

## THE FUTURE OF ALMOs

The National Federation of ALMOs (NFA) represents all 70 current and aspirant arms length management organisations (ALMOs) who between them manage more than one million council homes across sixty-six local authorities, more than half of all council housing in England.

ALMOs deliver service improvements and real tenant empowerment; their housing inspection results and tenant satisfaction levels exceed those in both retained council housing and RSLs.

The NFA considers there are a number of key areas that would enhance the delivery of government priorities and ensure the future development of ALMOs as successful, popular and tenant inclusive managers of social housing. These include:

### **SELF FINANCING AND THE HOUSING REVENUE ACCOUNT SUBSIDY SYSTEM**

ALMOs operate within the Housing Revenue Account (HRA) subsidy system which means that those that generate a surplus resulting from effective management are unable to retain the benefit and they are unable to plan long term because of the volatility of funding.

The HRA subsidy system is now in surplus but the rental income from tenants nationally will not be spent on services for them. The decent homes programme has been a huge success in improving standards and service delivery, but this will be undermined as, over the next few years, the majority of councils with ALMOs move out of subsidy and their income will be insufficient to sustain the improvements made. Instead, residents will face cuts in services and a decline in the condition of the stock.

The NFA is calling for self financing for ALMOs as it rebuilds the link between rent paid by tenants and services provided by landlords. It would offer long-term financial stability, enabling high performing ALMOs to better manage assets, to better deliver services and to better assist in developing new housing and regenerate and renew communities.

### **CONTINUATION OF THE DECENT HOMES PROGRAMME**

The current housing stock will continue to provide the majority of housing provision for decades to come, so it is vital that the work of the decent homes programme is continued. The NFA welcomed the Government's continued commitment to spend £2.4bn in the latest spending round; however, a similar level of funding will be required to complete the ALMO programme, which will itself need to extend to at least 2012.

### **ROLE IN MEETING HOUSING NEED**

New social housing built through ALMOs would help tackle social housing shortages in some areas of the country, alleviate overcrowding and tackle physical regeneration needs on many estates. Many ALMOs are managing stock on council land that has unused spaces, such as garage sites. Such sites (together with more traditional new build sites) can provide an opportunity not only to increase provision, but also to improve the neighbourhood. Also, the current downturn in the property market provides the opportunity to purchase new build from private developers and to buy back properties sold under the Right to Buy.

ALMOs are still not on a level footing with housing associations in the eligibility criteria for Social Housing Grant, nor in access to private finance. This makes a good business case for new build by ALMOs hard to achieve and, as a result, not all councils will allow their ALMOs to do this. Subsidy through sales and use of free council land can help make schemes financially viable.

Many ALMOs have already started the process to develop new social housing but ALMOs require changes to the financial regime and a prospect of a long term future before they can fully realise their potential in this area.

### **GUIDANCE TO COUNCILS ON MAKING LAND AVAILABLE FOR NEW BUILD**

Many councils are still reluctant to provide land for social housing development free, either because of general fund pressures or because of a lack of clarity about rules governing disposals. The Government could consider more proactive encouragement to councils to make greater use of free land where new build is a priority. Unlike the position with housing association and private sector developers, the use of free land for ALMO new build is not, in reality, a disposal. The land goes to a company wholly owned by the council to build council housing through a non-HRA route, so the asset is not lost but held elsewhere on its balance sheet. It would be helpful if this message were more clearly communicated to local authorities.

### **LONGER TERM MANAGEMENT CONTRACTS**

The current 5-10 year contract term with local authorities reduces efficiency and long term planning and makes it harder to keep excellent staff and retain the focus on long term improvements, especially for those ALMOs who have achieved the decent homes standard and are nearing the end of their contract terms. It compares unfavourably to the other stock options that councils can consider, such as PFI (a 30 year contract) and LSVT (a permanent management and ownership change) and inhibits the ability of ALMOs to push ahead with innovative ideas and deliver real change in their neighbourhoods.

### **TENANTS TO MAKE DECISIONS ON FUTURE MANAGEMENT OF THEIR HOMES**

Without action to introduce freedoms and flexibilities for ALMOs, some successful ALMOs from early rounds may be wound up as the service is taken back in-house. The NFA believes that just as the local authority was required to consult its tenants when it wanted to establish an ALMO, tenants should be consulted in the same manner if a local authority wants to wind up an ALMO. This should be a clear guarantee by all local authorities with ALMOs to their tenants.

### **A FAIR AND EQUITABLE TAX REGIME**

The basic ALMO model is relatively simple and efficient for VAT; an ALMO can recover its input VAT on its management services if its only supply is to its parent council. However, once ALMOs do some of the things that the Government and their parent authorities would like them to do, such as manage properties on behalf of RSLs or build their own properties, the tax regime is not so simple or fair.

If RSLs want to subcontract all or some of their management services to an ALMO, then VAT is payable. This makes a fiscal disincentive to rationalisation of management and an obstacle for tenants who may want to opt for a better manager from an RSL to an ALMO. If new social housing development is undertaken by the council, then VAT is not a cost, but if development is done through the ALMO then VAT is a cost. In some cases this may prevent local authorities going ahead with schemes that would have improved a neighbourhood.

The tax system should be simplified to create a level playing field between management providers.

### **CONCLUSION**

These changes should be made to put ALMOs on a stronger financial footing and ensure the sustainability of the sector in the future. They would give ALMOs the tools with which to secure their own future and continue to improve the lives of the residents they serve.