

The Rt. Hon Ben Wallace MP
Secretary of State for Defence
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London
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Jeremy Quin MP
Minister of State for Defence Procurement
Ministry of Defence, Floor 5, Zone B, Main Building
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1 February 2022

Dear Secretary of State and Minister,

I am writing to set out our considered response to the notices served by the Ministry of Defence on 16 December 2021 and 28 January 2022 to enfranchise two single houses in Cranwell. Following the second notification, we discovered that each of the freeholds to those houses had been sold to a new company 'Defence Infrastructure Holdings' for £1.

This letter sets out the background, explains why we consider this move to be ill-conceived, sets out the potential legal consequences, and offers a possible solution to the problem that has been created by this attempted expropriation. We are genuinely shocked that UK Government Investments (UKGI) is acting in this way, and is seeking without notice to tear up a long-standing agreement, which sends a dreadful signal to businesses which rely upon the good word and good faith of Government. We are mindful of your responsibilities to Service families often forced to live in unacceptable conditions. We are therefore proposing a solution to this issue that prioritises improving homes for service families and provides £105 million for improving and modernising homes.

This is an open letter that is being forwarded to MPs with significant Married Quarter Estate units within their constituency, as well as representatives of military organisations and charities.

Background

The notices seek to use enfranchisement legislation to expropriate houses that the MoD sold to Annington in 1996. The sale was as the result of a very public and competitive auction process, where Annington paid almost £1.7 billion to the Government, as well as an additional £160 million in the form of a profit share, and under which the Government was able to rent the houses at just 42% of the open market rent – a very significant discount - for the first 25 years of the lease.

In a statement to Parliament on 27 January 2022, the Minister of State confirmed that this scheme went further than one property and that, in essence, the MoD intended to explore the expropriation of all of the houses leased to the MoD by Annington. On the same day, Robert Razzell of UKGI said that the price payable would be “broadly equivalent to the open market value” of the asset being expropriated. This position is directly at odds with the Government’s stated aim of reducing the size of the Defence Estate and significantly reduces the flexibility with which the estate can be managed.

Our shareholders have previously been approached by Lex Greensill, who claimed to be acting with the approval of the Government, in connection with a proposal to buy out Annington, and it would be useful to know if this scheme is an extension of that.

As you know, before the first notice was served, our shareholders were preparing Annington for sale. Assuming the Government intent is as stated by the Minister, we would be happy to discuss with you the acquisition by the MoD of Annington’s interest in the homes let to the MoD, in total, at market value, valued by CBRE at £7.97 billion. This valuation was relied upon and affirmed by a wide range of institutional investors, who purchased £800 million of bonds from the Annington group in October 2021 and should be the starting point of any discussion.

The relationship between Annington and DIO

The statement made by the Minister and the briefing around it, is contrary to earlier commitments by UKGI representatives, Henry Lloyd, who is a Director of UKGI, and Robert Razzell, who is Chief Financial Officer of UKGI. In connection with the recent Site Review, Mr. Lloyd and Mr. Razzell claimed to be acting on behalf of the MoD, and seeking to improve relations with Annington. Annington took these commitments in good faith, and reached a settlement with UKGI and the Defence Infrastructure Organisation to fix the arrangements for the next 30 years of the relationship. This settlement built on the 2019 agreement, and as part of it we addressed the concerns raised by UKGI in connection with the relationship. Since 2019 we have:

- Changed the terms of the lease to allow houses to be let more easily;
- Reduced DIO’s liability in respect of houses returned in poor condition;
- Agreed to take back sites (Uxbridge and Brize Norton) which had deteriorated badly or been demolished, despite the fact this will cost Annington tens of millions;
- Waived material breaches by DIO of its obligations under various agreements, and agreed to amend certain agreements to help the MoD avoid breaching again

These steps were all taken to improve the relationship between us and set the foundations for a productive relationship for the next 30 years.

In contrast, the steps taken by DIO and UKGI are decidedly anti-business and call into question whether the private sector can have faith in Government to act responsibly, legally and ethically. The letters sent by our solicitors earlier today set out the very serious legal issues that your scheme is subject to, and demonstrate that it is not viable from a legal perspective.

Current condition of the houses

Aside from the legal case, we believe Parliamentary and public opinion would be shocked at the manner in which the DIO has allowed Service Family Accommodation to deteriorate. We remind you that, at its insistence, the DIO is solely responsible for all of the upkeep of the houses – it was

a key term insisted on by the Government in the original 1996 deal, and reflected in the significant rental discount the MoD enjoys. As you will know, since 1996 Annington has consistently offered to help with improvements – for example, to take on responsibility for maintenance - but our approaches have been rejected. It is a matter of profound regret that the DIO does not take its obligation to ensure good upkeep seriously; the state of the properties in which our Service personnel are expected to live, is often unacceptable, and the approach that DIO has taken towards those houses is often difficult to understand.

The DIO's approach to the houses is shown at sites such as RAF Uxbridge where rent to the value of £9.8 million has been paid on 85 houses since 1996, despite those houses remaining unoccupied for the entirety of that period and becoming entirely derelict - as shown in Appendix 1.

Currently 7,230 properties in the MQE are vacant - around 20% of the total. The MoD pays approximately £36.6 million per year of taxpayers' money in rent on these empty houses and flats, at a time when demand for homes is at an all-time high. It makes no sense at all for the MoD either to spend these vast sums renting homes with no occupants, or to deprive would-be homeowners/buyers of a proper home of their own. It also makes no sense that DIO is now taking steps to use enfranchisement legislation to buy these houses back at considerable public expense, when it has no need for them. The enormous sums spent on rent for these empty properties would be far better spent on improving the condition of the properties the MoD does in fact need.

We have sought to be constructive and co-operative throughout, in keeping with the MoD's stated aim of resetting and improving relations between us. In contrast, it has become clear that while claiming to work towards improving the relationship, UKGI had in fact been secretly working on its flawed enfranchisement scheme for over twelve months before the recent settlement of the Site Review. UKGI is using legislation that was intended for an entirely different purpose (allowing individuals to buy the freehold of their property) to effectively achieve state expropriation.

These are not the actions of a Government committed to the rule of law. We expect to commence proceedings within weeks, and the litigation that follows will cost Annington and the MoD huge sums in legal fees and take many years. While the impact of the attempt to enact the scheme should have come as no surprise, its consequences should by now be abundantly clear. More alarming still is that by making the attempt, the MoD is now exposed to a claim which may run into the billions of pounds and which would result in either the reallocation of much-needed MoD funding from elsewhere within an already strained budget or yet a further burden upon the Treasury. Such a claim is surely a distraction from the true purpose of the Ministry of Defence.

Our proposal

Nonetheless, we recognise there are serious issues to address, not least concerning the state of housing for which the MoD have responsibility, and we for our part want to address those in good faith and conscience.

We are still committed to working to improve the condition of the estate and want to restore our relations. To that end, we are proposing that Annington creates a substantial fund, the Annington Homes Modernisation Fund ('AHMF') to be spent on the houses most in need of improvement and modernisation - as well as being spent upon improvements and energy efficiency measures to help the MQE meet the environmental targets set down by the Government.

The Annington Group would commit £105 million into the AHMF to make a real impact on the quality of the homes that Service families live in.

The AHMF would be above and beyond the MoD's normal sources of funding for the MQE. Annington would be happy to assist with the disbursement of these funds, but would not have control over that: the decision on where the funds should be spent would be taken by Service family representatives and MoD personnel. I attach at Appendix 2 pictures of an indicative sample of the types of houses for which the AHMF could be used. This proposal is predicated on the MoD withdrawing the action it has initiated and committing to its abandonment.

We make this offer (which is subject to contract) as an attempt to rebalance our relationship and to improve the houses in the estate. Any settlement will need to be timely. As will be clear from our solicitors' letters, legal proceedings will shortly be commenced, if a settlement cannot be reached. Once we start committing funds to that litigation, there will no longer be money available for the AHMF. It would be a shame to see money that could go to improving the houses being wasted on costly and lengthy legal action.

We believe that there will be widespread support for such a fund, not least in those areas where military housing is at its worst.

The action taken by the MoD leaves little time to delay, as legal proceedings are imminent. Therefore, if there is to be an agreement, it will need to be reached within the next two weeks.

I look forward to hearing from you.

Yours sincerely,



**The Rt Hon Baroness Liddell of Coatdyke PC
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