

Housing

National report



# Learning from the first housing ALMOs

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<b>1 Introduction</b>	<b>2</b>
<b>2 Service delivery</b>	<b>4</b>
Introduction	4
Positive practice	5
Performance in the principal service areas	6
Summary	11
<b>3 ALMO governance</b>	<b>12</b>
Local reasons for forming ALMOs	12
Composition of ALMO boards	13
Role of board members	13
Tenant involvement	14
Impact of new governance arrangements	15
Training and development	16
Summary	17
<b>4 Finance and procurement</b>	<b>18</b>
Financial management	18
Capital programming and procurement	19
Summary	23
<b>5 Councils' strategic and operational roles</b>	<b>24</b>
Corporate management	24
Strategic and enabling housing role	25
Overseeing the ALMO	26
Retained housing and related services	28
Summary	29
<b>6 The way forward</b>	<b>30</b>
Which authorities should consider ALMOs?	31
What is arm's length?	31
Future developments	32
Recommendations	33
References	35

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## Introduction

The first eight Arm's Length Management Organisations (ALMOs) for council housing have been established successfully. Many councils are interested in pursuing this option to provide their tenants with decent homes by the Government's target date of 2010. The ALMO programme has substantial public funding until at least 2006. In the longer term, the Government is intending to develop a self-financing approach for the highest-performing ALMOs to encourage self-sufficiency.

- 1 This report sets out the current learning from the first round of Audit Commission inspections of ALMOs of council housing, which took place during the Autumn of 2002. It is aimed mainly at local authority officers, councillors and ALMO board members and staff. It is relevant to existing ALMOs and their corresponding local authorities, as well as to local authorities that may consider forming an ALMO in future. It is intended to highlight areas that have been commented on by housing inspectors and local auditors, as well as issues raised by staff and board members at local authorities and ALMOs, in order to:
  - inform the ongoing development of ALMOs;
  - help local authorities and ALMOs to improve; and
  - raise issues that could be relevant for the future development of ALMOs.

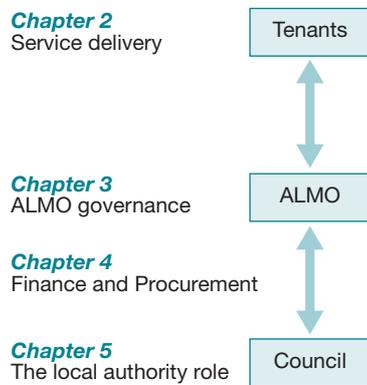
Additional evidence has been drawn from ALMO inspections and other housing inspections, best value inspections, corporate inspections, and site visits to four of the round 1 ALMOs. All of the relevant inspection reports are available on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

- 2 Arm's length management of local authority housing became a stated Government housing policy on publication of the Housing Green Paper 2000, *Quality and Choice* (Ref. 1). The broad aims of arm's length management are to ensure that local authorities invest their housing resources efficiently and strategically, while housing services to tenants meet demanding targets for improvement (Ref. 1). The Government announced funding of £1.9 billion for arm's length management of council housing in its recent *Sustainable Communities* plan (Ref. 2).
- 3 A detailed description of the requirements of ALMOs is given in the Government's *Guidance on Arm's Length Management of Local Authority Housing* (Ref. 3), but in essence, ALMOs are not-for-profit housing management companies that are 100 per cent controlled by a local authority. Housing management includes management of repairs and capital programmes for the local authority. An ALMO's board of directors must include tenants and independent people with experience that

## Exhibit 1

### Structure of report

This report considers issues arising from round 1 in different parts of the service.



Source: Audit Commission

is relevant to the functions of the ALMO, and may also include other members of the local community. The local authority should retain control of the objectives and overall operation of the ALMO, but it should not unduly inhibit the freedom of the ALMO to manage the stock in a businesslike way – the ALMO board should be allowed the maximum possible freedom to make decisions on the housing stock and its management.

- 4 The impetus for councils to pursue arm's length management is the need to meet the Government's Public Services Agreement (PSA) target for decent homes. The Government expects all local authorities to have a stock option appraisal for delivery of decent homes completed and signed off by July 2005 (Ref. 4). Where the stock retention option does not provide sufficient investment to meet the decent homes target, authorities must pursue alternative stock options, such as stock transfer, Private Finance Initiative (PFI) or arm's length management. All of these stock options, which provide additional funding for housing, separate the strategic role of the local authority from the housing management service delivery role.
- 5 Arm's length management of council housing keeps housing in public ownership and public money is still used to fund repairs and improvements. The additional funding for ALMOs is related to their investment needs, and is only available to high-performing ALMOs. ALMOs must obtain a 'good' (2-star) or 'excellent' (3-star) rating of their services from the Housing Inspectorate.<sup>I</sup> All of the round 1 ALMOs achieved at least a 2-star rating with promising or excellent prospects for improvement. The additional capital funding given to round 1 ALMOs was sufficient to cover the first two years of a four year plan. They will receive the remainder of their allocation in years three and four if they continue to make satisfactory progress. In the longer term, the Government intends to develop proposals for a self-financing approach for 3-star ALMOs to encourage self-sufficiency.<sup>II</sup>
- 6 The rest of this report considers learning arising from round 1 relevant to different parts of the housing service [Exhibit 1]. Chapter 2 looks at service delivery to tenants, while Chapter 3 looks at governance issues within the ALMO. Chapter 4 looks at capital and procurement issues that are relevant to ALMOs and their respective local authorities and Chapter 5 focuses on the local authority's role overseeing the ALMO. Chapter 6 raises some wider questions and summarises previous chapters in a series of recommendations, primarily for local authorities and ALMOs, but also relevant to the longer-term ALMO programme.
- 7 The project was carried out by Philip Hall and Lorna Brady, with assistance from colleagues, particularly Roger Jarman, Gill Green and Graeme Bennett. The project was directed by Greg Birdseye, from the Audit Commission's Public Services Research Directorate. A wide range of people have contributed to this project and we are grateful to all of them, especially the local authority and ALMO staff and board members. As always, the responsibility for the contents and conclusions in this report rests solely with the Audit Commission.

<sup>I</sup> *Guidance on Arm's Length Management of Local Authority Housing*, 2003 edition (Ref. 3) paragraph 1.6.

<sup>II</sup> *Sustainable Communities: Building for the Future* (Ref. 2) paragraph 6.23.

# 2

## Service delivery

The standards required for excellent services are the same for ALMOs as they are for other housing providers, but the way that these services are managed is different. Many of the round 1 ALMOs have used their management freedom to improve the delivery of repairs programmes to meet the decent homes target, and to configure services to meet the particular requirements of tenants. But there is still room for improvement in some areas and ALMOs need to maintain a focus on improving the quality of services in the long term, as well as on meeting the decent homes target.

### Introduction

- 8 Arm's length management of council housing is one of a range of measures that aim to improve housing and related services to tenants and residents in the long term. Delivering decent homes is part of this improvement, and an essential objective of any ALMO. But ALMOs deliver a wide range of other services that can be affected by the change of organisation structure from the former council housing department. This chapter details the service standards achieved by ALMOs, and summarises the findings from the round 1 ALMO inspections in respect of service delivery.
- 9 There are many examples from the round 1 ALMOs of excellent services and of services that have improved. The extent to which improvements have been brought about by the move to ALMO status is hard to determine, since many of the round 1 ALMOs were already high-performing council housing authorities, which used the opportunities presented by arm's length management to build upon existing strengths. For example, some authorities in round 1 had previously separated, to varying degrees, the strategic and operational functions – the formation of the ALMO made their arrangements formal and reinforced them. Equally, some authorities were already highly tenant-focused, and the move to the ALMO was perhaps a logical next step in developing tenant participation. Nevertheless, the findings from round 1 inspections give some indication of the areas where ALMOs might be expected to perform well, and other areas where there may be more room for improvement.

## Positive practice

- 10 The 3-star ALMOs offered consistently high-quality services, well-located accessible offices and a high level of customer satisfaction.<sup>I</sup> The 2-star ALMOs demonstrated some weaknesses in the core services areas (see below). Much of the positive practice<sup>II</sup> demonstrated across all the round 1 ALMOs was concerned with:
- tailoring services to meet the specific needs of local communities;
  - operating in a businesslike manner; and
  - working in partnership with external organisations.

### Tailoring services to meet the specific needs of the community

- 11 The ALMOs in round 1 generally delivered services to tenants that addressed the range of needs and priorities of the local community. For example:
- delivering high-quality services that are convenient for customers, such as:
    - extended operating hours for services such as repairs, helpful and considerate staff, and short waiting times for services;
    - providing clear information on the range of services available, the standards to expect and the means of redress in case of complaint;
  - addressing inequalities in housing through initiatives aimed at meeting the special needs of minority groups, such as improving safety and security;
  - providing additional support where it is required both at an individual and neighbourhood level, for example, by providing:
    - support to help people to sustain tenancies; and
    - community facilities in deprived areas.

### Operating in a businesslike manner

- 12 The round 1 ALMOs, like the best housing authorities, optimise the use of stock with:
- voids initiatives to improve letting rates, and tenancy management strategies to reduce turnover;
  - research into the needs and wants of local people so that new investment and services are targeted well, for example, by involving a wide range of tenants in improvement planning and acting on feedback obtained through customer satisfaction surveys; and
  - monitoring and implementation of improvement plans, for example, by using dedicated staff, improvement teams and management information systems.

<sup>I</sup> For details of service standards see *ALMO Inspections and the Delivery of Excellent Housing Management Services (Ref. 5)*.

<sup>II</sup> Examples of positive practice in each of the round 1 ALMOs are shown in the relevant inspection reports, which can be found on the website [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)



### Working in partnership with external agencies

13 Many of the round 1 ALMOs make good use of the specialist knowledge and resources of external agencies to improve services and drive down costs:

- working with a variety of local agencies, such as the police and health services, as well as with council departments, such as housing benefit administration; and
- partnering with contractors in repairs and maintenance.

## Performance in the principal service areas

14 The performance of round 1 ALMOs has been considered in the following areas:

- access to services;
- stock investment and repair;
- rent collection and arrears;
- estate management and allocations;
- tenant participation and user involvement;
- diversity; and
- value for money.

15 Some ALMOs share similar strengths and weaknesses, and the quality of services is more consistently good in some service areas than others. For example, performance in estate management and allocations was more consistently good than performance in diversity.

### Access to services

16 The excellent ALMOs provide well-located and pleasant offices with a full range of services and information available [**Case study 1**]. They meet the needs of their residents with effective complaints systems, and improve access to services with facilities such as language lines and translation services. The weaknesses in some ALMOs include gaps in the information available to residents, limited complaints procedures and weaknesses in responding to telephone calls.

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### Case study 1

#### Ashfield Homes – improving service standards and customer satisfaction

Ashfield Homes (the ALMO) continued to build upon the impressive range of published service standards during the time between their previous housing inspection and the ALMO inspection. The ALMO's approach to communicating service standards has been identified as an example of good practice by HouseMark, and performance is regularly monitored to ensure compliance. Tenants have been involved in the development of standards, and in the development of the ALMO's website, which allows complaints to be reported. Customer feedback from this and

other sources is used to improve future service development, and a dedicated member of staff ensures that customers' problems are resolved where they have expressed dissatisfaction with services. Some examples of the ALMO's commitments to customers include the following:

- repairs – always providing proof of identity before entering tenants' homes, leaving property clean and tidy after work has been carried out, and inspecting at least 15 per cent of completed work to ensure that quality is maintained;
- empty properties – ensuring that all health and safety repairs are complete before properties are let, testing heating systems when people sign up for a property and providing vouchers for decoration materials where required;
- equality in housing – ensuring that letters and leaflets use plain English, removing racist graffiti and repairing damaged property as a priority; and
- tackling antisocial behaviour – including prompt investigation and protection of witnesses, working with the police.

The level of tenant satisfaction had improved since the previous inspection – for example, customer satisfaction with the speed of repairs had improved from 81 per cent in 1999 to 89 per cent in 2002.

*Source: Ashfield Homes inspection report*

## Stock investment and repair

- 17** Stock investment and repair is a large service area in which a range of suppliers or contractors may be used for different types of work. For example, some ALMOs have entered into modern partnering agreements with contractors for major repairs programmes, while continuing to use more traditional client-contractor methods for responsive repairs. So there may be examples of positive practice in one part of the service and opportunities to improve further other parts. Regardless of the methods used, it is fundamentally important that major repairs programmes that aim to deliver decent homes are targeted and based on comprehensive and accurate knowledge of stock condition. In routine maintenance, services should be cost-effective and responsive to customers' requirements and compliant with statutory requirements, such as gas servicing.
- 18** Some of the weaknesses in repairs services identified in inspection reports illustrate where value for money could be improved. For example, many round 1 ALMOs were focused on maintaining the condition of housing stock through a planned programme of maintenance, and reducing the amount of more expensive responsive or emergency repairs; but only one met the Audit Commission's good practice recommendation that planned maintenance should account for at least 60 per cent of the total repairs revenue expenditure (**Ref. 6**). Some ALMOs had the potential to save money on repairs to void properties, where contractors charged the standard schedule of rates prices for repairs with no discount. Others were criticised where they did not monitor repairs variation orders sufficiently well, allowing contractors to carry out repairs that might not be required by the client.

## Rent collection and arrears

- 19 Round 1 ALMOs generally performed well in this area, often extending the range of payment methods and improving rent collection rates, although some had not managed to improve collection rates, despite introducing new systems. Some had weaknesses, such as applying arrears recovery procedures inconsistently and insufficient monitoring of the performance of estate managers in tackling rent arrears.<sup>1</sup>

## Estate management and allocations

- 20 The round 1 ALMOs all performed well in this area with many examples of joined-up working within wider council strategies, for example, in tackling antisocial behaviour. They have improved the management of voids and introduced innovative approaches to re-letting [Case study 2]. A number of ALMOs have adopted estate-agency-style letting shops and widened access to void properties through the allocations process. Some ALMOs were criticised because void dwellings were in a poor physical state.

## Tenant participation and user involvement

- 21 The highest-performing ALMOs have high levels of tenant satisfaction with real participation opportunities, where tenants and leaseholders genuinely influence policy and do not simply 'rubber stamp' it. Even so, in some ALMOs, members of Tenants and Residents' Associations were not always a representative cross-section of the resident population, and many had plans to attract more people from hard-to-reach groups. Round 1 ALMOs are extending the range of opportunities for tenants and leaseholders to become involved in, and influence, the management of their homes outside formal tenant participation structures (this subject is covered further in chapter 3).

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## Case study 2

### Hounslow Homes – excellent performance in void management

Hounslow Homes (the ALMO) has a high level of demand for its housing, and established a central voids team in order to drive down void times. The team's co-ordinator developed a system for monitoring performance against targets and has streamlined the voids process. She attends monthly voids strategy meetings and deals with voids management issues arising from housing and repairs staff. Void inspectors are located with the operatives responsible for carrying out the work, for good communication. Operatives and inspectors have been trained in the new voids standard and tenants are advised of the standard before occupation. Standards have also been raised in response to customer requirements. For example, washing machines can be plumbed in for tenants. Performance in this service area is efficient, responsive to customer needs and top quartile as measured by performance indicators, with the average void re-let time at 30.7 days.

*Source: Hounslow Homes inspection report*

<sup>1</sup> See also forthcoming Audit Commission report on rent arrears prevention and management (June 2003).

## Diversity

- 22** Local authorities have a statutory general duty to work to eliminate unlawful racial discrimination, and to promote equal opportunities and good race relations under the Race Relations (Amendment) Act 2000 (**Ref. 7**). The Council must ensure that the ALMO is aware of the Council's duty and operates accordingly. The Commission for Racial Equality (CRE) statutory code of practice (**Ref. 8**) describes specific duties to help public authorities meet their general duty under the act, and is accompanied by a non-statutory guide which explains in more detail what authorities need to do and how to do it. The specific duties include preparing and publishing a Race Equality Scheme, which explains how the authority plans to meet its general duty to promote race equality.
- 23** In essence, there are two alternative approaches to ensuring that the statutory requirements are met where housing services are provided by ALMOs, illustrated here in the context of a Race Equality Scheme: councils can ensure that ALMOs adhere to the council's Race Equalities Scheme through an effective and systematic monitoring system, or ALMOs can have their own scheme relevant to the services they provide on the council's behalf. The latter is more consistent with the principles of arm's-length management in other service areas because the ALMO has responsibility for its own scheme, and the council can take a more strategic approach to monitoring it. It is the Council's responsibility to advise and guide the ALMO in producing and implementing its scheme, and to ensure that it is carried out in practice. As well as statutory duties, ALMOs and councils may work to other good practice standards such as the CRE Rented Housing Code of Practice (**Ref. 9**) and the Equality Standard for local government (**Ref. 10**), which provides a common approach for dealing with equality for race, gender and disability.
- 24** The performance of round 1 ALMOs varied in relation to the various standards and outcomes for local people. Some ALMOs demonstrated positive practice, for example by researching the needs of local people from black and minority ethnic groups and tailoring services to meet them [**Case study 3**]. Others were criticised where they had not developed their own Race Equality Scheme, or where staff had not received diversity training.

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### Case study 3

#### Rochdale Boroughwide Housing Equality Framework

The Race Equality Scheme of Rochdale Boroughwide Housing (RBH) is part of its Equality Framework. The aim of the framework is to ensure that RBH responds in an effective, planned and open way to the needs and wants of Rochdale's diverse community. An Equality Action Plan makes explicit commitments for the organisation, with targets added to the Delivery Plan database that are regularly monitored and reported on.

RBH complies with the CRE's Code of Practice for Rented Housing. It monitors its housing applications and lettings by ethnicity, and has set targets both for itself and for its housing association partners. RBH aims to have a tenant population broadly

representative of the general local population by 2011 and is aware of the need to monitor the quality and type of lettings, as well their number.

Many Asian residents live in overcrowded terraced houses in poor condition but they are deterred from moving into RBH homes because of personal safety concerns. RBH is improving safety and security and holding open days to promote estates and their facilities. RBH is considering wider proposals, such as transferring properties to a Bengali co-operative and using Housing Market Renewal funding to form 'corridors' of properties through council estates, designed to link inner-city wards to peripheral residential areas. RBH provides additional services for black and Asian tenants, such as post-tenancy support visits for new tenants and an out-of-hours emergency service, which can be used to report racial harassment. The Race Equality Council has provided training to all council staff on dealing with racist incidents and on existing positive practice.

*Source: Rochdale Boroughwide Housing Inspection report*

## Value for money

- 25 Government guidance for round 1 anticipated that ALMOs would deliver high-quality services, which represent value for money and meet the aspirations of tenants.<sup>1</sup> The highest-performing ALMOs live up to this expectation, for example, by using modern procurement methods to achieve cost savings. There was more potential for improvement in the 2-star ALMOs, and the specific issues that should be addressed are covered in later in this report.
- 26 The round 1 ALMOs achieve generally good results, in terms of management and repairs costs and rent levels, although some were criticised for focusing too much on the level of service and not enough on value for money. This can be illustrated by their consideration of the costs and benefit of area offices. One ALMO was commended for taking the decision to close a little-used area office after consulting tenants through its Customer Services Initiative, while some others were criticised for keeping little-used area offices open.
- 27 All of the ALMOs demonstrate some encouraging procurement practice, such as using modern partnering methods in construction and introducing genuine competition into the procurement of direct or support services. Some ALMOs were not following modern contracting methods, and some services provided by the ALMO or the council had not been subject to external competition. Most of the ALMOs planned to review council support services within the first few years of operation. Some were introducing new working methods, such as multi-skilling their own staff or changing staff payment systems.

<sup>1</sup> *Arm's Length Management of Local Authority Housing* (2001 edition) (Ref. 11) paragraph 1.2, page 5.

## Summary

- 28 ALMOs should aspire to the twin aims of delivering decent homes and excellent day-to-day services. Full details of standards expected are shown in *ALMO Inspections and the Delivery of Excellent Housing Management Services (Ref. 5)*, and full details of all the ALMO inspections can be found in the published inspection reports available on the Audit Commission's website. Those looking at arm's length management as a potential delivery vehicle need to consider where their strengths and weaknesses are in relation to the standards expected. They must then decide whether the ALMO is an appropriate way to address them.
- 29 Councils should not expect ALMOs to solve all their problems. Many of the round 1 ALMOs have built on existing strengths that have been developed over a number of years and, as with any organisational change, new problems will inevitably surface. Councils should be clear about how they expect arm's length management to improve services where improvement is required beyond the short-term pressures of obtaining investment to meet the decent homes target. The standard of governance is vital to achieving sustained improvements in services, and this is covered in the next chapter.

# 3

## ALMO governance

Councils are encouraged to form ALMOs because of short-term financial pressures. However, they need to plan for the long term, ensuring that the ALMO has the required skills and capacity to operate effectively at arm's length. The quality of the board of directors is crucial to delivering excellent services. The director's role involves managing conflicting priorities, and board members should be given ongoing training opportunities and support to help them to make a sustained contribution to improving services.

## Local reasons for forming ALMOs

- 30 Discussions with people at local authorities and ALMOs indicated that, while they saw a range of benefits from delivering housing services using an ALMO, their initial motivation to set one up was to gain access to additional funding. In some cases, gaining political support for the ALMO was difficult and the availability of additional capital investment was one of the benefits that influenced the decision. Elsewhere, political opposition to the alternatives such as stock transfer made the ALMO route the only acceptable and financially viable option.
- 31 Councils need to take account of the long-term changes that are brought about by ALMOs and not focus entirely on the short-term benefits of additional funding. Setting up an ALMO involves a substantial amount of work and it would not be easy for councils to take the management of the stock back into council control. When councils choose an ALMO as the delivery vehicle for decent homes, it is important that the move to arm's length management also supports the broader aims and objectives of the local authority.
- 32 Councils incur costs and take a certain amount of risk by forming an ALMO to deliver housing management services, but they anticipate that the risks can be managed and will be offset by the rewards. Decisions on the most appropriate management controls reflect local circumstances, such as the size of the housing stock, councils' strategic priorities for their local areas, organisational culture and so on. This chapter focuses on the critical role of the ALMO board in minimising risk and maximising rewards. (The council's role in overseeing the ALMO is covered in chapter 5).

## Composition of ALMO boards

33 New governance arrangements are a defining feature of an ALMO and the importance of getting them right, from the beginning, should be a key priority. The Government's guidance (**Ref. 3**) states that the board of directors should include tenants and independent people with relevant experience. Seven of the first eight ALMOs had nominally one-third residents, one-third independents and one-third council-nominated board members at the time of their inspection. The remaining one ALMO board had six residents, three independent and four council-nominated members. In six cases the residents' group is comprised entirely of tenants and in the remaining two it includes a leaseholder. All of the round 1 ALMOs were well within the basic requirement that no one group should be in overall majority, although some could have been more representative of the constituencies that they represented, such as the political make-up of the council and the ethnic diversity of the local population. Some of the boards lacked relevant expertise, such as finance skills. Giving more thought to these issues will be especially important to ALMOs that wish to broaden their activities in future, for example, to become more involved in wider, area-based regeneration schemes.

## Role of board members

34 The role of board members in public and voluntary sector organisations has been the subject of much research in recent years and many sources of information are available on the subject.<sup>1</sup> Board members essentially have three different roles:

- a *stewardship* role – safeguarding the interests of the ALMO's owners (the council) and the public;
- a *strategic/managerial* role – acting as partners of management at the top of the ALMO; and
- a *democratic* role – representing the interests of tenants and residents.

35 It is tempting to see these three different roles corresponding to the focus of each of the three constituent groups of the board – respectively, the council-nominated members, the independent members and the tenants – but this is not correct. Board members are not advocates; they are company directors and must act in the best interests of the company, regardless of their background. In practice, all board members perform elements of each of the different roles and they must acquire the skills to enable them to perform at their best.

36 The potentially conflicting pressures on board members is a source of tension that individuals must resolve. A simple illustration might be a tenant board member who has to resolve the tension between their inclination towards the interests of tenants who would like more services and their role as a partner of management that would like to reduce costs. In one of the round 1 ALMOs, the chair of the tenants' federation stepped down when she became the chair of the ALMO board because of the conflict

<sup>1</sup> For example, see *Good Governance* (**Ref. 12**).

she perceived between these two roles. In addition board members must work together to resolve competing priorities.

- 37 The inclusion of council-nominated board members does not take away the need for formal links and protocols to ensure that ALMOs contribute to the strategic aims of the council. Equally, the inclusion of tenants on the board of directors does not reduce the need for formal tenant participation mechanisms. Indeed, the Office of the Deputy Prime Minister (ODPM) guidance for ALMOs states that they must involve tenants in a way that is consistent with *Tenant Participation Compact*<sup>1</sup> principles.

## Tenant involvement

- 38 Our research found that senior ALMO staff thought that the quality of tenant participation and involvement had improved following the formation of the ALMO. All of the round 1 ALMOs had well-established formal tenant participation structures, which had often been in existence for decades. All of the round 1 ALMOs have continued to support, and build on, the tenant participation mechanisms they inherited from their local authorities. ALMOs are also working to broaden tenant involvement to include a wider range of people in a broader range of activities; a common criticism of round 1 ALMOs was the under-representation of some sections of the tenant population in formal participation.
- 39 Arm's length management changes the nature of tenant participation, principally because some tenants are more actively involved in decision-making on boards. Most tenants do not get involved formally so it is important that boards use a range of informal as well as formal activities to collect information on which to base their decisions. The round 1 ALMOs provide a range of opportunities for tenant participation and involvement, including:
- membership of the board of directors or area boards;
  - membership of tenants' and residents' associations;
  - involvement in working groups or customer panels;
  - attendance at tenants' conferences;
  - periodic consultation about general or specific issues; and
  - tenants' newsletters and published minutes of meetings.
- 40 Most of these methods of tenant participation and involvement are used in traditional council housing authorities, and the extent to which the ALMO structure facilitates improvements in tenant involvement is not clear. Most of the round 1 ALMOs had made progress in this area since previous inspections, either in the methods of tenant participation or in its results, such as the level of tenant satisfaction with involvement in decisions. So, while most of the methods available to collect feedback from tenants remains unchanged, ALMOs can be more responsive to it.

<sup>1</sup> A Tenant Participation Compact is an agreement between a council and its tenants which sets out how tenants can participate collectively in decisions relating to their homes.

- 41 ALMOs have more to consult tenants about than the former council housing department. This is because of the new structure itself and major capital repairs programmes in addition to the usual day-to-day management issues. The councils involved tenants in the decision to form the ALMO and now the ALMOs involve tenants' groups in the selection of contractors for repairs, as well as offering individual tenants some choice in improvements to their homes.
- 42 The formation of the ALMO often requires some re-structuring of tenant participation mechanisms, in line with new governance structures and programmes of work. For some, this has provided an opportunity to breathe new life into dormant parts of the system and to try out new ideas. But there is always a danger that re-structuring will result in a certain amount of confusion, which has been the case in some of the round 1 ALMOs. For example, in one ALMO, some tenants thought tenants' representatives were employees of the ALMO, while in another, people were not clear about the relationship between the parent board and area sub-boards. Some ALMOs have taken steps to avoid possible confusion, for example, by introducing rules that clarify roles and responsibilities, such as a requirement for tenants to resign their posts on tenants' panels when taking up positions on boards.

## Impact of new governance arrangements

- 43 Our research found that, in practice, ALMOs and councils saw a number of advantages with the new structure, which varied from place to place. The introduction of tenants and independent members to the board has had a significant impact, including:
- providing an opportunity for tenants to be involved in setting priorities while also having regard to the cost of service improvements; and
  - introducing new ideas and practices, often coming from independent members, who range from academics to business people.
- 44 It can be easier for the ALMO to innovate than the former council housing department, partly because the ALMO is a more self-contained unit that can make its own decisions, which do not depend on the council's approval. For example, changes to ALMO staff working practices could be introduced without these changes applying to the much larger body of council staff. The extent to which ALMOs can take decisions without the involvement of the council is an indication of their arm's length relationship, which is particularly relevant in procurement (see Chapter 4). But innovation could work against the council's interests, for example, if a competitive relationship between the ALMO and the council develops. For instance, ALMOs might achieve cost savings at the council's expense by sourcing services from elsewhere, but this may not provide best value for the authority. Councils need to provide direction for ALMOs so that they continue to focus on the council's strategic priorities and do not develop according to an entirely separate agenda.

## Training and development

- 45 There is little doubt that the quality of board members is a key issue in giving ALMOs the greatest chance of success, but some of the round 1 ALMOs experienced problems recruiting independent members with relevant knowledge and experience, for example, in the area of financial management. ALMOs are exploring new ways to attract board members and to develop the skills of existing members **[Case study 4]**. Some ALMOs are taking a long-term view, already thinking about succession planning and trying to develop the skills of tenants to encourage more applications for board member positions in future. ALMOs that have area sub-boards have found that a useful ‘spin-off’ they provide is the preparation that they give to potential members of the main board.

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### Case study 4

#### Homes at Stockton-on-Tees – development of the ALMO board

The board members of Tristar Homes (the ALMO) had all been members of the shadow board and the ‘Homes for the Future Group’, which had first developed the ALMO plans. The independent members were selected with a view to filling skills gaps. A skills audit was undertaken when the board was established and a training programme was developed to suit. Further audits were carried out prior to AGMs to ensure that, where possible, the board has a full range of required skills. Training and development days were completed to decide the vision, values and objectives for the ALMO.

The ALMO has produced a detailed board members’ resource pack detailing its governance arrangements. This sets out clearly the responsibilities and powers of the board and those delegated to the Chief Executive and to other members of the Executive Management Team.

The board has a strong common sense of purpose, with no members adopting ‘traditional roles’ of councillors or tenants, and a willingness to challenge officers’ recommendations. There was a commitment to continue improving services for customers with or without ALMO funding. The Chair and Vice-chair have attended team meetings and held question and answer sessions with staff, which inspectors found had been greatly appreciated.

*Source: Tristar Homes inspection report*

## Summary

- 46 The decision to move to arm's length management should be consistent with the long-term aims of the council for methods of service delivery, and not entirely based on the need for extra investment. Arm's length management is substantially different from direct service provision, and the extent of change to the existing management arrangements should not be underestimated.
- 47 Establishing an effective board at the earliest opportunity is key to a successful arm's length relationship. Boards must have sufficient expertise to allow them the freedom to make good decisions:
- Boards should ideally have a balance of political and ethnic diversity that broadly reflects the population as a whole and includes a range of appropriate specialist skills, such as legal and finance skills.
  - To avoid skills shortages, boards should advertise positions widely. They should not place unnecessary restrictions on board membership, as doing so may reduce the pool of people to draw on. For example, it is not strictly necessary for independent members to live in the local area.
  - Training and development is important for all board members, both to develop people's skills where required and to help the board work well as a unit.
  - All board members contribute to the various different aspects of directing the ALMO, whatever their original 'constituency' – tenant, council-nominated or independent member. A degree of tension is inevitable, especially where board members have been selected by a body of people that expects them to represent their interests. Tenant board members in particular may need extra support to cope with these tensions and not become 'burnt-out' by their experience.
- 48 The ALMO governance structure with tenants on the board of directors does not reduce the need for formal systems of tenant involvement – the structures and methods for tenant involvement may need to be changed and enhanced to fit with the new governance structure and to make the most of the opportunities arising from new investment. Value for money, especially given the high level of new investment, is an important issue for both the ALMO and its parent authority. This issue is discussed in the next chapter.

# 4

## Finance and procurement

The management of finance and procurement has implications for both the ALMO and its council, and is key to providing high-quality and cost-effective services to tenants and residents. Many ALMOs have adopted modern partnering methods, particularly in construction work, to improve quality and cost-effectiveness. A partnership approach between the ALMO and the council can also be the basis of improving the cost-effectiveness of both support services provided by the council and direct services provided by the ALMO. Both organisations need the right balance of skills to manage these complex processes and provide best value for service users in the long term.

- 49 The round 1 ALMOs all received substantial additional public resources as a result of reaching the 2-star standard required by the Government. ALMOs are given permission to borrow more than their former council housing departments, the amount being related to the capital investment needed to repair the housing stock to meet the decent homes standard. Additional public subsidy is paid into the Housing Revenue Account to cover the costs of the additional borrowing. In order that public funding is spent efficiently and effectively, particular attention should be paid to:
- financial management; and
  - value for money in capital programming and procurement.

## Financial management

- 50 Both arm's length management and the most common alternative housing option of stock transfer separate the strategic role of the council from the housing management role, but arm's length management is the less radical option. The council remains involved with some aspects of management and has overall responsibility for the ALMO's performance and conduct. The council is:
- accountable for the ALMO's performance and use of resources, and this accountability is achieved through performance monitoring and internal audit, as well as measurement of outcomes;
  - responsible for monitoring arrangements to ensure the proper conduct of the ALMO;
  - responsible for maintaining the Housing Revenue Account (HRA); and

- responsible for ensuring that the ALMO contributes to the pursuit of best value for the authority, for example, by ensuring that the ALMO completes an agreed programme of best value reviews.

- 51 Those setting up ALMOs must ensure that they have robust and cost-effective systems in place for monitoring performance and ensuring that resources are used effectively. They must also have staff who are sufficiently skilled to deal with the new financial arrangements. The distribution of highly skilled and experienced staff following the formation of the ALMO, both in finance and other disciplines, raised some concerns locally. In some cases the council had perhaps lost too much expertise to the ALMO, raising issues about the council's ability to monitor the ALMO effectively, while in others it was the ALMO that was felt to be lacking in skills. This is perhaps one of the inevitable consequences of dividing large organisations into smaller units and it may be appropriate for some specialist staff to be retained by the council and work for the ALMO (or vice-versa) according to a service level agreement. Some of the round 1 ALMOs have found the ability to draw on the specialist resources of the council extremely useful, although this compromises their independence to some extent.
- 52 The financial framework surrounding ALMOs will develop over time and this may provide sufficient incentive for some authorities to consider the ALMO option in future, even if they do not require capital finance to achieve decent homes. The Government stated in the recent Sustainable Communities Plan (**Ref. 2**) that it will set out details of possible further freedoms and flexibilities for high-performing (3-star) ALMOs that will allow them to become self-financing.
- 53 At present, one of the more immediate difficulties faced by prospective ALMOs is the cost of setting them up. If the ALMO is successful, the set-up costs are more than compensated by the benefits of the additional capital finance. But the diversion of funds and effort inevitably has at least a short-term impact on performance, which was reported by local auditors during the course of this research.

## Capital programming and procurement

- 54 Procurement is particularly important to ALMOs because they receive substantial extra public funding in order to speed up major repairs programmes. Authorities may already have recent experience of managing capital programmes but the scale of the new funding and the pressure to meet deadlines is a considerable management challenge – increasing the risk that at least some of the investment will not provide value for money. The change to ALMO status also has implications for the procurement of more routine services, such as housing maintenance and support services that are often provided by the council.



55 Many of the procurement issues for ALMOs are similar to those in more conventional council housing management organisations. The principal differences arise with:

- the procurement of large-scale housing repairs programmes;
- organisational issues relevant to ALMOs; and
- the need to prepare for a substantial increase in funding, which depends on assessed performance, and therefore cannot be guaranteed.

### Procurement of housing repairs programmes

56 It is clear from inspection findings that some ALMOs are more advanced than others in terms of procurement practice, and there are opportunities to improve value for money. Many of the ALMOs are increasingly using partnering contracts, particularly for planned works, such as major repairs programmes. Responsive repairs services are more often provided by councils' Direct Labour Organisations (DLOs), though some of the ALMOs are intending to adopt a strategic partnership approach for this service as well. Whichever service delivery methods are used, ALMOs need to be able to demonstrate that they provide value for money, obtained through equitable and transparent procurement methods.

57 It may be appropriate to introduce new methods in connection with new programmes of work, such as major repairs [Case study 5], but it is equally important that day-to-day services are provided as cost-effectively as possible, even though these may be more difficult to address. The round 1 inspections identified many opportunities to improve value for money in relation to procurement of services, usually where alternative service providers were not effectively considered in best value reviews. Some reports made reference to weaknesses in day-to-day services, such as inadequate control of variation orders in responsive repairs services.

## Case study 5

### Partnering approach for major repairs in Westminster

CityWest Homes (the ALMO) has set itself an ambitious target to make all its homes decent four years ahead of the Government's target. CityWest is using a strategic partnering approach to achieve this rate of progress to refurbish the required 11,000 homes. Two thousand decent homes have already been delivered and new contracts are in place for a further 3,000 in 2003/04.

Westminster City Council has a long history of contracted-out services, both in repairs and housing management, procured originally using conventional competitive tendering methods. The ALMO has taken this process forward, moving to a long-term partnering approach for repairs and maintenance, in line with the *Rethinking Construction* agenda (Ref. 13). CityWest has used its experience of a large-scale (£35 million) pilot partnering programme to inform the procurement process for new partnering contracts.

CityWest has been delighted with the results of the pilot, both in terms of performance and the response from tenants. Fewer variations and defects were noted, more

projects were completed on time, and all schemes were completed within budget and without any contractual disputes. Tenant satisfaction has improved, despite the inevitable disruptive effect of major refurbishment works. The positive co-operation of tenants has been attributed, in part, to their involvement in decisions about the work to be undertaken, at the beginning of the programme.

CityWest has since entered into a long-term strategic alliance with their preferred partners to deliver all major works projects, worth around £500 million. CityWest has also transferred all its responsive repair contracts to multi-party partnering arrangements and is currently negotiating the transfer of its remaining planned and preventative maintenance contracts.

*Source: Audit Commission fieldwork*

## Organisational issues

- 58 ALMOs are wholly owned by the local authority and at the same time they are clients of the authority. This may become a source of tension in the relationship between the ALMO and the council, if only because it is a more complicated way of doing business. In some cases, the formation of the ALMO has meant that housing management staff need to develop the skills to become clients for technical services that would formerly have been specified by the council service provider. Authorities need to ensure that ALMOs are adequately supported where the council retains specialist functions, recognising that the ALMO is not entirely separate from the council and remembering that efficient working methods are in the interests of both organisations, and more importantly, tenants.
- 59 ALMOs are often innovative in looking for opportunities to reduce costs in order that surpluses can be redirected towards other priorities. Local authorities should anticipate that they may need to improve services if they do not offer good value for money to the ALMO. Some authorities had already adopted internal re-charging for services and setting up the ALMO has not raised any significant new issues, but other authorities might find that ALMOs no longer wish to purchase services from them. In many cases, ALMOs are locked into contracts or service level agreements (SLAs) for a fixed period of time, after which they may be renegotiated [**Case study 6, overleaf**]. The ability to procure services with competition from other external (non-council) suppliers is a feature of the arm's length relationship and can be an important contributor to best value.
- 60 An element of competitive pressure on the council from the ALMO is probably a good thing, with ALMOs acting as a catalyst for change. In essence, the relationship is a partnership in which ALMOs have an important role in securing best value for the council and local people. It is important to remember that ALMOs need to examine their own organisation critically in pursuit of best value, in addition to looking for cost savings from their suppliers.

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## Case study 6

### Kirklees Neighbourhood Housing (KNH) review of support services

The management agreement between KNH (the ALMO) and Kirklees Council set out the arrangements for the purchase and supply of support services from the council, with an annual cost of £1.7 million. The ALMO agreed to purchase support services from the Council for the first year of operation. From the second year onwards, the agreement allowed the ALMO to renegotiate SLAs with the Council or purchase services from other suppliers.

During its first year of operation, the ALMO commissioned an independent consultant to carry out a desktop review of all the SLAs for services it purchased from the Council. Each service was placed on a cost/quality matrix, and classified under one of three headings:

- services that provided good quality and value for money;
- services that could be improved by renegotiating the contracts; and
- services that require more substantial improvements or re-sourcing from another supplier.

The ALMO accepted most of the recommendations after completing some reality checks. There were some surprises, for example, a service was criticised in the review although it had previously been thought to be one of the best-performing.

This process has enabled the ALMO's in-house Business Support Team to focus on services that offer the greatest potential rewards, and its detailed review of these services is due for completion in the summer of 2003, some 16 months after the ALMO was first set up. The results will influence the budget process for 2004/05, providing the Council with an opportunity to examine the services and make improvements. Nevertheless, the ALMO expects that some of these services will no longer be purchased from the Council by April 2004, at the beginning of the third year of the ALMO's operation.

*Source: Audit Commission research*

### Additional funding issues

- 61 There is a degree of uncertainty surrounding the additional funding for ALMOs because the funding depends on a successful inspection result. This can be a source of anxiety for local authorities and ALMOs, and a barrier to improved value for money. If successful, the sudden increase in funding carries potential risks to value for money – for example, if the local labour market is stretched by the volume of work. This is one of the reasons that a long-term partnering approach is often preferred, because it provides an incentive for contractors to develop the local labour market over the longer term to address skills shortages and develop the supply chain for materials and services. The uncertainty of funding is a problem for councils because they cannot commit to new contracts until the additional funding is guaranteed.

## Summary

- 62** Arm's length housing management is a new way of working within a council, which remains responsible for the ALMO's performance and conduct. It is important to remain focused on the intended beneficiaries of the change, the tenants and local residents, and not become preoccupied with internal management issues. Depending on local factors, such as the size of the housing stock and the nature of local housing problems, some ALMOs may need to rely more heavily on the council than others for specialist services, for example, where skilled staff are not easily divided between the two organisations. Suitable arrangements can be made to maintain the arm's length nature of the relationship.
- 63** The large repairs programmes of ALMOs provide an opportunity to introduce new ways of working, which always carry attendant risks with them. As in other areas, the most successful ALMOs build on previous experience and make use of pilot projects to evaluate new methods. Cost-effectiveness of day-to-day services is equally important, and ALMOs can pursue cost savings and other improvements in services provided to them by their local authorities, as well as in the ALMO. It is essential that ALMOs undertake this exercise in a spirit of partnership, with a focus on improving services for tenants and residents. The council's opportunities for improving the strategic and operational role are discussed in the next chapter.

# 5

## Councils' strategic and operational roles

ALMOs are intended to strengthen a council's ongoing strategic role by separating housing management from the council. In order for this to be successful, councils need to forge a new role for themselves alongside the ALMO and take the opportunity to operate at a more strategic level, no longer focusing their efforts on managing the housing stock. In this regard, councils could learn from others' experience of stock transfer. Preparations for setting up the ALMO should include measures to enhance the council's strategic capacity and not focus exclusively on the needs of the ALMO.

64 The formation of an ALMO to deliver housing management has significant implications for the ongoing role of the local authority in a number of areas:

- corporate management;
- the strategic and enabling housing role;
- overseeing the ALMO; and
- community housing services, such as homelessness assessments and advice, and housing benefit administration.

It is important that those setting up ALMOs are clear about the potential impact on the council and about how the council and the ALMO intend to operate to ensure that the widest possible range of improvements are delivered.

### Corporate management

65 Many of the local authorities in round 1 were changing their corporate management style in tandem with changes such as the introduction of ALMOs and other new service delivery vehicles, such as leisure trusts. The management style that is required in the context of ALMOs is to direct the ALMO and control risks, but also to allow room for, and to encourage, innovation.

66 The Commission's corporate inspections, carried out as part of the comprehensive performance assessment (CPA) process, give an indication of councils' changing corporate management styles:

*Westminster City Council has demonstrated a significant change in its approach to partnership working, moving from an approach that prioritised control and resource retention to a more facilitative approach focused on service and quality of life*

*improvements. The change is demonstrated in the way in which the council embraced the Government's Business Improvement Districts and ALMO opportunities, delivering significant benefits for residents, tenants, businesses, visitors and partners.*

*The London Borough of Hounslow has had strong financial control, but without a clear set of strategic priorities. Hounslow has often focussed on cuts as much as improvement...*

*...Hounslow is now changing its focus. The allocation of cross-cutting portfolios to the new political executive, an emphasis on corporate contribution from new chief officers and the strengthening of the corporate policy unit reflects the growing focus on attention to cross-cutting corporate issues.*

*Source: Audit Commission corporate assessments under CPA*

## Strategic and enabling housing role

- 67** It is too early to comment on the long-term effect on the council's strategic housing role, but the Commission's previous work on stock transfer (**Ref. 14**) suggests that councils that stop managing their own housing do not always take the opportunity to focus on developing their strategic role. It is possible that the same thing may happen with ALMOs. In the short term the process of setting up the ALMO is a potential distraction of management effort, which must be offset against the longer-term benefits. Some local authorities have taken action to promote the importance of the strategic housing role in order to keep housing high on the council agenda. One authority alluded to the potential dangers of losing focus in the long term, reporting that some councillors seem to forget that the houses managed by the ALMO are still owned by the council.
- 68** The division of responsibilities between the council and the ALMO is inevitably slightly blurred in some areas. ALMOs should have the greatest possible freedom to make decisions about the management of housing stock, but the appropriate amount of freedom depends on local factors. For example, some of the authorities in round 1 have problems with the sustainability of their estates, and ALMOs can take action to make them more popular and more viable. But ultimately such problems need to be addressed through the local authority community strategy, which co-ordinates action across all forms of tenure and between different housing providers, and involves other local services. The council should formulate the housing strategy with adequate input from local stakeholders, including the ALMO. Derby City Council's housing strategy framework [**Case study 7, overleaf**] links the council housing strategy to the role of the ALMO and sets out clearly the level at which different decisions are taken.

## Case study 7

### Strategic management in Derby City Council

Derby achieved a 3-star excellent rating in its ALMO inspection. The local authority has a cascading housing strategy on four levels, which clearly links the ALMO and council housing strategy:

- Housing Strategy: a cross-tenure plan of housing need, demand and resources;
- Derby Homes Business Plan covering asset management of council housing and Derby Homes as an organisation;
- Delivery Plan setting out targets to be achieved by Derby Homes; and
- Service Plan setting out organisational arrangements and local priorities.

The Council's HRA business plan shows that the aims of the Council and the ALMO are clearly linked. The Council's corporate aims are linked through housing service strategic objectives to housing service outcomes. The aims for housing services are developed in partnership with tenants and leaseholders, with input from a wide range of statutory and voluntary agencies.

Progress against these aims is monitored and reflected in the Derby Homes Delivery Plan and Service Plan. Progress is reported to customers in conjunction with the Derby Association of Community Partners, which represents tenants and residents' groups across the city.

*Source: Derby Homes inspection report*

- 69 There is currently no specific Government guidance on the strategic role of authorities with ALMOs,<sup>1</sup> and some practical barriers must be overcome. For example, in some of the round 1 authorities, poor IT systems resulted in problems with integrating relevant information, such as stock condition and housing market information, required for developing housing strategies. While this problem is not unique to arm's length management, it demonstrates that some councils require new investment for 'backroom' systems to deliver the strategic role effectively, as well as investment for housing repairs. Any practical measures that will help councils to perform their strategic role should be considered when setting up the ALMO. For example, one of the councils in round 1 had made a deliberate effort to step up its activity in partnership working with other local housing providers and health bodies in order to promote a more cross-tenure approach to housing in the borough.

## Overseeing the ALMO

- 70 Councils must be confident that their ALMOs have appropriate systems in place that work properly, and they must also have their own systems to oversee the ALMO, in three principal areas:
- *direction* – ensuring that the ALMO is directed towards agreed priorities;
  - *monitoring*; and

<sup>1</sup> A wealth of general guidance is available, such as guidance on 'fit for purpose' housing strategies published by ODPM.

- *control* – having the required powers and taking appropriate corrective action if performance is not up to agreed standards.

## Direction

- 71 ALMOs were still 'finding their feet' at the time of their inspections but they were already beginning to review the terms of their relationship with the local authority. Many ALMO staff reported that, with the benefit of hindsight, their initial SLAs were not adequate and they are currently renegotiating and rewriting them. On the client side, some authorities are being proactive in developing new protocols as a method of developing the relationship between the council and the ALMO over time. This is an area where different approaches are taken in different places, and client-side managers may find it useful to share information and develop a common approach, where practical.
- 72 Many councils expect their nominated board members to keep the ALMO focused on the council's priorities, and these people also have a valuable role in explaining the actions of the ALMO to the authority. If an authority expects the relationship to work like this, it is important that the council-nominated board members are connected to the developing council agenda. In some local authorities, inspectors felt that the council needed to 'let go' a bit more, to have more confidence in the ALMO board and management in order to allow the ALMO more freedom to take decisions without the council's input.
- 73 It is important that the ALMO and its tenants have adequate involvement in the development of the council's priorities so that aims and objectives are consistent. Having agreed the objectives, councils need to ensure that these are supported by the ALMO's service priorities. If the two organisations do not share the same basic objectives, or if the ALMO's priorities do not support the council's objectives, the ALMO may inadvertently take action which is not helpful to the council. For example, one ALMO served notice on all its tenants in rent arrears even though much of the problem arose because of continuing problems with the council's benefits service, leading to the following comment in the corporate inspection:

*Whilst the corporate headline priorities are agreed, the linkages to service priorities are less well defined and in practice departments are left to work out what corporate priorities mean for particular services.*

*Source: Audit Commission corporate assessment under CPA*

## Monitoring

- 74 The round 1 ALMOs generally had effective monitoring arrangements in place, often involving tenants to set standards and carry out certain monitoring tasks (see case study 1). It is important that the monitoring carried out by the council adds value and does not unnecessarily duplicate any monitoring that is also carried out by the ALMO. Where possible, the council should focus on ensuring that the ALMO has adequate systems in place and rely on the summary information provided. Councils used a

number of methods to monitor their ALMOs, including:

- regular monitoring reports summarising day-to-day performance, such as monthly reports on void re-let times and repairs;
- monitoring of contract compliance, complaints and so on;
- progress against longer-term plans or objectives, such as the decent homes delivery plan, or best value improvement plans;
- programmes of internal audit agreed with the ALMO; and
- budget reviews.

## Controls

**75** As the owner of the ALMO, the council has a wide range of controls that can be used should the performance or conduct of the ALMO not meet the required standard. The controls vary according to the specific details of local contracts, but they typically include:

- the ALMO must comply with council standing orders;
- the council has the power to remove board members or officers; and
- the ALMO budget must be approved and new proposals must be signed off by the council.

## Retained housing and related services

**76** Councils remain directly responsible for a range of operational housing and housing-related services, such as homelessness services and housing benefits. In the short term, there are no particular risks to these services because they continue to be delivered in the same manner as before the formation of the ALMO. But as ALMOs develop over time, problems will inevitably surface unless these services are properly co-ordinated and continue to inform policy and strategy. For example, homelessness prevention strategies that are properly co-ordinated with the ALMO can help to prevent unnecessary evictions.

**77** Setting up an ALMO is supposed to strengthen tenant involvement, and councils should expect to find the balance of power shifting towards existing tenants, with implications for council-run services. For example, in allocations, the ALMO may disagree with the council's interpretation of the allocations policy, demonstrated by its allocation decisions. Councils need to continue working in partnership with their ALMOs to develop policies and working practices that best accommodate both organisations' aspirations for their service users, be they tenants or other people in housing need **[Case study 8]**.

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## Case study 8

### Wigan and Leigh Housing – working with housing benefit service

The performance of processing new housing benefit claims for tenants has been improved by introducing an ALMO-specific processing team in the housing benefits service. Staff have been trained in the Verification Framework and they keep tenants' claim forms until all of the required information has been received. Benefits entitlement begins from the date the claim was received at the area office. The ALMO also directly funds a dedicated housing benefit liaison officer within the housing benefit service who can help to expedite complex claims.

The improvement was achieved by partnership between the two services, initiated by an approach by the ALMO to build on similar work the housing benefit service was doing with housing associations. The pilot proved to be successful, doubling the proportion of claims processed within 14 days. In October 2002, the ALMO housing benefit pilot team had completed over 2,500 claims, of which 67 per cent were processed within 14 days and a further 11 per cent within 21 days. Staff from both organisations feel that the change has improved working relationships, continuity and ownership.

*Source: Wigan and Leigh Housing inspection report*

## Summary

- 78 Although the motivation for creating ALMOs is often to obtain additional funding to improve council-owned housing stock, councils should see the introduction of the ALMO as a positive opportunity to change their future focus in relation to housing issues, for example, to adopt a more cross-tenure approach. Councils have continuing responsibilities in relation to the ALMO: they remain responsible for the ALMO's performance and conduct, so they need to ensure that the quality of management and appropriate systems of monitoring and control are in place; individual members may serve on ALMO boards, or be involved in other ways, such as working groups. But the objective of the change is as much to strengthen the strategic role of councils as it is to improve the management of council housing.
- 79 Councils are changing their corporate management style as they introduce new service delivery vehicles, such as ALMOs. In the best councils, the aims of the local authority are informed by local stakeholders, including the ALMO, and a clear framework ensures that the council's aims are linked to service delivery objectives of the ALMO, with appropriate monitoring in place. Housing strategy in particular will need to be informed by input from the ALMO as well as the council's retained operational services, and other sources. Councils should develop the relationship with the ALMO over time, supporting the ALMO where it lacks expertise and involving the ALMO in improving council services. Correspondingly, ALMOs need to ensure that they continue to remain engaged with the council's developing agenda, and continue to support the council's housing strategy.

# 6

## The way forward

Authorities that are considering arm's length management should identify how the change in management structure will improve existing performance, irrespective of short-term financial incentives. It is not a viable option for all councils, and indeed may not always be the best way to improve services. Councils that form ALMOs should plan for the possibility that they will become more arm's length over time. The Government intends to develop a new financial regime for high-performing ALMOs that would secure more funding in the longer term.

- 80 The Commission's analysis of the activities of ALMOs to date has identified a number of more strategic questions, the answers to which will inform the process as it develops over time:
- Which authorities should consider ALMOs?
  - What is arm's length?
  - How might ALMOs develop in the future?

## Which authorities should consider ALMOs?

- 81 It is relevant to consider what evidence the experience of round 1 provides to other, perhaps poorer-performing, authorities on the merits or otherwise of creating ALMOs. The current system of allocating resources only to high-performing 2- or 3-star ALMOs is done on the grounds that they are most likely to spend the additional funding cost-effectively.
- 82 The round 1 ALMOs coped well with an ambitious timetable and they have demonstrated that ALMOs are a viable option, at least in the short term. But the round 1 councils were not a representative cross-section of councils, particularly because they were rated more highly in CPA than most. Five out of the seven round 1 metropolitan or unitary authorities were assessed as good or excellent, which is much better than councils overall (**Ref. 15**).
- 83 Poorer-performing authorities are likely to face additional risks when pursuing the ALMO route. The substantial amount of work involved in setting up an ALMO may prove to be a distraction and less of a benefit, particularly if it does not achieve the 2-star standard to secure additional funding. For example, one of the councils that was a good performer in CPA overspent its HRA during preparations for the ALMO.



- 84 When there is the prospect of additional funding, councils can prioritise housing services for improvement at the expense of other competing services on the basis of a straightforward cost benefit analysis. Having achieved the required standard, the organisational change may provide sufficient momentum to continue the trend of improvement.
- 85 Where there is no realistic prospect of additional funding there is clearly less incentive for authorities to set up ALMOs. Whether an ALMO would be a good idea for these authorities would depend on the nature of local problems. For example, an authority that is basically well managed but not very tenant focused might find the ALMO route beneficial. Given that some councils are politically opposed to housing options other than stock retention, it is hard to imagine them moving to arm's length management without some incentive. The prospect of self-financed ALMOs may provide that incentive in future for councils that could achieve excellence. In the short term, authorities must be clear about the local changes introduced by arm's length management that are not linked to additional funding and they need to be sure that these changes are appropriate locally.

## What is arm's length?

- 86 Government guidance states that the ALMO is responsible for making decisions on repair and improvement works in the context of its agreed business plan (**Ref. 3**). Councils are able to influence decisions on stock because the ALMO is required to implement the relevant parts of the council's housing strategy as it applies to the ALMO, but councils should not be involved in detailed decision-making. One of the Government's objectives is for councils to develop their strategic role and they should take the opportunity that arm's length management presents to focus their attention on the wider strategic housing issues facing their area, rather than trying to 'micro-manage' the ALMO.
- 87 One inspection report highlighted that one of the round 1 ALMOs was too close to the council. This had been a deliberate policy by the council to enable the ALMO proposals to gain cross-party support, which is often the most difficult part of the process. But in practice, inspectors found that decision-making was complex and tortuous because the council retained housing management committees as consultative bodies for decisions about stock. Arguably, the council had not given the ALMO the necessary freedom to make decisions about the stock and, just as importantly, the decision-making process did not work very well.
- 88 Another inspection report raised the issue of the suitability of council-nominated board members, most of whom were former councillors that had recently lost their seats. The suitability of these people as board members was never in doubt while they were councillors, but as former councillors they neither reflected the political composition of the council, nor were they connected directly to the council's political administration. Effectively, this was an example where the ALMO was perhaps too arm's length and ran the risk of becoming disconnected from the council's developing agenda.

## Future developments

- 89 The ALMO concept is still new so there can be no concrete evidence of their long-term effectiveness but, in the short term, ALMOs extend the range of options for authorities trying to meet the decent homes target. Clearly ALMOs benefit from the additional investment and they are focused on getting the most value from it, for example, by using modern partnering contracts for major repairs. The new housing management and governance structure can be an effective vehicle for improvements, allowing the ALMO to focus on improving housing management while the council focuses on strategy and retained operations. Some councils are changing their corporate management style to reflect their role in connection with new service delivery vehicles such as ALMOs.
- 90 To date, we have only seen successful ALMOs in relatively high-performing authorities. Weaker authorities may have more difficulty setting up an ALMO without additional support and would be less likely to meet the required 2-star standard to secure additional funding. Whether the advantages of the new organisation structure would outweigh the effort involved in setting it up if there was no extra funding would depend on local circumstances and priorities.
- 91 It is beyond the scope of this report to comment on the proposals for a prudential borrowing regime. The Government's PSA Plus review (**Ref. 4**) suggested working up proposals for self-financing 3-star ALMOs ('ALMO Plus') as part of the move to a full prudential regime, but these have yet to be consulted and agreed upon.
- 92 Some ALMOs have weaknesses in finance skills, as mentioned earlier in this report, and they could use the time leading up to the introduction of a new financial framework to develop their capability in financial management and train or recruit staff as necessary. A current 2- or 3-star rating is based primarily on the quality of services to tenants, and while effective financial management performance would clearly underscore these services, it is only part of the performance rating.
- 93 The fact that local authorities are supposed to concentrate on strategy does not prevent ALMOs from thinking strategically as well. ALMOs are already beginning to consider how they might develop once they have secured the decent homes target. Some are concerned about the prospects for a shrinking organisation as right-to-buy sales erode the housing stock, while others are faced with problems of low demand. In order to remain viable in the long term, ALMOs are looking for opportunities to sustain or grow their organisations, for example, by diversifying into new services or markets.

# Recommendations

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## Think beyond the short term

Arm's length management is substantially different to direct service provision and not simply a means of obtaining additional funding. **Councils** need to look beyond the short term and focus on the factors that will make arm's length management successful in the long term in order to:

- have confidence in the ALMO's ability to deliver excellent services; and
- develop the council's wider strategic role and improve its retained operational services, without being distracted by 'micro-managing' the ALMO.

## Establish and develop the most effective ALMO board at the earliest opportunity

**Councils and ALMOs** should focus on the selection and training of ALMO board members from the outset, ensuring that, between them, board members:

- represent a balance of council, business and community interests;
- have the relevant expertise and confidence to direct and challenge the ALMO staff; and
- are kept informed of the council's developing agenda.

## Develop the relationship between the council and the ALMO

The relationship between the council and the ALMO should develop as a partnership so that best value is achieved for both organisations and local people. **Councils** should:

- involve the ALMO in developing objectives for services;
- set the strategic direction for the ALMO, including its participation in the council's programme of best value reviews;
- support the ALMO where it lacks expertise or influence; and
- not interfere unnecessarily in the detail of implementation of objectives.

**ALMOs** need to ensure that their business plans support the council's housing strategy.

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## Develop procurement practice

Effective procurement practice is important to ensure that public funding offers good value for money and demonstrates the arm's length relationship with the council. **ALMOs** should:

- take full advantage of the opportunity to adopt modern procurement practice and consider how the positive aspects of new contracts may be applied to existing contracts;
- constructively challenge council-provided services with the long-term aim of obtaining best value for both partners and service users; and
- apply the principles of best value to improve the cost-effectiveness of in-house ALMO services.

**Councils** should anticipate that ALMOs will seek to improve the value for money of council-provided services and work with ALMOs to ensure that changes are managed constructively.

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