



NFA Submission to the DCLG review of the institutional structure for the delivery of the Government's housing and regeneration programmes

The potential contribution of ALMOs

Summary

Arms length management organisations (ALMOs) were initially established to manage and improve the local authority housing stock on behalf of the council. In a very short period of time ALMOs have established a track record of delivering excellent services, empowering residents and managing major capital programmes on time and within budget. However, ALMOs have both the will and the capacity to do much more.

The advantages of ALMOs are that they are delivery vehicles well suited to carry out a range of housing and neighbourhood functions in their locality. The ALMO Board structure encourages an efficient administration and rapid decision making. ALMOs are tied to their local council through the management agreement and fee and so must deliver local priorities. They have a detailed knowledge of the local community enabling them to work with groups of all ages to best tailor services to their needs. Most ALMOs are already delivering more than just housing functions and often lead the field in innovative practice aimed at making a improving the quality of life of people living in many of the country's poorest neighbourhoods.

However, ALMOs are restricted by an unpredictable housing subsidy system which inhibits long term business planning. Although ALMOs have been very successful in improving services and making council homes decent, and are popular with their residents, their long term future remains unclear. The potential for ALMOs to provide even better services in the future is limited under the present financial regime. The decent homes funding has been extremely welcome in bringing the current stock up to standard but it does not deliver decent neighbourhoods nor addresses the problem of a diminishing housing stock that will need considerable investment, and replacement, if it is to meet housing needs and expectations in the twenty-first century.

The joint NFA/CIH/HouseMark report *ALMOs - a new future for council housing* puts forward a series of options for the future financing of ALMOs that would provide stability for long term planning and enable them to make a greater contribution to the delivery of sustainable communities in their localities, including the potential to increase the supply of affordable housing and access additional funding streams.

ALMOs have well developed partnership working arrangements and any new agency should consider the potential role of ALMOs and work with them to help deliver local, regional and national priorities.

Key features of ALMOs

- ALMOs have a track record in delivering high quality services and decent homes
- ALMOs provide quality assured housing and neighbourhood management
- ALMOs focus on the specific needs of one local authority area
- ALMOs engage local people in decision-making at every level of the organisation
- ALMOs are accountable - both to the ALMO board and the local authority
- The separation from the council allows staff to focus more on service delivery
- ALMOs are full partners in helping councils to deliver their housing strategy, regeneration, social inclusion and community safety agendas
- ALMOs are producing efficiency savings and developing innovative procurement arrangements in accordance with Egan principles.

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What else could ALMOs do?

As the main social housing provider within the local authority area ALMOs are well placed physically within the community and have the capacity to put people and resources on the ground to address local issues, such as working with young people to help prevent problem behaviour. The local link also ensures ALMOs will have a strong interest in delivering neighbourhood services and in community engagement, which means that helping the council with its homelessness needs and creating safer neighbourhoods will also be priorities.

Many ALMOs are already involved in projects which stretch well beyond the routines of housing management and maintenance. Activities such as fun days and out of school clubs; citizenship classes in schools; activities for older people; apprenticeships and local labour and training schemes; debt reduction and measures to address fuel poverty are all designed to improve the life chances of residents.

Having greater freedom will enable ALMOs to make longer term plans in terms of the business which could include carrying out any or all of the following functions, subject to their local councils' agreement:

- Decent homes plus – the decent homes standard is not that high and only delivers improvements within the property; many residents want to see equivalent improvements within their estates and neighbourhoods
- Environmental improvements
- New build, replacement or remodelling of the existing stock
- Rationalisation of stock management in an area, e.g. managing other landlords properties within the ALMO locality
- Regeneration activities on behalf of council or market renewal partnerships
- Managing private sector properties under Housing Act 2004 selective licensing powers
- Offering services to home owners including decent homes in vulnerable private sector properties
- Neighbourhood management, including services such as cleaning, addressing anti-social behaviour, graffiti removal etc
- Community development – ALMOs and are strong proponents of tenant empowerment.

ALMOs' strength lies in their close links to the local community and their demonstrated ability to manage large programmes to high standards while minimising disruption to residents. We do not expect ALMOs to be involved in volume build or to build new homes outside their localities (except possibly at sub regional level). However, if ALMOs were able to supplement private and housing association development by building new homes this would enable them to establish an asset base to deliver better neighbourhood management services within a particular area, including to residents in the private sector and others such as key workers.

In essence ALMOs would be able to do more towards achieving local and national policy priorities and build on their current track record of service improvement, vfm and innovation if they had a more stable and long term framework within which to plan and deliver effectively. Essentially a volatile annual subsidy system and short term management contracts currently prevent ALMOs from achieving even more and from delivering effective solutions. What they have achieved so far is an indication of what else they might be able to do in a better financial environment.

What are the obstacles for ALMOs?

The key things that will impede ALMOs from further development in the future are:

- **Short term contracts** – the current 5-10 year contract term reduces efficiency and long term planning and makes it harder to keep excellent staff and retain the focus on long term improvements
- **Subsidy system** – the majority of ALMOs are in local authorities where the HRA is projected to be in deficit in next few years. Unpredictable revenue decisions on a year by year basis make planning for both efficiency savings and service improvement hard to deliver
- **Lack of resources in the longer term** – to maintain decency post 2010 and to deliver a housing service appropriate to current and future needs additional investment will need to be found
- **Stock profiles** – in the longer term much of the current council housing stock may need replacement or remodelling. The current system does not permit effective long term asset management strategies
- **RTB** – the vagaries of RTB hinders long term planning since RTB cycles are hard to predict and ALMO management fees are based largely on stock numbers. ALMOs need to be able to replace stock lost through RTB in order to asset manage more effectively and to ensure future needs can be met.

Self-financing ALMOs – options for the future

The joint NFA/CIH/HouseMark report *ALMOs - a new future for council housing* puts forward a series of options for the future financing of ALMOs.

These proposals depend on breaking the link between the local finance system for council housing (the housing revenue account, or HRA) and the national system (the HRA subsidy system). ALMO finances would be self-sufficient – based on rental income. All the options are based on the principle of remodelling each council's HRA, so that the housing service no longer needs outside subsidy. The remodelling would take account of future investment needs.

The main reason for still having subsidy is to deal with the costs of old debt. The proposals would require the government to restructure the local authority's HRA debt (reducing it in most cases, but increasing it for some others), so that the debt would be serviced and repaid over the 30-year life of the business plan, together with new borrowing needed to finance the capital expenditure in the business plan.

The options are purely discretionary with the possibility of ALMOs moving from one to other as the local authority becomes more comfortable with the ALMO having greater autonomy. Whether or not a council chooses to pursue any one of them will depend on local circumstances and future investment needs. The council will need to have confidence in the ALMO's capacity to deliver local objectives and in its own ability to manage the arms length role effectively. Tenants will need to be convinced of the advantages of ALMOs taking on greater risks. In all the options the tenants remain council tenants and their statutory rights are unaffected.

The four main options are:

- **option 1a: self-sufficient HRA controlled by local authority** with sufficient investment to maintain the current housing stock at the decent homes standard
- **option 1b: self-sufficient HRA controlled by local authority** with sufficient investment to deliver long term sustainability
- **option 2: self-sufficient HRA managed by ALMO** with the HRA debt becoming ALMO debt, secured on the ALMO's income, but still within public sector borrowing controls
- **option 3: self-sufficient HRA managed by an ALMO – no longer majority local authority owned.** The council could have a minority and the tenants a majority

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share. The local authority would manage the HRA through a long-term service contract with the ALMO. Borrowing would be private sector and off the balance sheet of the authority which means it would no longer be counted against public sector spending controls and ALMOs would be on a level playing field with housing associations in terms of accessing private finance.

In all options the receipts from future right to buy sales would be subject to a sharing agreement, as happens with stock transfer. The financial framework in options 1a, 1b and 2 is similar to stock transfer, with the crucial difference that the council continues to own both the stock and the ALMO. In option 3 the council owns the stock but does not fully own the ALMO and, as with PFI (Private Finance Initiative) projects, borrowing would be outside public sector borrowing controls.

These options offer long term financial stability and security to local authorities and their tenants and will enable ALMOs to be more effective delivery vehicles. Moving away from an annual subsidy system provides greater certainty. The outstanding HRA debt is repaid at the end of the 30-year business plan period and the cost to the Exchequer is cheaper than stock transfer while delivering many of its advantages. Local authorities have greater control over investment decisions and ALMOs have the financial stability necessary for effective business planning and sensible asset management.

In order to avoid any adverse impact on those authorities and ALMOs remaining within the subsidy system authorities would only be able to become self financing through a managed annual programme, using the same mechanisms as currently applies to the stock transfer programme.

Track record of ALMOs

The first ALMOs were established in April 2002. 59 ALMOs now manage 895,000 dwellings. A further 12 local authorities are expected to establish ALMOs later this year, bringing the total ALMO managed stock to one million homes - half of all local authority housing.

The reality is that the ALMO programme has been very successful in driving up standards. The significant improvements can be evidenced in many ways and it is also important to bear in mind that the service improvement has to take place before any additional funding is allowed.

The sector as a whole demonstrates a determination to deliver excellent services to residents. Despite the raising of the inspection bar there are 10 three star ALMOs while only one housing association and no local authorities without an ALMO have obtained a three star rating in the last three years.

An analysis of housing efficiency statements 2005/6 showed that ALMOs were delivering two thirds of all local authority housing efficiencies (£45m) while, at that time, managing one-third of the stock. The early round ALMOs have already delivered their decent homes programme on time, on budget and to a good standard. In the case of Derby Homes this would have previously taken until 2024 to achieve.

Data produced by HouseMark from 43 established ALMOs show across the board achievements for the third year in a row in all performance indicators. Overall tenant satisfaction has risen by 12% in three years to 77% and compares favourably with satisfaction levels of council tenants generally with their landlords (65%) and housing association tenants (75%) according to the last Government Survey of English Housing.

Residents have real involvement in decisions about their homes in ALMO managed stock. Not only do tenants have equal (and sometimes more) weight on the Board but they are increasingly involved in operational decisions, prioritising the work programme and specifications, selecting contractors and determining investment priorities. Three out of the four local authorities awarded beacon status for *improving housing services by involving tenants* have ALMOs managing the stock.

ALMOs by definition have a strong geographical focus since they work in one local authority area and have a sound grounding and knowledge of the needs of their local communities.

Advantages of the ALMO form of administration

The separation of the strategic and operational roles through the establishment of an ALMO has the following benefits for effective and efficient administration:

- **Focus** – senior officers are not distracted from running the business; staff are dedicated entirely to achieving the objectives of the organisation
- **Structure** – the Board and staffing structure makes for more streamlined and effective decision making and brings in additional skills and expertise
- **Incentives** – the link between additional funding and service improvement undoubtedly has worked but additionally the management contract between the council and the ALMO means the ALMO must achieve local targets in order to earn its fee and therefore has a stronger incentive to continue to deliver than a stock transfer organisation where, once it has met its original objectives, the link to the local authority becomes more tenuous and is no longer within the local authority's control
- **Tenant led** – the involvement of tenants in real decisions ensures they are focused on the needs of the service and less likely to be hijacked by political or corporate objectives (three out of four beacon authorities on *Improving housing services by involving tenants* are ALMO managed)
- **Transparency** – there is no hiding place for ALMOs. They are subject to more intense scrutiny by more people (council; tenants; Audit Commission; ODPM) than other sectors which keeps their noses to the grindstone and ensures they deliver stakeholder aspirations
- **Local** – the strength of an ALMO, compared to many LSVTs, is it retains a very strong link with the local community and is not looking to expand its business outside the local or sub-regional area. The management contract with the council will ensure it always retains a very local focus
- **Cultural change** – ALMOs have been in the forefront of adopting new techniques such as partnering, apprenticeships, community engagement, anti-social behaviour, diversity and have also been able to look at how the service is delivered from a more business like approach – including the ability to take decisions, such as changes in income collection methods, in a rational fashion
- **Efficiency** – the management contract with the local authority forces ALMOs to deliver without sacrificing service quality since they must meet the council's objectives to ensure their fee and can use any savings on improved services
- **Effectiveness** - the Board and management structure makes it easier for ALMOs to make business like decisions that some councils may find politically difficult, e.g. replacing cash offices with alternative ways of collecting rent
- **Challenge** - the two way agreement between the ALMO and the council on service level agreements can lead to tensions but also has benefits by forcing both parties to consider the vfm and efficiency of the services they receive or deliver.

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