

## National Federation of ALMOs response to the Cave Review of Social Housing Regulation Call for Evidence

In our submission we concentrate on the two issues we see as fundamental:

- Developing the right incentives to drive high quality services
- Ensuring that residents have an effective voice in regulation.

We also comment on the possible role of the market, varying rent by satisfaction, the future of inspection, funding arrangements, housing plus and the role of the local authority. Where appropriate, at the end of each section we set out the key issues that the NFA thinks needs to be tackled.

### 1 Incentives to drive high quality services

According to the call for evidence ‘the incentives for social housing providers to deliver high quality services as efficiently as possible are currently relatively weak.’ This might be true elsewhere but it does not apply to ALMOs.

Additional funding to meet the Decent Homes standard is only available for ALMOs that score at least two stars at housing inspection. Inspectors’ judgements incorporate customer care, resident involvement, value for money, service delivery and progress against national government targets. Out of 50 ALMOs inspected so far, 32 have secured two stars with a further dozen on three stars. We are especially proud of Stockport Homes’ progress from zero onto three stars, whilst the majority of successful two and three star ALMOs began with only one star. These improvements have been achieved with substantially the same groups of staff.

The NFA is convinced that the financial rewards for climbing to two stars and beyond have been a tremendous spur. During her recent Fabian Society speech Ruth Kelly highlighted the impact of ALMOs by noting that ‘communities from Kensington to Kirklees have seen their areas transformed by our massive investment.’

The other side of the coin is that penalties for failing ALMOs can be severe. Where two stars are not achieved senior managers have lost their jobs. Local authorities exercise considerable power over ALMOs through management agreements, typically of five years duration, and the setting of the performance related annual management fee. These annual negotiations are a tough examination of the ALMOs track record and proposals for costs and quality.

Recently, the ALMOs at Hounslow (three stars) and Rochdale (two stars) have undergone thorough reviews by their councils to sharpen the management agreement targets. Despite their strong reputations, validated by inspectors, the councils and the ALMOs themselves wanted more.

Unlike stock transfer, which is a once and for all time deal, councils can take back an ALMO where there are concerns over performance or the Decent Homes programme is complete. The council and ALMO at Stockton put in a place a successful recovery plan to restore two stars after it fell to one at inspection. The penalties for failing ALMOs are analogous to those that apply for unsuccessful companies anywhere. ALMOs have no permanent right to existence; they must either deliver or be wound up.

We believe the balance of incentives and penalties for ALMOs is about right. Two and three star ratings have been delivered in places with long histories of under-achievement. By contrast directly managed council housing and housing associations have a much poorer record at inspection. So far only two associations have scored three stars. Previous government approaches to improving local authority housing relied heavily on penalties and were unsuccessful.

In the past the Housing Investment Programme regime withheld funding from poor performers. This drew criticism for applying a double whammy to the unfortunate tenants of such councils – poor performance led directly to lack of funds for repairs. Crucially, it also starved these services of the funds needed to make improvements like recruiting better managers or replacing IT. Few council housing services got better through this regime.

As Decent Homes programmes come to an end there is an opportune moment to consider new incentives. The NFA is participating in pilots for financial freedoms and flexibility for three star ALMOs.

### ***What the NFA wants***

- Incentives to encourage high performers to become a permanent fixture in regulation
- Prompt implementation of the findings of the financial freedom and flexibility pilots for high performing ALMOs
- Financial penalties should not stifle the ability of poor performers to improve
- Regulation should focus on the development, funding and implementation of improvement plans rather than punishment or penalties.

## 2 An effective voice for residents

The NFA agrees with the statement in the call for evidence that ‘social housing regulation...will need to ensure that residents are viewed as key participants in the system rather than passive consumers of housing services.’ Three out of the four government beacons for improving housing services through tenant involvement are ALMOs. Unless resident involvement is an area of strength it is not possible to secure two stars and qualify for ALMO funding.

The level and style of resident engagement with housing services is different from other regulated services and offers a platform to build from. There already exists a Right to Manage whereby functions can move to a Tenant Management Organisation (TMOs). Strong and Prosperous Communities, the Local Government White Paper, promotes TMOs. The NFA organised a joint conference with its counterpart the National Federation of TMOs to explore joint working. Many ALMOs provide services to TMOs in their area and the Kensington and Chelsea ALMO is the only borough-wide TMO.

Residents have powerful levers over ALMOs:

- A test of opinion takes place prior to ALMO set up (generally these attract greater turnouts than local elections)
- Periodic elections for resident board members
- Residents make up at least one third of the board
- Resident inspection and mystery shopping of services is common
- Council elections may be influenced by ALMO issues (and we have seen changes to ALMOs following political power shifts).

Examples of resident power at ALMOs include:

*Choosing options:* at Sheffield tenants participated in Neighbourhood Commissions with independent advisers to decide whether PFI, stock transfer or ALMO was best for their area. A mixed economy of solutions was adopted. Where transfer was favoured a competition was held so tenants could select their preferred housing association.

*Influencing management fees:* CityWest Homes (the Westminster ALMO) has agreed 17 Local Service Improvement Compacts (LSIC) in conjunction with residents that set and monitor priorities for improvement in their area. Performance against the LSIC targets determines part of the payment to the housing management contractors – by up to £25,000 per year in each of the 17 areas.

*Scrutinising policy:* tenants of Carrick ALMO have taken independent advice over the sheltered housing review and a counsel’s opinion on the impact of unitary council status in Cornwall.

*Taking tough decisions:* at Derby the ALMO convinced tenants that the number of office outlets should be reduced to release savings to fund service improvements. During 2005/06 ALMOs achieved two-thirds of the efficiency gains for council landlords despite managing only about one third of the stock at the time.

*Local accountability:* all ALMOs report performance to area based or neighbourhood forums. Scrutiny is at the level the tenant experiences the service which sharpens accountability. Islington's ALMO produces updates on key issues in each ward of the Borough.

*Leadership:* The chair of the NFA is a tenant and resident board members lead on meetings with senior civil servants and politicians including the prime minister. Many ALMOs have tenant chairs (eg, Derby, Kirklees and Hounslow) whilst tenant majorities on the board are emerging (Islington and Kensington). ALMOs are about empowerment, not just consultation.

### **What the NFA wants**

- Tenant empowerment to be central to the regulatory regime
- Housing inspection to concentrate on resident driven priorities
- All significant decisions affecting tenants taken by managers of social housing should be openly scrutinised by tenants with access to suitably qualified independent advisors
- Decisions about the future management agreements of individual ALMOs to be subject to full resident consultation
- The regulator or government should ensure appropriate training and capacity building is available to support residents that want to get involved
- Straightforward information comparing the costs and quality of social housing organisations at the neighbourhood level should be provided to all residents.

### **3 Possible role of the market**

We understand that the Cave Review team may consider the potential for stimulating a market in housing management. In theory, this could give tenants consumer choice with growth opportunities for excellent and cost effective organisations. In the 1990s there was an attempt by the previous government to promote a market through the compulsory competitive tendering of housing management. Despite considerable costs to councils of preparation virtually no commercial interest came forward. The opposite applies to maintenance, where there are several extremely strong national private sector providers.

In any consideration of the merits of a market in housing management several factors would have to be taken into account including:

- Individual choice of manager would be difficult in all cases due to the integrated design of much social housing – blocks, estates or neighbourhoods might be given choice
- Where the EU tendering regulations apply to tenders there are considerable and inescapable costs of compliance
- Housing associations must pay VAT to outside service providers (this is one reason why associations are establishing their own direct labour organisations)
- Inspection ratings of three stars have gone predominantly to organisations with a strong neighbourhood focus – would a national housing management market dilute this?
- Tenants may not respond positively to private companies in the housing management role (ALMOs and stock transfer associations heavily promote their non profit making status at inception – tenants would be concerned at losing rent to profit)
- How would tenants get to know about the type of services alternative managers could deliver? There may be a case for area-based panels where tenants from all the local landlords compare costs and quality as the starting point for assessing whether change would bring benefits. The Cave team has talked of publishing expected cost parameters for housing management in different contexts to stimulate more effective resident scrutiny.

At ALMOs tenants and leaseholders are consulted widely on service improvements including costs and the use of savings. Failure to do so means the ALMO would not secure two stars. ALMOs make good use of the market and have been at the forefront of partnering and collective procurement for maintenance. Hackney and Westminster ALMOs pioneered private sector and housing association managing agents. Resident involvement is at the heart of these procurements.

### ***What the NFA wants***

- Decisions about tendering out housing management to be made at the local level by tenants
- Tenants to have access to suitable advice on costs, quality and the operation of the market before making decisions
- Tenants to be fully involved in the process of assessing the scope for management cost by context parameters
- Further ALMO rounds – more tenants should have the chance to benefit from the ALMO approach which has demonstrably improved performance despite challenging starting points.

The NFA would suggest that Professor Cave launches a national debate on an extension to the principles of the Right to Manage. We think there may be a case for tenants to have a Right to Appoint a Housing Manager. It could be called Choice Based Management to build on the popularity of Choice-Based Letting. Not all groups of residents want to take on the responsibility for managing their neighbourhood, but many more could be interested in saying what organisation should do the job. The debate would look at:

- Whether such a scheme would bring real benefits to tenants
- How the mechanics would work (what would it cost, what are the legal issues and how would tenants get reliable and understandable information to make choices)
- The business impact on social housing landlords and managers.

#### **4 Customer satisfaction surveys**

We understand that the Cave Team is exploring whether rent levels should vary according to customer satisfaction. Great caution is needed here. Inspection results often run counter to satisfaction ratings. Zero star services can see extremely high satisfaction, because low tenant expectations have been met. External factors like crime rates and refuse collection can skew satisfaction. Tenants and leaseholders would probably start to fill in satisfaction returns *intelligently* to influence rents and service charges. Broadly, tenants in work and marginal owner-occupiers will vote to keep costs down whilst those on full benefit may have a different perspective.

Currently, the rent restructuring regime rules out the option of varying rent by satisfaction. As we note earlier under-performing services can require extra money to get better, eg, for new managers or IT or training. Flexing rents by satisfaction is an inappropriate and blunt instrument. Without this incentive ALMOs at Islington, Hackney and Bassetlaw are already amongst the fastest improvers on services that matter to tenants like speed of repairs and re-letting homes. According to the Survey of English Housing in 2004/05 which, covered councils and ALMOs – 21% thought their landlord had got better over the last two years, 64% stayed the same and 15% reckoned it had got worse. Most of those who believed service had improved attributed this to faster and more efficient repairs.

#### **5 The future of inspection**

Preparing for inspection has been a significant driver for improving housing management<sup>1</sup>. The great benefit of inspection is that the inspectors actually visit and experience services on the ground. So far there has been no success with using desktop performance indicators (PI) analysis as a proxy for determining service quality in housing. It is interesting to observe the regularity with which the Housing Corporation's traffic light regime (based on PIs and high level contact with associations) has been over-turned by inspectors. However, inspection is an expensive process in terms of both the fees to the Audit Commission and the preparation costs to the ALMO, all borne by tenants. Some ALMOs have been inspected four times over four years.

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<sup>1</sup> *Best Value in Housing :Improving Housing Services – toolkit for social landlords* ODPM June 2005

Unannounced inspections have been proposed by the Audit Commission. The NFA is not in favour of these for ALMOs that have yet to qualify for funding, or are completing the Decent Homes work, or are pursuing three stars to access freedom and flexibility. Given the consequences for tenants of failure we still see the case for a properly planned and rigorous inspection in these circumstances. After the Decent Homes programme is complete we do want light touch inspections for ALMOs that do not wish freedom and flexibility and are open to considering the merits of unannounced inspection.

The Key Lines of Enquiry (KLOEs) developed by the Audit Commission did introduce welcome transparency to inspection. These need to be refreshed as legislation changes and expectations rise, and the Audit Commission has this in hand. The NFA believes the KLOEs should be retained but must demonstrably focus on outcomes for tenants and be stripped of their repetitive input and process demands.

### ***What the NFA wants***

- External inspection should continue – it has been a powerful driver for improvement
- The costs of external inspection should fall
- The KLOEs should focus on outcomes for tenants instead of internal processes
- Inspections should continue to be announced for ALMOs that need to qualify for funding, continue with the Decent Homes work or apply for freedom and flexibility
- Lighter touch inspections for ALMOs that have finished Decent Homes and do not wish to access freedom and flexibility options.

## **6 Funding**

The NFA wants ALMOs to have the same ability to access financial freedom and flexibility as housing associations and developers that qualify for public funding. It is perverse that associations can retain partnering status on one star, whilst ALMOs must obtain three stars to have the prospect of building homes or re-modelling estates. Our members that sought Housing Corporation funding found the rules discriminated against them. As we researched future funding possibilities for ALMOs our consultants asked lenders if it was necessary to be regulated by the Housing Corporation to secure funding – the lenders saw no need for this intermediary role.<sup>2</sup>

### ***What the NFA wants***

- A level playing field on funding with housing associations.

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<sup>2</sup> *ALMOs – a new future for council housing* NFA, CIH and HouseMark 2005

## **7 Housing Plus**

The notion in the call for evidence that certain activities are complementary to the core landlord role – housing plus – may be anachronistic. Few social housing organisations can restrict themselves to the three Rs of rent collection, repairs and re-lets anymore and survive. Residents and inspectors would jib if ALMOs were not making serious progress on the Respect agenda including target hardening and diversionary activities for young people. Concerns over ASB feature heavily in all resident satisfaction surveys. ALMOs operate mainly in challenging areas with challenging residents and a basic core landlord service would simply be inappropriate. ALMOs have signed up to the Respect Standard and are heavily engaged in community safety, social and financial inclusion agendas. Our members are active in providing apprenticeships, credit unions, benefits and pension advice, low cost insurance and furnished tenancies. Homebuy is offered where we build new properties. The NFA works with Transact – the national forum for financial inclusion.

It is helpful that the Cave Review has raised the issue of housing plus. There is a real debate to be had over the degree to which the housing revenue account raised by tenants and supplemented by service charges from leaseholders can and should fund activity beyond the three Rs. Plainly, this meshes with the Lyons Inquiry into the funding of local government services overall.

## **8 Role of the local authority**

Housing performance will be an important element of Comprehensive Area Assessment so councils have a strong interest in the contribution of ALMOs and other housing managers. As councils own ALMOs and in consequence exercise a considerable degree of control via the management agreement and fee setting arrangements no additional regulation is needed here. However, local authorities have almost no control over other social housing providers. Should ALMOs take the lead role amongst social housing organisations on a first among equals basis for council-wide initiatives like Respect?

Where aspirant ALMOs have been poor performers or where existing ALMOs have lost stars some (but by no means all) of the responsibility can be shared with the council owner. For example, they may insist that the ALMO uses inefficient council provided services instead of testing the market. This supports the case for residents to have access to indicative cost parameters so they can see if costs may be excessive. External inspection might be needed to provide reassurance that the shareholder (and the ALMO) is acting in the best interests of residents.

NFA  
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