



## **MAKING THE CASE FOR THE FUTURE FUNDING OF ALMOs**

Arms length management organisations (ALMOs) are bodies set up by councils to manage and improve the local authority housing stock. The stock remains within the ownership of the local authority and both existing and new tenants remain secure council tenants with unchanged rights. The management of the ALMO must be independent of the council. However, the local authority retains overall responsibility for monitoring its performance and direction. ALMOs are managed by boards on which tenants, the council and independents have equal weight with no one group being able to outvote the others. This means tenants have a far greater say in how their properties are managed and how the money will be spent.

The ALMO programme is only just over two years old but nearly 500,000 homes, or 1 in 5 of all council stock, will be improved in rounds 1, 2 and 3 of the programme. Round 4 could add a further 220,000 homes making the number of properties managed by ALMOs comparable to the 794,000 council homes that have been subject to full or partial transfer since 1988.

The advantages of an ALMO compared to other stock investment options include:

- ALMOs will achieve the decent homes target by 2010 or earlier, which in many cases would not otherwise have been possible to meet at all.
- The adoption of Egan construction principles and partnering feature strongly in the way in which ALMOs are delivering decent homes and demonstrates their ability to deliver high quality and good value.
- ALMOs are popular with residents and councils, particularly in areas that have shown resistance to stock transfer.
- Increased tenant empowerment and participation in decision making.
- The separation from the council allows staff to focus more on service delivery and this is already resulting in across the board improvements to core service functions.
- The ALMO programme stimulates councils to improve performance. The requirement for a 2 star housing inspection rating is a rigorous test of the ALMO's operation that ensures the resources are directed only to those organisations with the capacity to deliver the government's agenda.
- ALMOs are full partners in helping councils to deliver their housing strategy, regeneration, social inclusion and community safety agendas.
- ALMOs are active in addressing other government priorities, including tackling anti-social behaviour and promoting training and employment opportunities
- Last year's National Audit Office report showed that funding improvements to stock retained by councils is cheaper than stock transfer.
- The ALMO programme has moved much faster than the LSVT programme and can be put in place more rapidly and at a lower cost



Some evidence of the advantages of ALMOs are set out below:

### **Achieving Decent Homes**

Without the additional funding ALMOs would not have been able to achieve the decent homes standard by 2010. In many cases the standard would not have been achieved at all since properties would have deteriorated at a greater rate than they could have been improved with existing resources. Now, however, Kirklees Neighbourhood Housing expects to achieve the standard by 2006/7 and Golden Gates Housing in Warrington will do so by March 2008. It would otherwise have taken Derby Homes until 2024 to achieve the standard which it will now reach in 2005 and it had made 3500 properties decent by December 2003.

In Ashfield Homes 64% of the stock (more than 5,000 properties) were assessed as non decent but since work commenced in October 2002 38% of the properties have been made decent which has included works to 1176 kitchens, 1214 bathrooms, 991 central heating systems, electrical rewiring in 683 dwellings, re-roofing 682 homes, replacing windows to 825 properties and doors to 220 homes. Anticipated expenditure up until March 2004 is £35m compared to spend of £2m in 2000/01 and under £3m in 2001/02.

Because of the larger contracts ALMOs are better able to offer a more comprehensive package of works and to carry out multiple elements of work. This requires greater co-ordination but, with increased level of tenant involvement in developing the programme, also results in increased tenant satisfaction. In Kirklees Neighbourhood Housing satisfaction with the decent homes work is running at over 90% out of a response rate of 50%. Wigan and Leigh Housing Company similarly have an over 90% satisfaction rating with the decent homes work.

Many ALMOs are doing more than just meeting the decent homes standard. Some, like Ashfield Homes, use the opportunity to make efficiency savings and carry out other associated work or repair at the same time, thus avoiding the necessity for further disturbance at a future date. Additional works may include decoration and new floor coverings. Kirklees Neighbourhood Housing is fitting double glazing for all homes and adding extra insulation, thereby helping to reduce fuel poverty and meet energy conservation targets. Golden Gates Housing is undertaking environmental works and adaptations for the chronically sick and disabled, and is installing hard-wired smoke alarms and entry phone systems to flats. Kensington and Chelsea TMO is carrying out improvements to roofs and lifts. Derby Homes has responded to tenant priorities by improving its grounds maintenance service, and is spending over £1million a year on estate improvements through decisions delegated to tenants groups.



## **Increased Tenant Involvement**

ALMOs are a popular option with tenants. As the council retains the ownership of the stock and as the ALMO must work closely in partnership with the council this helps to alleviate many of the concerns about LSVT that are expressed by council tenants. In Warrington 95% of tenants, on a 45% turnout, voted for the Golden Gates Housing ALMO.

Tenants are more directly involved in the day to day management of the stock than in other stock options. ODPM guidance requires the ALMO board composition to normally be equal between tenant, council and independent members in order to ensure no one single group can outvote the others. However, below board level most ALMOs have area boards and/or operational sub-groups or committees. A survey by NFA found that tenants and residents generally had a higher level of representation on these groups – enabling them to more directly influence decisions at the local level. Derby Homes' two area committees have a majority of tenant representatives while Berneslai Homes and CityWest Homes both have subsidiary boards in which tenant representatives have the largest share of seats.

In many ALMOs tenants are represented at the strategic level and are increasingly involved in operational decisions and prioritising the work programme and specifications. In Easington there is a tenants' representative on each major contract who assists in tenants' choice issues and scheme content, attends site meetings and helps in the gathering of feedback on the scheme. In Wigan and Leigh Housing Company tenants are now involved in the recruitment and selection of management and tenant participation staff and are on all performance and strategy groups. The company is now recruiting tenant auditors and has a Housing 100 Sounding Board and a Readers Panel.

ALMOs encourage greater tenant participation, including from residents not previously actively involved. Many ALMOs, when starting up, initially used existing tenants groups to find board members. However, where recruitment was originally open to all residents the designated representatives were less likely to have previously been members of tenants' groups. The established ALMOs are now introducing open elections and are finding new tenants interested in becoming involved. Tenant participation has trebled since the establishment of Cheltenham Borough Homes

A rotational cycle of elections, whereby a proportion of tenant and independent board members must retire each year, ensures opportunities for tenant involvement are not restricted to the same small number of individuals. Hounslow Homes is holding a secret ballot of all tenants, organised by the Electoral Reform Society, for its next resident appointments. First Choice Homes Oldham and Ashfield Homes are introducing postal voting. The Audit Commission has identified Tristar Homes as a good example of a committed board with a common sense of purpose and without the "traditional roles" adopted by councillors and tenants.



As the additional funding and service improvements arising from the establishment of the ALMO kick in satisfaction levels are rising. In Kirklees Neighbourhood Housing a recent survey of tenants showed satisfaction with opportunities to participate had increased from 52% to 63% while Wigan and Leigh Housing Company has similarly improved its rating from 51% to 63%.

### **Improvements in Service delivery**

The Audit Commission report *Learning from the first housing ALMOs*, published May 2003, found that the first round of ALMOs had 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. The report also concluded that the ALMOs were delivering services that addressed the specific needs of local communities and were operating in a business like manner with effective use of the stock and generally good procurement practice.

The Audit Commission report highlights examples of good practice and improved tenant satisfaction in Ashfield Homes, raised standards in void management in response to customer requirements in Hounslow Homes, the Rochdale Boroughwide Housing Equality Framework and a partnering approach to major repairs in CityWest Homes which delivered 2,000 decent homes in 2002/3 with contracts for a further 3,000 in place during 2003/4. While Cheltenham Borough Homes has moved from a one to two star rating in less than 12 months.

The findings of the Audit Commission are confirmed by HouseMark's PI benchmarking data for 2002/3. This shows a significant improvement in performance in round 1 and 2 ALMOs when compared to the performance of their parent local authorities in 2001/2. It includes the following data:

*Rent collection and arrears* – general improvement in most ALMOs

*Repairs appointments made and kept* – significant improvement

*Average relet times* – mixed results but some improvement overall

*Urgent repairs* – most ALMOs have improved

*Non-urgent repairs* – mixed but with the majority of ALMOs improved.

Berneslai Homes and Tristar Homes have both improved their rent collection rates by 2% in one year (97% to 99% and 94% to 96% respectively). In Wigan and Leigh Housing Company rent arrears have reduced for the first time in four years and are on target to fall again this year while in Kirklees Neighbourhood Housing current rent arrears are at their lowest since 2000.

Average relet times have reduced from 23 to 19 days in Carrick and from 35 to 29 days in Kensington & Chelsea while in Kirklees Neighbourhood Housing void numbers have reduced by 40% and relet times by 20%. In Wigan and Leigh Housing Company void turnaround has improved from 63 to 47 days.



In Bolton at Homes housing repairs appointments made and kept improved from 11% to 23% while Leeds went from 70% to 85% and Cheltenham Borough Homes achieved 99%.

The percentage of urgent repairs completed within government time limits has increased from 89% to 95% in Blyth Valley Housing, from 83% to 91% in Wigan & Leigh Housing and from 92% to 99% in Hillingdon.

The average time taken to complete non-urgent repairs has reduced from 9 to 7 days in Ashfield Homes, from 16 to 11 days in Waltham Forest and from 23 to 19 days in Hbunslow Homes.

Golden Gates Housing in Warrington is restructuring the full service with a strong focus on performance and innovation in service delivery. This includes the development of a freephone service centre for housing management and the implementation of choice based lettings.

Considering the limited time frame in which ALMOs have been operating this degree of improvement at such an early stage is very encouraging.

### **Involvement of staff**

Local authority staff are subject to TUPE and their terms and conditions have generally either remained the same or improved. The naming of the ALMO and physical separation from the council have the effect of making the business feel different. Derby Homes reports that the establishment of the ALMO has contributed to higher staff morale, a drop in sickness levels and improved recruitment and retention rates.

Most of those ALMOs still using direct labour are moving away from the bonus system to salaried staff on contracts that emphasises quality and customer care over speed. Partnering contracts feature strongly in ALMO operations with many negotiating local employment and training or apprenticeship targets as well as value for money objectives.

Ashfield Homes set up a partnership with its three contractors, Job Centre Plus, West Notts College, the Learning Skills Council and EnProve. The goal being to provide the local unemployed with an opportunity to develop new skills and gain qualification to at least an NVQ Level II in a construction related profession. The training programme commenced in January 2003 and the first 16 trainees have now completed the Foundation Construction Award while another 12 trainees have just entered the programme.



## **The Future for ALMOs**

However, ALMOs want and need to have a long-term future that goes beyond the initial target of meeting the decent homes standard. A tremendous amount of energy and commitment has been put into the ALMOs by boards, residents and officers. ALMOs can make a significant contribution to their local areas in terms of achieving sustainable communities that goes beyond improvements simply to the fabric of the stock. The success of ALMOs could pave the way for other public services to be operated at arms length with greater community involvement.

They also have the potential to sell their skills to others, such as RSLs, private landlords and leaseholders, thereby improving value for money in the services delivered at local level. Derby Homes, for example, has faced up to the challenge of finding new business by employing a business development officer. It has taken on the management of 70 housing association properties on a difficult to let estate where 30 were empty. These have been brought back into use and there is now a waiting list for these properties.

While the initial focus must be on achieving the decent homes target, ALMOs also wish to contribute more widely to regeneration, neighbourhood renewal and sustainability. This may require a greater degree of flexibility in the way in which ALMOs spend allocated funding. At present all of the funding for Rounds 1 and 2 must be used on the fabric of buildings while Round 3 and 4 ALMOs can devote up to 5% of their allocation to sustainability. Where additional funding from other sources like NDC or the liveability fund does not plug the gap, the sustainability of the homes improved by ALMOs could be jeopardised. Additionally, some of the assumptions regarding inflation and future building costs that are included in the funding are optimistic and need to be reviewed. They do not reflect real costs on the ground.

In order to enable ALMOs to better contribute to the Government's wider policy agenda (such as letting homes to key workers ) the long promised greater financial freedoms for three star ALMOs, in line with the recommendations of the PSA Plus Review, need to be implemented. A level playing field should also be established in the social housing sector, with ALMOs and housing associations having comparable powers and opportunities in delivering their services. In particular, considering that ALMOs are subject to a more rigorous inspection process, there is a strong case for ALMOs to enjoy the same levels of operational freedoms as housing associations, including the ability to initiate Anti Social Behaviour Orders and access to social housing grant in order to build new or replacement homes.

For ALMOs to succeed and for tenants to support them the government must implement its promised freedoms and flexibilities for the 3 star performers. Within prudential borrowing rules they need to write off the debts that have accrued in HRAs before the ALMOs were created and free up the rent spend to improve estates and homes beyond the decent homes standard and to start to develop new homes. If ALMOs are able to access social housing



grant once the Housing Bill is enacted then they will also need to be able to borrow private finance to make use of this new power.

Security of future funding is vital if ALMOs are to achieve their objectives and deliver the service improvements that both central and local government want to achieve. This does not apply just to the decent homes funding but also to stability in the day to day housing subsidy regime. While the additional resources made available to ALMOs to carry out the works to achieve decent homes is very welcome the government's own research has identified that there remains a serious shortfall in management and maintenance allowances overall. The separation of the ALMO from the council also makes it more vulnerable to any sudden shifts in resources.

Since ALMOs are generally paid a contract fee on a unit cost basis the impact of Right to Buy can have an even more damaging effect than in council managed stock. Not only is the best property lost through RTB, leaving the ALMO with the more difficult stock to manage and maintain, but the ALMO's income is reduced disproportionately compared to the management cost while its overheads remain the same. The impact of rent restructuring and of the decent homes programme is increasing the popularity of RTB since rents are rising and the resale value of the improved properties are increasing while the combination of the discount levels and the RTB valuation means that for tenants in some areas, such as Oldham, mortgage repayments are comparable to, or even lower, than the rent.

Unless stock lost through RTB is replaced the stock profile will become increasingly unsuitable to meet current needs and expectations, with the inherent danger of spiralling low demand and blighted communities. Lettings turnover will reduce and it will become more difficult to accommodate new households or those tenants whose housing needs have changed. The income available in the HRA will be reduced thereby making it more difficult to improve services. ALMOs need to have the ability to replace stock where this is in accordance with demand and to develop alternative business opportunities to offset reduced rental income. As yet, ALMOs have neither the financial freedoms nor the ability to access social housing grant that housing associations enjoy which would help them to address these problems.

It is vital that the spending review creates a financial framework and a stable funding regime within which ALMOs can continue to thrive and improve and that the government gives a clear message, in the spending review round, that demonstrates its continued commitment to the ALMO programme.

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