidding for these contracts. Each contract is for five years, with the option to extend for a further five years. Across the regional prime contracts and the National Housing Prime contract CarillionAmey now provides a range of services to the Ministry of Defence and its personnel including: housing allocations; appointments to move in and out of accommodation; provision of furniture; maintenance and improvements; estate management; and grounds maintenance services.

4.4 The Department let the contracts on a “keep me safe, keep me legal basis”, requiring CarillionAmey to maintain the estate to a minimum standard that is compliant with health and safety and other legislation. This contractual standard, alongside efficiencies relating to a new IT system and other areas, in part enabled the Department to secure savings of £1.2 billion over the first five years of the Next Generation Estates Contracts compared to the previous contracts. Any works above the “keep me safe, keep me legal basis”, such as to reduce running or maintenance costs, will not be funded under the existing maintenance budget. These works would require additional budget from elsewhere in the Department.

²¹ Soft services include cooking, cleaning and waste management, while hard services include repair and maintenance of buildings.

²² Soft facilities management contracts are also being replaced under a separate project called “Project Hestia”.

Figure 9
The Next Generation Estates Contracts

Contract	Winning contractor	Contract value (5-year period) (£m)	Services provided
Regional prime contracts for:		607	Routine maintenance services for the Ministry of Defence built estate, excluding Service Family Accommodation.
<ul style="list-style-type: none"> ● Scotland and Northern Ireland; ● North of England, Wales, the Midlands and East Anglia; ● South West England; and ● South East England. 	CarillionAmey		
	CarillionAmey		
	CarillionAmey		
	CarillionAmey		
National Housing Prime contract	CarillionAmey	626	Maintenance services for 47,000 houses owned by the Ministry of Defence or leased from Annington Homes. The remaining Service Family Accommodation properties (approximately 3,000) are managed either through Public Finance Initiative or Bulk Lease Hiring arrangements.
National Training Estate Prime contract	Landmarc	320	Technical support, hard and soft facilities management services across the UK.
One national and six regional capital works frameworks	11 different contractors won work against one or more of the frameworks	1,097	Delivering construction projects across the UK.

Notes

1 The £607 million is the total value of the four Regional Prime contracts.

2 The £626 million value of the National Housing Prime contract includes a notional amount for additional works.

Source: Ministry of Defence

The National Housing Prime contract

4.5 The National Housing Prime is a fixed price contract worth £626 million over five years that aims to provide a consistent level of service across the UK, supported by a single IT system and call centre. The differences between the National Housing Prime and the previous contract are set out in **Figure 10** overleaf. The Department estimates that the contract will save it around £192 million in comparison to the cost of the previous contracts.

Figure 10

A comparison between the National Housing Prime contract and the previous contract

Housing Prime Contracts (pre November–December 2014)	National Housing Prime contract (post November–December 2014)
Maximum Price Target Cost Contract in which the Department paid for all works completed subject to a cost sharing arrangement for any under-run or over-run of costs.	Fixed price contract. The Department pays a fixed monthly cost regardless of work volume, subject to Inclusive Repair Limits of £5,000 per repair and £15,000 per void preparation.
Multiple contractors, Help Desks and delivery standards in England and Wales, Scotland, and Northern Ireland.	Single contractor and contract standard applied across the whole of the UK (excluding Bulk Lease Hire and Private Finance Initiatives).
Multiple and disjointed IT systems used across the UK, managed by different parts of the Department.	Single contractor IT system being deployed across the UK managed by CarillionAmey.
Contract excluded garage maintenance.	Contract includes garage maintenance.
Appointments AM, PM or all day.	Appointments in 4-hour timeslots including 'school run'.
Department responsible for appointments, Move-out and Move-in services, patch management, and liaison with Local Welfare and Chain of Command.	CarillionAmey responsible for appointments, Move-out and Move-in services, patch management, and liaison with Local Welfare and Chain of Command.
Contracted Performance Target = 100%.	The contracted standard is for 100% of all tasks to be completed, however a key performance indicator of 95% of all tasks (100% for emergency) to be completed within the required timescales has been set with a further requirement that the balance of 5% should be completed within an additional timescale. For example, 95% of routine tasks should be completed within 15 working days with the remainder being completed within a further 7 working days.
Emergency, attend within 3 hours and make safe within 24.	
Urgent, attend and rectify within 5 working days.	
Routine, attend and rectify within 15 working days.	Response timescales the same as previous contracts with an added Critical category, respond within 3 hours and resolve within 12 hours.
Financial incentives applied to 8 specific Key Performance Indicators.	Financial incentives available for all contracted outputs (over 60 Performance Indicators and Targets). Performance retention/abatement automatically applied for failures in reactive tasks, statutory and Department Mandatory tasks and Move-ins.
	Contract Defects and Management Plans put in place for all major non-compliances.

Source: Ministry of Defence

4.6 CarillionAmey told us that when it bid for the contracts it had a good understanding of what was expected and the costs involved as it had managed the previous maintenance contract in England and Wales. It told us that it had engaged with its supply chain and tested the costs involved in delivering the contracts before signing them. However, it knew less about the additional services, such as those relating to occupancy and the provision of furniture, contracted for as part of the National Housing Prime contract, and which had previously been managed by the Department.

4.7 CarillionAmey receives approximately 25,000 calls related to maintenance work to Service Family Accommodation every month. It responds to maintenance jobs placed by users of the estate, or works identified through routine inspections, according to their priority. CarillionAmey and the Department have agreed which jobs are to be treated as either ‘emergency’, ‘critical’, ‘urgent’, ‘routine’ or to ‘make wind and weatherproof’, see **Figure 11**. If CarillionAmey do not undertake maintenance works which are material to determining the charge for the property within seven days of the target timescale, then the Department is able to reduce the rent that service families pay.

4.8 CarillionAmey outlined to us the main actions it had taken after being awarded the contract. It had worked with the Department to put in place a governance structure to manage and oversee performance against the contract (see **Figure 12** overleaf), which it believes had been effective, enabling issues to be identified quickly and resolved through joint working with the Department. It has also created a shared pool of management information on performance to which the Department has access. CarillionAmey told us that the first six months of the contract involved reshaping its workforce by making redundancies and transferring departmental employees to CarillionAmey, and training staff. It also worked to implement an IT system to replace the system it used previously to commission engineers to complete placed maintenance jobs, document the work undertaken and provide performance management information. The IT system was seen as a key enabler to realising efficiencies and supporting effective workflow management. The Department and CarillionAmey both told us that development of that IT system had been more complex than originally anticipated.

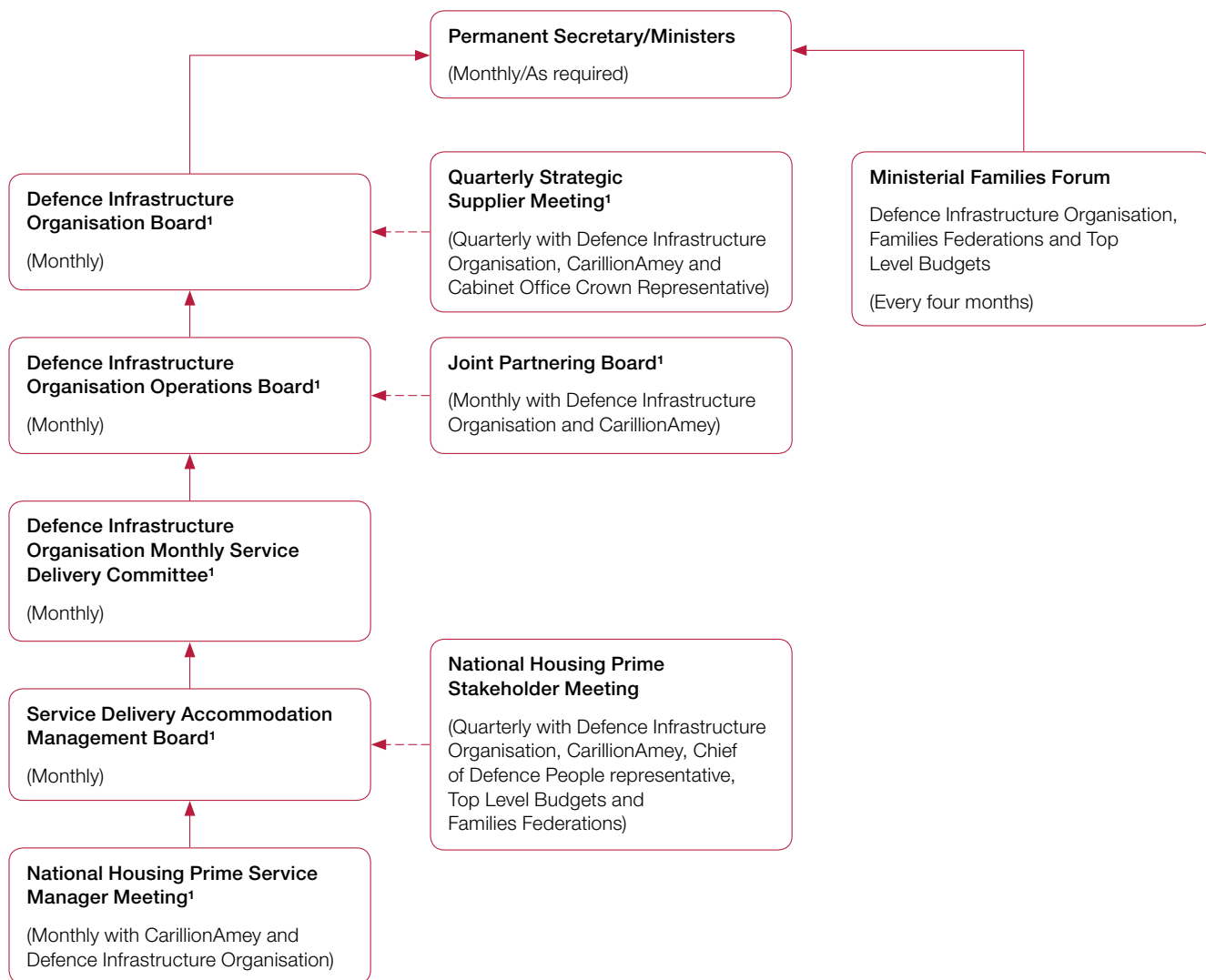
Figure 11

The service provided by CarillionAmey to the Department under the National Housing Prime contract

Response category	Examples of works within category	Description	Target as specified in contract
Emergency	Threatens imminent risk to people or extensive risk to property eg fire.	Immediate response within 3 hours. Make safe solution only.	100%
Critical	Total loss of heating over the winter or blocked main drain.	Response within 3 hours and resolve within 12 hours.	95%, with outstanding 5% carried out within additional 24 hours.
Urgent	Substantial loss or faults to power, lighting or electrical sockets.	Full permanent repair to be carried out within 5 working days.	95%, with outstanding 5% carried out within additional 3 working days.
Routine	Not covered by emergency, critical or urgent.	Full permanent repair to be carried out within 15 working days.	95%, with outstanding 5% carried out within additional 7 working days.
Wind & weatherproof	Only required if failure to complete would result in a lack of security or damage to the exterior of the property which could permit deterioration of the structure or its internal components.	Rectify within 20 working days.	95%, with outstanding 5% carried out within additional 10 working days.

Source: Ministry of Defence

Figure 12
Governance arrangements relating to the oversight of the National Housing Prime contract



Note

1 Represents where a meeting is attended by a commercial representative from the Defence Infrastructure Organisation.

Source: Ministry of Defence/CarillionAmey

Satisfaction with repair and maintenance work

4.9 There is evidence from a number of sources of dissatisfaction with the current service. In 2016, the Armed Forces Continuous Attitude Survey found that satisfaction with responses to maintenance requests and the quality of maintenance work were at 32% and 29% respectively (see Figure 6). In addition, in early 2016 there was a campaign on social media regarding the service that CarillionAmey was providing. The Army Families Federation also received 4,060 enquiries from families regarding housing in 2015.²³ This was a 45% increase on 2014. Repairs and maintenance accounted for the greatest number of enquiries, with a 58% increase on the level in 2014. The Federation's 2015 report on Army Families' concerns stated that complaints included inadequate repairs, failure of contractors to turn up to appointments, poor communication between CarillionAmey and families, and problems with boilers and cookers.²⁴

4.10 The Armed Forces' Pay Review Body's 2016 report also noted:

“Most of the Service personnel and families we spoke with on our visits who were living in SFA [Service Family Accommodation] thought that the maintenance service remained poor. Indeed, many considered that it had actually worsened with the introduction of the NHP [National Housing Prime] contract. Examples were given of repairs taking a long time to be carried out, missed appointments, impolite tradespeople, and poor service from the call centre.”²⁵

4.11 In the event that service families are unhappy with the service CarillionAmey has provided, they can make a complaint to CarillionAmey by telephone or email (stage 1), who aim to respond within 15 days. In the event that service families are not satisfied with CarillionAmey's response, they are able to complain to the Defence Infrastructure Organisation in writing or through the defence intranet (stage 2). No standard response times have been set because the nature of the complaints may vary. In the event that families are still unsatisfied by the response received, they can make a complaint in writing to the Independent Housing Review Panel (stage 3), provided by the Department's Human Resources section (ie independent from the Department's accommodation service). The number of stage 1 and 2 complaints received on the service are set out in **Figure 13** overleaf. In the period between November 2014 and January 2016 the Department received four stage 3 complaints.²⁶

²³ The Army Families Federation is a charity aiming to provide services and support to families of serving personnel.

²⁴ Army Families Federation, *2015 Army Families' concerns*, 2016.

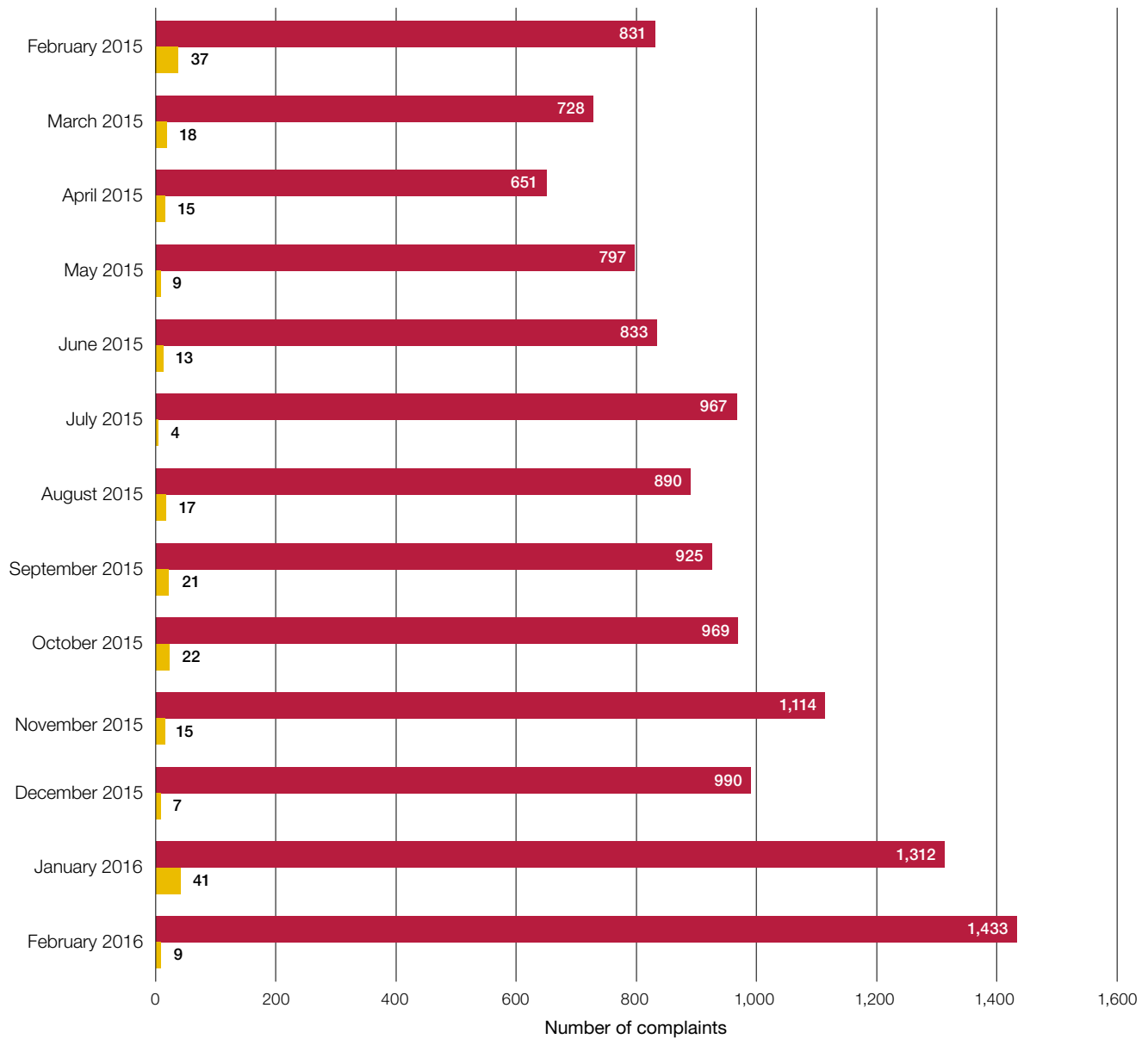
²⁵ Armed Forces' Pay Review Body, *Armed Forces' Pay Review Body*, Forty-fifth Report 2016, Cm 9213, March 2016.

²⁶ This is the number of complaints received that met the criteria to be classified as stage 3.

Figure 13

Number of complaints received per month concerning maintenance of Service Family Accommodation

The number of complaints received by the Department has increased



■ Number of stage 1 complaints received by CarillionAmev for maintenance works on Service Family Accommodation

■ Number of stage 2 complaints received by the Department

Note

1 Based on data available at time of reporting.

Source: Ministry of Defence

CarillionAmey's performance against the Key Performance Indicators within the National Housing Prime contract

4.12 The National Housing Prime contract has measures to enable the Department to hold CarillionAmey to account in relation to the views of service users. CarillionAmey measure customer satisfaction across a number of activities and, in relation to maintenance activity, they survey 5% of all jobs undertaken with the customer. They also measure complaint levels. In addition, the Department states that it uses data from the Armed Forces Continuous Attitude Survey and the Tri-Service Families Continuous Attitude Survey, anecdotal evidence from Service Families Federations, stocktake meetings on the contract, and monitoring data from social websites and forums to build up a broad view on how CarillionAmey is performing.

4.13 The contract allows the Department to retain a proportion of the fee payable if CarillionAmey does not meet the initial transformation milestones in the contract and 95% of the Key Performance Indicators. If CarillionAmey is able to demonstrate that it has completed its work to meet a previously unmet milestone or indicator, then the Department will release the retained fee. The Department told us that it has used this mechanism to incentivise improved performance from the beginning of the contract. Between November 2014 and to the end of March 2016, the Department had paid £115.3 million to CarillionAmey under the contract. Of these payments, the Department had retained £10.4 million (8%) due to late completion of tasks, of which it had subsequently released £6.4 million (6%).

4.14 During 2015, CarillionAmey's performance in relation to the National Housing Prime contract fell below the contracted level. **Figure 14** overleaf shows CarillionAmey's performance against its agreed Key Performance Indicators. CarillionAmey told us that the introduction of the new IT system was key to allocating maintenance jobs to its engineers and tracking progress. However, implementation had been complex. The lack of a functioning system meant that CarillionAmey did not allocate some maintenance jobs to an engineer and did not collect the documentation needed to verify that some works had been completed. A backlog of jobs ensued and the volume of calls to its service centre, raised by families querying the status of their maintenance jobs, increased. CarillionAmey told us that it had made progress implementing the IT system, although some functionality was still being delivered. It was also developing a website for service families to raise maintenance requests, rather than having to use a telephone helpline.

Figure 14

CarillionAmey's performance against the Key Performance Indicators within the National Housing Prime contract between December 2014 and January 2016

Month	Percentage of tasks completed within the agreed response times against a target of 95% (%)	Percentage of occupied Service Family Accommodation with a Landlord Gas Safety Inspection Certificate against a target of 100% (%)	Number of overdue Landlord Gas Safety Inspections in England and Wales
December 2014	83	99.16	300
January 2015	84	98.60	497
February 2015	86	98.36	584
March 2015	97	97.71	815
April 2015	92	97.80	782
May 2015	92	98.02	704
June 2015	92	98.09	678
July 2015	92	98.30	606
August 2015	90	98.89	396
September 2015	91	99.13	310
October 2015	93	99.45	197
November 2015	91	99.67	119
December 2015	91	99.79	75
January 2016	91	99.85	55

Notes

- 1 The contracted performance target for emergency response and statutory and Ministry of Defence mandatory works is 100%.
- 2 The agreed response times are: emergency – attend within three hours and make safe within 24 hours; urgent – attend and rectify within five working days; and routine – attend and rectify within 15 working days.
- 3 The Landlord Gas Safety Inspection compliance percentage is approximated based on current number of occupied Service Family Accommodation with a gas supply = 35,557.

Source: Ministry of Defence

4.15 Alongside problems implementing the IT system, CarillionAmey told us that it had faced a number of challenges providing the customer service families expected. This included sourcing the wide range of parts needed for a diverse estate in the absence of common standards on the brand and type of appliance used. It had engaged with service families, representative bodies and the Front Line Commands to understand where improvements were needed. It had taken action to improve performance including increasing the number of engineers undertaking maintenance work and call centre staff and improving the training regime for its staff. Around 65% of CarillionAmey's workforce are small and medium-sized enterprises, contracted to undertake maintenance on CarillionAmey's behalf, and CarillionAmey told us that where it identified persistent concerns with the quality of work, it took action to remove the responsible engineers.

4.16 The Department stated that it first took action to address issues identified with CarillionAmey's performance in Spring 2015. In October 2015, the Department approached the Board of CarillionAmey to direct that the performance issues it had identified were rectified. In the absence of significant improvements, in February 2016, the Defence Secretary met with the chief executives of the parent companies, Carillion plc and Amey plc, to raise performance concerns. Following that meeting, the Department has agreed with them an improvement plan which ran from 1 March to 31 May 2016. This plan included an agreed level of performance expected against the Key Performance Indicators on a monthly basis, increasing to the contracted performance level by May 2016. It also included agreement on extra resources to be provided by CarillionAmey (such as additional call centre staff and more engineers to undertake maintenance work) and the Department.

4.17 Once the improvement plan period is over the Department will examine data on CarillionAmey's performance, and the Minister for Defence Personnel and Veterans has stated publicly that if performance has not improved the contract would be terminated.²⁷ Due to the importance of the data in informing the Secretary of State's position regarding the future of the contract, the Department is having the data collection process independently audited.

²⁷ Interview on BBC Radio 5, 'Radio 5 Investigates', broadcast 8 May 2016.

Appendix One

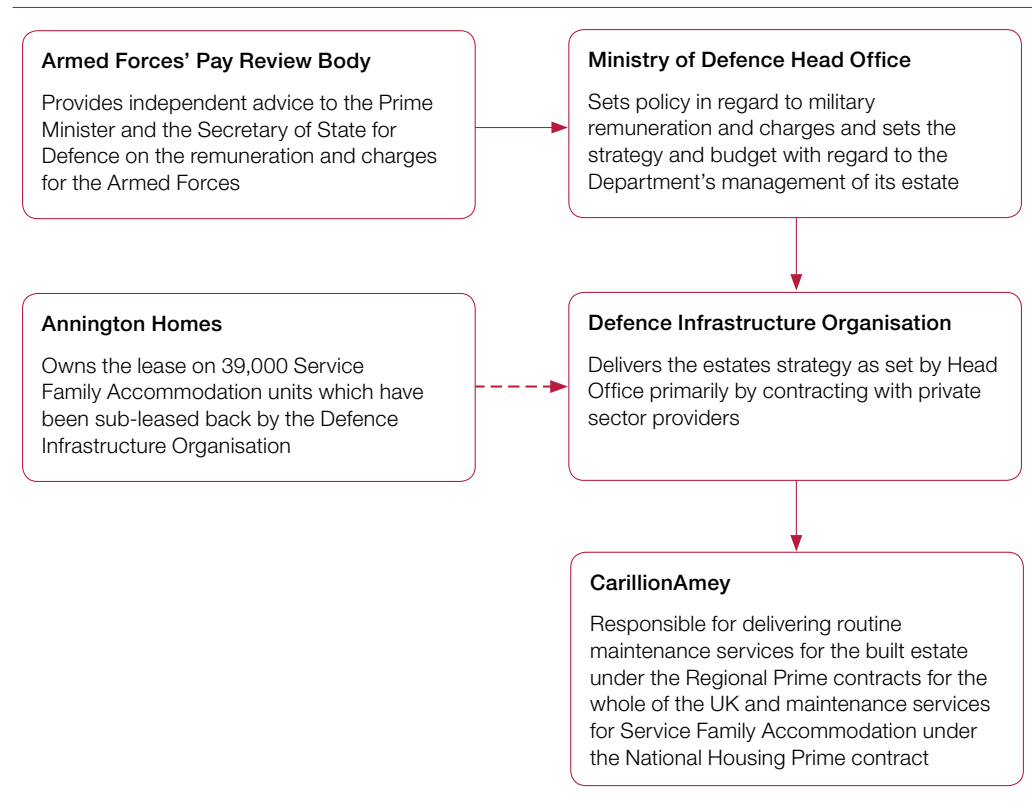
Recommendations made by the Committee of Public Accounts in its 2008-09 report on Service Family Accommodation

-
- 1 Almost a third of service families surveyed by the National Audit Office describe the condition of their house as poor. The Department plans to upgrade 2,300 of its houses in the lowest Conditions 3 and 4 to the best Condition 1 by 2012, and do the same for the remaining stock within the next 20 years. The Department should use its new condition standards data to assess which properties meet the Government's Decent Homes Standard and targets for energy efficiency, and quickly tackle the problems in those that do not. The Department should also further analyse properties rated Condition 2 so it can prioritise upgrade work in this broad band towards those most in need of improvements.
 - 2 The Department was wrong to release new data on the condition of its housing stock the day before publication of the Comptroller and Auditor General's Report, particularly as it contained known errors, and neither the survey nor the analysis were complete. The Department must complete the survey, validation and analysis to its planned timescale so it can identify all the properties needing an upgrade using reliable data. It should update Parliament on the condition of the housing stock once its survey work is complete. In future, Departments should make the National Audit Office fully aware of relevant data they intend to release at, or around, the time of the publication of a report by the Comptroller and Auditor General and only release information that is sufficiently reliable.
 - 3 Currently around 17% of properties sit empty, at significant cost, well above the Department's target of 10%. Each percentage point reduction in empty properties reduces costs and frees resources by over £2 million. To reach its target more quickly, the Department should speed up the process by which it makes strategic decisions on the location and make up of its housing stock. Where it has identified that empty stock needs to be retained for future basing requirements, it should explore alternative uses for the houses during the interim period, for example, leasing appropriate blocks to other housing providers.
 - 4 The Department's entitlement system is complex, and Service personnel have limited ability to request a property outside their strict entitlement. The Department is constrained by its existing housing stock, but it should review the scope to simplify the number of property types it offers when providing new stock. It should also increase the flexibility around the margins of the system, for example, in reviewing the scope for using properties designated for Officers for larger Other Ranks families where there is a shortage of appropriate stock.
 - 5 Families receive very limited information about the properties which they are allocated and in many cases only see the house for the first time when they arrive to move in. The Department should introduce estate agent style details for occupants including photos, information on layout and floor plans. It could make use of data collected during the recent condition survey where feasible, and should build the generation of estate agent details into the data collection plans for its survey of the remainder of the housing stock.
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- 6** Over a third of those surveyed by the National Audit Office were dissatisfied with the cleanliness of their property on moving in. The Department should either undertake to clean all properties before a family moves in, or strengthen expectations that families leave them clean by inspecting properties and completing minor repairs before another family moves in. The Department should also:
- a** make permanent the process being trialled in England and Wales whereby staff “take back” properties from the contractor two days before a new family arrives (particularly after repair work, or if the house has been empty) to allow for attention to unsatisfactory repairs or cleaning;
 - b** introduce a deposit, from which the Department can deduct cleaning charges for properties not left in a satisfactory state;
 - c** create a record of tenants who abuse their accommodation so incidents can be taken up with their military units and involve the Services on a more systematic basis; and
 - d** make more rigorous the collection of charges levied on moving out, and return the charges collected to the local area so that costs incurred do not reduce funding for other maintenance work.
- 7** Although some of the problems with the maintenance contract have been overcome, the level of first time repairs is too low, communication of progress to occupants is often poor and the contract excludes some important items. The Department should benchmark the maintenance system with other housing providers and manage the contract to ensure that the contractor meets meaningful key performance targets. In particular, it should work with the contractor to improve the actual rate of first time repairs. The contract excludes important items such as carpets. The Department should seek to extend the existing contract to include them, and should build currently omitted items into any new contract it agrees. It should also prepare the market so there is sufficient competition for the incumbent provider.
- 8** The Department needs to develop better mechanisms for communicating with occupants and for recording their experiences and complaints. The Department should use the results of its planned survey of Service families to inform its priorities for improving customer service. It should also consult more widely with occupants on their priorities when determining what upgrade work to carry out. It should introduce a more rigorous system for recording and monitoring occupants’ complaints to quickly identify recurrent problems and take prompt action to address them.
- 9** The Department is improving the way in which it delivers housing services, but could do more to follow good practice. To improve its own performance further, the Department should benchmark its performance and practices against other housing providers such as Housing Associations and Local Authorities, and draw on good practice in these sectors to develop a greater customer focus.
- 10** It is more difficult for Service personnel to be home owners than the civilian population because they are required to move frequently. The Department assists with home ownership and plans to pilot a shared equity scheme where it would acquire a share of the property bought by Service personnel. The Department should undertake an early evaluation of the pilot shared equity scheme to assess the likely take-up from lower income Service families, as well as the potential risks it may be taking in committing to long-term equity shares in private housing.

Appendix Two

An overview of the key players involved in the provision of Service Family Accommodation



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