National Federation of ALMOs

championing better homes and communities

The financing of new housing supply – National Federation of ALMOs

We all know this country requires a lot more new homes built if it is to meet the needs of its existing population let alone its future increasing and ageing one. We also know that decent affordable rented housing is in even greater demand at this time of economic uncertainty, low mortgage availability and still relatively high house prices. Yet house building is currently at an all time low and the government seems to have run out of ideas (as well as money) to help boost new house building.

The government has recently acknowledged the stimulus that house building could give to the faltering economy, providing much needed construction jobs as well as opportunities for families in desperate need of a decent home.

The National Federation of ALMOs (arm's length management organisations) believes that ALMOs (who manage over 860,000 council houses on behalf of 58 councils across the country) could help meet that need and build high quality, sustainable homes for the communities they serve and help kick start their local economies. Since they were first established in 2002, ALMOs have been providing council tenants with excellent, local, customer-focused and cost-effective housing management services as well as successfully managing a programme of major improvement work to the homes they manage.

In the past few years ALMOs have built over 1,000 homes on behalf of their parent local authorities. ALMOs have built on land that no other developer was interested in, land, which was deemed to have little or no value and to be an on-going cost to the local authority to maintain and manage. ALMOs have also offered local authorities an option to develop that means the council can retain control over the land and the asset as well as ensuring that local housing management is not fragmented.

In the current economic and fiscal environment it is imperative that the limited public subsidy available to support the development of new affordable homes is put to the best use it can to provide the right kind and size of new homes across the country. Because ALMOs work closely with their local authorities and tenants we believe that they can play a key role in ensuring that what gets built both meets the housing need in the local area and makes the most of the public sector assets.

Last year Stockport Homes developed 17 new homes on an existing council estate. In this instance the development included larger family-sized homes as well as wheelchair accessible homes for families and couples. The development has made

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fantastic use of an under-used area of the estate, which tended to attract low level anti-social behaviour, and has helped to meet clearly identified housing need in the area.

Our members are keen to continue to deliver a programme of local new build projects like this one. However, at a time when the government is committed to reducing the deficit and cutting public sector spending, finding the money to build new affordable homes is a big problem.

Perhaps the ideal solution would be for the government to allow ALMOs and their parent local authorities to make much more of their rental income and consider changing the classification of borrowing for council housing investment. We believe that the government should recognise that council housing is a trading activity, funded by rental income, and that under European accounting conventions its borrowing need no longer count towards the main measure of general government debt. This will make even more sense after April 2012, when all council housing will no longer be financed through a national subsidy system which re-distributes that rental income, but will instead be clearly self-financed from local rental income and asset management. A reclassification of council housing activity would release our members from the artificial restrictions placed upon their borrowing and allow them to borrow sensibly, in line with their business plans and future rental income as housing associations across the country currently do.

If that does not happen in the foreseeable future the National Federation of ALMOs (NFA) has been working on three alternative models which would allow ALMOs to further grow as organisations and adapt to the current financial situation. Councils, ALMOs and tenants could consider these models for growth should they require additional investment. The models would allow our members to make full use of the development opportunities within their communities and help kick start their local economies without making any further demands upon public sector funding.

The NFA report “Building on the potential of ALMOs to invest in local communities” outlines the three new models of ALMO. Each model builds on the current, successful ALMO model, creating a new form of organisation with strengthened accountability to tenants and to the community. Each model could raise new resources independently from government finances. The aim in developing the models has been to find ways to generate the extra investment needed in council housing, taking account of the new financial constraints and at the same time address the government’s agenda of decentralising services and strengthening accountability to customers.

The three new types of ALMO range from a long-term management contract with the ALMO no longer a local authority controlled organisation, but the housing stock still under local authority ownership, to a stock transfer, to a new type of

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organisation that is both community and council owned, but not controlled by the council, the CoCo.

The key issues are that the ALMO has to change from being 100% owned and controlled by the local authority to being owned jointly by the council and the community and that the new ALMO would service the old public sector debt in order that it was repaid over time but borrow new private sector money for any additional investment. The full report is available on the NFA website at www.almos.org.uk and gives more detail on the three options but they can be summarised as follows:

Model 1 – long-term management contract – based on the ALMO having a much longer contract (35 years) and on the local authority having a one-third (rather than sole) interest in the ALMO's ownership. The ALMO can then borrow against its management fee.

Model 2 – long-term management contract and transfer of some vacant properties or land – based on Model 1, but with the ALMO also having an asset base through transfer of void properties and/or vacant land to achieve estate renewal or new build.

Model 3 – transfer to a Community and Council-Owned Organisation (CoCo) – represents a more fundamental change both in the ALMO's constitution and in the fact that it would become the owner of the stock, but on a different basis to current stock transfers. Unlike a stock transfer to a housing association the CoCo option would allow ALMOs to keep their strong links with their local authority as well as retaining the tenant focus which has often distinguished them from traditionally managed council housing. They would then be able to borrow privately against both the assets and the rental income over time.

We hope that the government will seriously consider either a re-classification of council housing borrowing or support the further development of the ALMO model. We believe ALMOs could add a huge amount of value to their local communities as well as the national economy were they enabled to make the most of existing public sector assets; the council housing and land as well as the rental income and help boost those worryingly low national house building figures.

NFA contribution to LSE British Politics and Policy Blog on financing for the new housing supply (http://blogs.lse.ac.uk/politicsandpolicy/)

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