

INDEPENDENT REVIEW INTO ROLE LOCAL AUTHORITIES CAN PLAY IN SUPPORTING HOUSING SUPPLY

NFA response

Summary

The NFA believes that ALMOs can play a key role in helping to deliver new affordable homes right across the country. Whilst we recognise that ALMOs will not be the volume builders of the future we believe that ALMOs and Councils are already working successfully together to make the most of their assets and the new self-financed HRA business plan to build new homes. But they could do more if allowed. This submission aims to show how ALMOs are working with their councils and their local communities to do the best they can to provide the right homes in the right places within the current financial and regulatory framework. We highlight areas of good practice which show a variety of methods that ALMOs across the country are utilising to build more homes. The models of delivery used depend on the nature of the local housing market, the council's strategic objectives and their own financial resources. The submission also highlights changes that could be considered to the current framework that would enable councils and ALMOs to deliver even more homes than currently planned.

Although we note that "The review must not produce any recommendations that breach the Government's fiscal consolidation plans" we really believe that considering further changes to the debt caps and allowing councils and their ALMOs the flexibility to plan prudently for the long term could make a significant difference to the supply of new housing over the medium term.

Our report *Let's get building* sets out how ALMOs and councils could build at least 60,000 more homes over the next 5 years if they were allowed to make the most of their assets and business plans and the report outlines the results of reaction to the proposal from the markets, with experts at Capital Economics indicating that plans to borrow up to £7 billion over five years to invest in new housing would be "insignificant in the scheme of things" and is a sum that falls well below the amount allowed for standard statistical errors in public borrowing figures.

For the purposes of this review we urge you to consider recommending the following:

- **Utilising the potential to invest in council housing by linking the HRA borrowing caps to CPI plus 1%, as social rents are, to keep debt levels similar in real terms but enable councils to invest in new homes and pay the money back from their rental income.**
- **Allowing councils to determine their own use of RTB receipts as long as they are reinvested into new affordable homes.**
- **Reviewing the rules on RTB discounts on council new build properties.**
- **Recognising the value of ALMOs in working with councils to make the most of the self-financed HRA Business Plan and drive forward a growth agenda.**
- **Reconsider the three options for future ALMO development set out by the NFA in *Building on the potential of ALMOs to invest in local communities*.**
- **Providing a long term politically and financially stable and supportive regime to encourage councils to take on risk and build new homes.**

Introduction

Arms' Length Management Organisations (ALMOs) were first established in 2002, managing council housing at arms' length from their parent local authorities. There are currently 47 ALMOs which manage over 650,000 council properties across 50 local authorities.

ALMOs have a track record of success in delivering and managing new homes to a high standard. To date they have delivered over 2,000 new homes as ALMO owned developments or on behalf of their parent local authority as new council homes. They are scheduled to deliver at least a further 4,000 homes on behalf of their parent local authorities over the next 5 years.

As ALMOs are primarily the delivery vehicle for their parent authorities to manage and maintain council houses and where possible build new homes, the NFA has focused its submission on highlighting the existing good practice in this area as well as some of the structural barriers which prevent ALMOs and councils building more homes. We would urge the reviewers to consider the wide range of measures being used at a local level and be enabling rather than prescriptive in their recommendations as different solutions work best in different areas and the variations in house prices, land availability, financial resources and community views will tend to favour some options over others at a local level.

We seek to answer the six main issues below posed by the Review:

1. How stock-holding councils are using their new freedoms under Housing Revenue Account self-financing to support housing supply and whether the current framework of local authority Housing Revenue Account borrowing is supporting this objective.

April 2012 saw the most significant change in a generation to the way council housing is financed. With the end of the unfair and unpopular housing subsidy system, councils were freed to take a long-term view of their housing and manage it for the benefit of local residents in a more business-like, accountable and cost-effective way. However, the Government decided to set a debt cap for each local authority based upon its assumptions about their need to spend on management and maintenance over the next 30 years. Therefore the amount of borrowing available to each council varies enormously across the country and does not allow sufficient headroom for a significant amount of new build.

ALMOs up and down the country have worked hard with their residents and their councils to ensure that all stakeholders understand the new business framework for the HRA and the possibilities it provides local councils. ALMO Boards and Chief Officers have helped drive the agenda forward due to the fact they focus entirely on the housing business and have the ambition and drive to ensure it provides what the community needs locally.

In autumn 2012 the NFA supported ARCH, CWAG, the LGA and HouseMark to commission an assessment of the impact of self-financing on council rent decisions and spending plans. The assessment showed clearly that councils had seized their opportunity, raised their ambitions and begun a range of new initiatives made possible by the new finance system. Most had stepped up plans to invest in their housing, and many were planning to build new

homes, often for the first time in many years. A 2013 NFA members' survey indicated that even more councils were planning to start building in the HRA with 94% of Councils with ALMOs planning to build new homes in 2014. This shows that although some councils have taken a little longer than others to start to build new homes within the self-financed HRA the vast majority of councils with ALMOs are starting to make the most of the new freedoms and flexibilities to deliver new supply and this is despite the government not building any additional headroom in for new build and not being particularly pro-active in encouraging councils to build new homes themselves.

However it is also clear that ALMOs and councils could afford to do more if arbitrary restrictions on council borrowing were relaxed or removed. Our research showed that the availability of headroom varies enormously across the country: 28 authorities are already at their cap, another 28 only have between £1-5million that they are allowed to borrow, 32 have between £5-10million, 53 have £10-30million and just 28 have over £30million to invest in their stock over the next 30 years.

The headroom is intended to be used for all types of investment required in the council housing stock over the next 30 years and many councils with large amounts of headroom are inner city authorities which also have significant outstanding decent homes programmes and large scale regeneration work to complete which will absorb a great proportion of that available investment leaving little left for additional affordable homes.

In 2012 the NFA published a report called *Let's Get Building* (a copy is enclosed for reference). *Let's Get Building* explored how local authorities and ALMOs could make a much bigger contribution to building new homes and stimulating local economies, and explains how this could be done within prudential borrowing rules. It argues that councils and ALMOs should be allowed to make the most of their assets and future rental income to invest £7bn now to build 60,000 new homes over the next five years. A summary of the key points is made below:

- The cap on borrowing at the initial level of redistributed debt goes against the spirit of self-financing and does not fit with a proper business plan model where there will be peaks and troughs of investment need.
- Council housing has very low average debt levels, at just over £17,000 per house there is significant untapped borrowing potential based on future rental income that could be utilised now to help boost the economy.
- Given the scale of both housing and economic need, it makes sense to use the capacity of councils and ALMOs to build homes in addition to using the capacity of Housing Associations and private developers.
- The government is providing guarantees for house builders which will produce a contingent liability in the event of default. However, if the government allowed more building by councils it would carry less risk to government and provide a more direct economic stimulus.

- The Prudential Code, the limits on rent increases and the HRA ring fence are all sufficient to ensure that local authorities do not increase borrowing at unsustainable levels.

We have welcomed the recent announcement by the government to allow local authorities to bid for an increase to their debt cap to enable new homes to be built as a significant first step to allowing councils and ALMOs more flexibility on this issue but the long term nature of housing financial planning means that the approach to setting the debt cap for the HRA needs to be a long term one that is reasonably predictable. The current bidding round for additional capacity will help those already at the cap with firm plans but it not helpful to setting a long term framework for those who do not receive additional permission to borrow.

If the Review is unable to recommend a general lifting of debt caps due to its potential impact on public finances it could consider instead that the cap was set with reference to the rent setting regime (CPI plus 1%) thus ensuring that the proportion of debt would not increase relative to rents, thus ensuring that the proportion of debt does not increase in real terms.

We believe that the new self-financing regime with its business planning model for council housing provides the right incentives for local authorities and ALMOs to make the most of their opportunities locally but other policies such as the enhanced Right to Buy has made some aspects of business planning and asset management unnecessarily difficult.

A review of the way in which RTB receipts can be used would help many councils deliver more replacement homes more quickly as would a change in the RTB rules on new build.

Currently the rules limit the ability of Councils to reinvest their receipts in any way they choose, making it quite complicated and bureaucratic for local authorities to manage their finances and resources. Councils should be left to determine their own use of receipts as long as they are reinvested into new affordable homes.

The Right to Buy discounts the open market value of a home to a sitting tenant and although the discounts have been increased significantly recently this has normally not led to book losses against debt levels for councils as the homes were largely constructed a long time ago and had benefitted from considerable inflation to the value of the home. Thus when a sale takes place, the remaining debt to be written off has mostly been lower than the net receipt – although there are a few examples where even this hasn't been true – for instance where a 70% discount has been given. However there is a real and potential problem for new council owned property now.

For new properties, the cost of the property might be around £100k as an example. If this is taken as debt, the debt after 15 years remains at around the same level and takes around 50 years to pay down. While this model is viable in the very long term, there is a huge risk for council direct investment once the cost floor falls away. At that point, discounts of 45% for houses and 70% for flats are available to tenants. Where a sale results at that point the debt will be higher than the receipt in cash terms, resulting in not only the loss of the social home but also in the equivalent loss of around 0.5 to 1 more home in terms of the book loss suffered from writing off of the remaining debt. This means that general needs housing

subject to the RTB is a considerable risk for Councils (especially outside London at least where values are very affordable after discounts).

Even if the new home is funded by RTB receipts and this were to be treated as 'grant' then the position remains that there is only a tiny net receipt for houses (and still a considerable loss of real value) and the position for flats remains a net loss. As a result, some councils are wary of building too many new general needs homes and have been prioritising homes that are exempt from the RTB, such as older persons' accommodation. There is still a huge need for more general needs properties across the country but these are clearly risky investments within a self-financed Business Plan.

We propose the all newly built council homes are excluded from the current RTB offer and that alternatives for affordable home ownership options are developed by local authorities and ALMOs such as shared ownership or the RTA scheme.

If that is not acceptable then at the very minimum the cost floor mechanism should be extended indefinitely.

The current cost floor was set at 15 years – itself an increase from 10 years previously – as part of a recognition of this very issue. The extension was justified at the time on the basis that it was then consistent with the cost floor for the Right to Acquire. The RTA however is a much smaller discount and the operation of inflation over 15 years and the small discount would normally be easily sufficient to make this in effect an indefinite cost floor. Councils need a much longer cost floor – really there is a need for an indefinite one from an investment point of view: even this isn't really adequate as there is still a massive real terms loss, but in the absence of the first recommendation above, an indefinite cost floor would be very helpful to assessing the risks of general needs housing investment.

There follows a few examples of how ALMOs across the country are working together with their councils to manage the new self-financed HRA Business Plan and run their housing business efficiently and effectively to provide some of the new housing their communities need.

Newark and Sherwood

In Newark and Sherwood initial decisions by the council to pay down debt and not build new homes were reversed over time due to the work of the ALMO and its Board in analysing the HRA Business Plan, looking at the assets and presenting the arguments for growth.

Newark and Sherwood Homes set up and led the design of a bespoke software model to facilitate effective forecasting and management of the HRA under self-financing. With the use of the model the company had a clear forecast of the resources available to the HRA over a 30 year business plan and had therefore determined that the HRA business plan was best sustained by growth. The company determined this in 2012 and advised its council accordingly. Initially the council resolved to prudently pay down debt in the short term.

Newark and Sherwood district has a demonstrable housing need and the council and its Housing Company (ALMO) have taken every opportunity available within staffing and financial resources to increase affordable and overall housing supply. This has included:

- Successful bid and delivery under the LA new build programme delivering an increase of 0.9 % properties for affordable rent.
- Successful bid and acquisition of properties under the DCLG's empty homes community grants programme (increasing affordable rented properties available by 0.07%).
- Successful bid and ongoing delivery under HCA's Care and Support specialised housing fund further increasing affordable rented property available by 0.25%
- Progression of bid under the HCA 15- 18 Programme, if successful increasing affordable rented properties available by a further 0.5%.

In total this is a 2% increase in properties available in a 4 year period.

Since the inception of self-financing and the initial decision to pay down debt the council has fully embraced and recognised the potential of the HRA under self-financing to deliver growth in terms of housing need and overall economic growth. From an initial decision of paying down debt the council in 2014 is looking to adopt a housing growth strategy and deploy its headroom and borrowing capacity accordingly.

In tandem with this work the council has granted the housing company a 30 year contract which focuses on maintaining core landlord service, driving out revenue efficiency to support investment and growth in a viable HRA Business Plan and developing innovative income streams which will support further increases in the supply of affordable housing. The company is in the process of finalising a longer term development programme on council owned sites which will not be able to be fully delivered should the council wish to progress due the restrictions of the HRA cap.

Shropshire Towns and Rural Housing (STAR Housing)

Another, fairly new ALMO, helped its council move from building no homes to having a small on-going development plan for sites within the HRA. Shropshire Towns and Rural Housing Ltd (STAR Housing) was, prior to becoming an ALMO, successful in its application to become development partners with the Homes and Communities Agency as part of the HCA's 2011-15 Affordable Housing programme. This was a brave move on the part of Shropshire Council as prior to that it had not developed any of its own affordable housing, instead it would assist in facilitating new affordable housing via local registered providers.

The 2011-15 bid consisted of 15 different HRA sites and 66 units. The majority of the sites are former garage sites that had fallen into disuse. The largest site had a number of hard to let flats and maisonettes which also would have required a substantial amount of investment to meet Decent Homes' standards. This site was cleared of the existing properties and is now being redeveloped as family homes.

As well as family units they are also developing one of the new homes in conjunction with a local charity, Transhouse. They are a registered charity providing support for people with spinal cord injuries. They are leasing this adapted property from STAR Housing on a 10 year agreement. This gives them continuity in their delivery of service for their clients whilst also ensuring that STAR Housing receives a guaranteed income.

The programme has a mix of tenures and property sizes to suit the local requirements. There are 37 units for affordable rent and the remaining 25 units are shared ownership. Not only did this ensure the viability of the programme it also provides targeted solutions that meet the needs of the local community. By linking these sites together rather than developing them individually STAR Housing has been able to take advantage of the economies of scale that this larger procurement exercise brings.

STAR Housing has identified the necessary finances to fund these development programmes from within its existing HRA resources and it therefore does not intend to take on additional borrowing at this time.

Poole Housing Partnership

Poole Housing Partnership manages the council housing stock on behalf of the Borough of Poole and seeks to maximise the best use of current assets and funding streams in order to get the best value from the buildings and gain the maximum impact for residents. The key priorities for Poole in 2014 are to increase the supply of affordable housing, ensure the current stock is fit for purpose (keeping maintenance costs low) and planning the stock to meet the needs of residents over the next 15 to 20 years. For Poole this means a need to refurbish and regenerate the tower blocks sited within or near to the town centre, develop proposals for delivering sheltered accommodation in a different way, deliver more extra care accommodation and deliver much more general needs housing.

Poole has already achieved much against these priorities and has used the current funding streams made available under self-financing to maximise improvements. This includes the delivery of the refurbishment of 2 tower blocks plus 3 low rise blocks by the end of 2014/15, a small programme of new build family homes and the delivery of 54 extra care units by March 2016.

Derby Homes

Derby City Council and Derby Homes have also embraced the opportunity that HRA reform and RTB receipts recycling have given and have launched an ambitious plan to deliver 700 homes between them. They have already started over 200 and the first few are already being delivered and let. They have concentrated on delivering more, smaller, homes matching their demand and the demographic need in the longer term. So far they have combined:

- Refurbishment of a sheltered housing block with
- Developments of new homes and
- Purchases of existing homes from the open market and purchase under a section 106 agreement where another provider was unable to complete the deal

Cheltenham Borough Homes

On behalf of Cheltenham Borough Council (CBC), their ALMO Cheltenham Borough Homes (CBH) put together a pipeline development programme funded initially through a combination of Right-to-Buy receipts, HRA surpluses and PWLB loan finance.

As the programme unfolds in future years the decision on ownership (CBC or CBH) will be taken on a scheme by scheme basis subject to the source of subsidy and financial factors within and outside of the HRA.

This willingness to be flexible allows CBH to address regeneration schemes where some subsidy solutions (in particular use of Right to Buy receipts) may not be permitted.

- 2. What more councils, stock holding and non-stock holding, could do to support housing supply including:**
 - a. making maximum use of their existing asset base to support new development through asset sales**
 - b. capacity and skills issues in supporting locally led larger scale development**
 - c. how councils are using their own land to support their own or others' house building and what more could be done to bring surplus or redundant local authority land into productive use.**

ALMOs and councils have been fairly pragmatic when it comes to looking at solutions to deliver new housing locally and will generally use a variety of options depending upon what is the most suitable and best value for money for local people. Where there is the political will to build more new housing most of our members have built through a variety of routes:

- a) Within the ALMO, using ALMO surpluses, prudential borrowing, HCA grant (where available and required), cross subsidy from private sales or shared ownership schemes and local authority owned land.
- b) Within the self-financed HRA, using either capital resources such as RTB receipts (where allowed), disused or under-utilised HRA land, receipts from the sale of land or property deemed to be no longer fit for purpose, HCA grant (where available and required) and/or revenue surpluses or borrowing within the debt cap.
- c) Developing joint venture vehicles or partnerships with the private sector or working with partner Housing Associations to develop other, more often, larger sites, building in community engagement, council nominations and often ALMO management where appropriate.

From a standing start ALMOs have been enthusiastic and developed innovative approaches to housing delivery to make better use of local authority land and deliver high quality homes of the right type and size in their local areas. ALMOs are keen to continue to use their expertise and develop affordable homes and believe that they add particular value to local areas through their development programmes, as they are generally tied to regeneration efforts or to redesigning areas on existing council estates which are disused and attract anti-social behaviour.

Recent ALMO developments have often been built on land that no other developer was interested in, land that was deemed to have little or no value and to be a cost to the local authority in maintaining and managing it. ALMOs have 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. ALMOs have also shown that they can deliver good value for money, often at a lower grant rate than housing associations in their

area and ensure a quick development time due to their knowledge of the local community needs, expertise in resident engagement and understanding of the planning system.

Indeed we believe that much of the potential output is **only achievable by councils and ALMOs themselves**. Much of the land for new building by councils and ALMOs will be associated with existing estates, including replacement of unpopular or obsolete stock, using garage and commercial sites or unlocking 'backland' or garden land that is little used. Councils and ALMOs are best-placed to assemble such sites and work in liaison with existing residents of estates affected by new development.

Although our members are working with their councils to best manage their assets and cross subsidise new build schemes from a variety of sources there are limits to the use of their assets. Despite the pressures from central government to sell of high value assets and move new financing off balance sheet at the moment, many councils and ALMOs want to retain control and ownership of the assets in order to have some levers and influence over housing supply in their local communities in the long term. Others just do not have any high value stock in the first place to sell and outside of central London the receipts are fairly modest.

Examples of what individual ALMOs have already achieved are included below:

Newark and Sherwood Homes

Newark and Sherwood Council and Newark and Sherwood Homes have increased the supply of affordable rent accommodation they have available by 2% (0.5% subject to bidding success 15-18) over the past 4 years through the use of existing sites and resources from S106 commuted sums, RTB receipts, efficiencies and reserves.

The Council and Company delivery vehicle for new supply considers broader community issues when considering development opportunities seeking to achieve positive social impacts for the local communities. Therefore schemes which may not be viable to a registered provider/private sector have been taken forward by the LA partnership to achieve additional housing supply and a broader social benefit.

The Company and Council have a comprehensive record of all assets and developable sites and this includes new sites made available by reducing individual property gardens. Land and asset disposals are actively considered and maximised in favourable market conditions, the portfolio contains two properties with a potential for conversion to increase the number of units available or cross subsidy from sale on the open market.

The company has a wide skill base and experience and has delivered significant procurement and investment to successfully deliver the Decent Homes Programme as well as build new properties and acquire empty properties. All bids made to the HCA or related bodies by the company and council in partnership have been successful and the related schemes have achieved 100% deliverability for the grant awarding body.

Their HRA BP and self-financing modelling is based upon an effective asset management strategy, supported by an independently validated data base and accurate local knowledge which specifically includes viable 'shovel ready' sites which cover redesign, re-modelling and re-use.

STAR Housing

As well as the HCA part funded programme STAR Housing has incorporated within its current programme the development of a difficult to develop site funded with S106 money. The site had been considered for development by other RPs but due to its nature it did not meet the criteria needed to attract HCA's funding. These units are being constructed to the HCA's specifications but are fully funded by the S106. They have been included within STAR's overall procurement process for the AHP programme so they have been able to take advantage of the economies of scale.

They have also made the decision not to apply for the AHP 2015-18 funding round due to the scale of bids that were requested. However they will continue to develop themselves on a smaller scale with funding via existing HRA resources and RTB receipts. They are also considering the mix of our future developments so that they may include a small number of market sale units to cross subsidise developments.

STAR, like many of our members has, and continues to review the existing stock held within the HRA. They have disposed of a small number of properties where they meet strict criteria for disposal. For example they sold a listed property that was of a relatively high value as it had maintenance and repair issues that would have been expensive to rectify and would not meet their payback criteria of 10 years. When the property became void it was disposed of and the capital receipt recycled for new housing. They have also disposed of a property that had considerable structural issues and used the capital receipts from the disposal of these two properties to "buy back" three leasehold properties in areas of high demand.

Poole Housing Partnership

Poole Housing Partnership's current plans include options around developing on a school site to deliver 40 new affordable homes, demolishing some sheltered bungalows to build an additional 40 to 50 unit extra care facility, regenerating an area to deliver more, and better quality, homes and undertaking further tower block works that would enhance energy efficiency and could potentially increase the number of homes.

To deliver this they are undertaking the financial analysis to make it happen but are conscious that they will face tough choices based on available funding. Restrictions around use of Right to Buy receipts and HRA borrowing caps mean that they will deliver just one of our priority schemes rather than the five they have in the pipeline. Options around private investment make the schemes unaffordable and the opportunity to drive local economic benefits are lost.

Despite their best efforts the focus on using land more effectively or sweating the assets cannot currently be achieved in Poole. They do not have land that is sitting unused and they do not have high value stock that can be sold to reinvest elsewhere (the average value of their stock is around £150k and they have no properties valued at more than £260k). Affordability is a key consideration with starter homes more than nine times local income, and private sector rent levels continuing to increase.

They are using the current powers to the maximum of their efficiency and they look to the review to provide opportunities that all areas can utilise.

Derby Homes

In Derby the challenges are around financing new supply and they have had to generate significant efficiencies in their operations and use these to fund initial revenue losses and to part fund initial investment. Council borrowing has been used where Derby Homes has developed or purchased properties, and this arrangement required joint agreement on the details of such loans, security for the Council and a partnership approach to the investment programme as a whole.

Councils including Derby have actively reviewed their housing stock periodically and sold properties that no longer fit with housing need or priorities and that might be better suited as a private tenure. Sales of 'street properties' or those with lower demand when the market for rental property is struggling is considered as an alternative to retaining a void for a longer than normal period. It is also accepted that there is a limit to the value to tenants as a whole in retaining stock with an 'excessive' value and where that value could be better employed to replace one home with more than that this is undertaken.

Derby City Council has been actively reviewing its own land holdings and releasing land – mostly smaller pieces of HRA land but also some redundant properties – for example a redundant care home and day centre – with a view to social housing use funded by RTB receipts, HCA grant and housing (HRA and Derby Homes) reserves.

This partnership has been positive for all concerned with realistic land values released for the general fund and development land becoming available for the HRA and Derby Homes. The price agreed is slightly below full market value but is not free in order to persuade those charged with getting best value from sales that there is a gain in advancing more quickly rather than in waiting for full market value through sales to the general market.

It would be helpful if existing rules could be adjusted to allow realistic Council land values to be counted in HCA and RTB calculations – at present this value is not allowed to be counted towards cost of schemes and the expectation is that land will be given for free. This is unrealistic for other than existing housing land and therefore stifles land availability for housing from other parts of the Council. To enable cost to be recovered would encourage more non housing land to be sold or transferred to housing use at a value that might be attractive to both selling and buying services.

Cheltenham Borough Homes

Cheltenham Borough Council has historically disposed of assets to support stock regeneration, including both high cost voids and high value 'executive' properties that did not fit with social housing needs, but which generated significant sales receipts. Cheltenham Borough Homes has an ongoing voids 'filter', which ensures that high cost voids are considered for disposal subject to criteria agreed with the council.

The council and the ALMO have an ongoing dialogue in respect of the development of major urban expansion schemes and the role that CBH can play in supporting the 'placemaking' agenda. The current development pipeline includes sites intended for both ALMO and council regeneration through new build development.

Cheltenham Borough Council has used the transfer of land at nil consideration and the provision of access to low cost loan funding through the Public Works Loan Board to support development by Cheltenham Borough Homes. In addition capital subsidies from asset disposals have been used to moderate loan funding requirements to facilitate developments which are in surplus (albeit small ones) from Year One.

The council is now looking to make best use of the development expertise demonstrated by Cheltenham Borough Homes in the delivery of new ALMO homes over the past four years to manage a forward development programme predicated on committing Right-to-Buy receipts within set timeframes and utilising HRA surpluses and headroom.

3. What innovative financing mechanisms councils have used to increase house building while ensuring value for money, and managing impacts on public sector borrowing and what central government could do to better support such innovation. This should include consideration of institutional investment, including pensions.

In actively pursuing new build, ALMOs have shown themselves to be flexible and not precious about who owns the asset and able to adapt to whatever is best for their own local authority and community.

ALMOs offer a development option to local authorities for their own land where they can retain control over the land and the asset as well as ensuring that local housing management is not fragmented. In some areas ALMOs have delivered in their own right, in others housing has been built for the parent local authority whilst in other cases, ALMOs have established charitable subsidiaries or partnerships with local housing associations.

Examples of the varied local offers which ALMOs have helped develop are included below:

Derby Homes

Derby City Council and Derby Homes have worked together with the Osmaston Community Association of Residents (OSCAR) to deliver a community led housing bid to the HCA to create 95 homes, 40 of which will be for rent at affordable levels, on a challenging inner city site which previously had travellers occupying the site and significant contamination issues.

This scheme is a genuine partnership between the Council (supplying the land and support), the Osmaston Community Association of Residents (OSCAR) for the local community, the Homes and Communities Agency (HCA) supplying grant funding of over £1m and Derby Homes as the Registered Provider and manager. This is expected to complete late 2014.

The Council put the land in to the deal (it had very limited value if any) plus a little section 106 funding in order to attract a grant for OSCAR from the HCA. This funding for OSCAR has been delivered by utilising Derby Homes as an existing Registered Provider as the nominal owner of the stock, with a separate account held for OSCAR within Derby Homes. This also required a loan from the Council to Derby Homes for the balance of funding required to pay the developer, who also takes the sales risk on just over half the properties. This is a case of the relevant parties agreeing to match their areas of expertise with the relevant risks – so developer taking

build cost and sales risks, Derby Homes taking the general risk relating to management and ownership and OSCAR representing the community with the Council providing support to all parties to make the arrangement work.

The Council has also arranged a joint venture for developments within a wider area with a major developer to deliver a larger number of homes in a nearby area. Derby Homes is using this JV to deliver refurbishment of a former shop premises purchased at auction and will manage and own the affordable housing that results from these developments. The approach is generally to use developers to take sales risk where there is a mixed development, with each partner concentrating on their own areas of expertise (e.g. Council strategy/planning, developer construction/design/sales, ALMO or RP Housing management)

The Gateshead Housing Company and Keelman Homes

Keelman Homes was originally set up as a charitable subsidiary of The Gateshead Housing Company during the second half of 2009 as a regeneration vehicle for a village in Gateshead called Kibblesworth to demolish 94 3 bed properties and replace them with 81 social rented properties, 13 shared ownership and 54 for sale. It was set up with a Board of trustees: two representing the Council, one representing TGHC and four independent trustees.

As a charity established by The Gateshead Housing Company (“TGHC”) which is itself a company controlled by Gateshead Council as its sole member the charity was still considered to be part of the public sector. The cost of the affordable homes were met from a grant from the HCA programme and a loan from Council’s General Fund and the sale risk taken by Keepmoat – the developer.

When the value for money test for the HCA’s programme changed in 2011 in respect of councils’ borrowing it became much more difficult for the public sector to attract grant funding as any borrowing was now treated as public sector funding in the same way as grant. This change led The Gateshead Housing Company and Gateshead Council to consider their options. They had little headroom to utilise in their HRA and would have to have relied on other developers or RPs attracting grant into their area to continue to develop and regenerate their area.

They therefore agreed to change the articles of association and membership of Keelman Homes’ so that the ALMO and the Council no longer “owned” the charity. By changing the ownership of Keelman Homes the council agreed that there was the potential to increase the amount of new affordable homes, by using new funding resources from the HCA and/or private sector.

Changing the governance structure of Keelman Homes from the existing arrangements to one in which the current Trustees of Keelman Homes also become Members of the charity enables Keelman Homes to better compete for funding from the HCA and ensure that any private sector borrowing Keelman Homes is able to secure does not contribute to the overall public sector debt.

Keelman Homes are likely to continue to develop small to medium size sites often on council owned land in or near current council housing estates. Keelman Homes are currently building in partnership with two developers Galliford Try and the Esh Group at a number of sites in Gateshead. By 31 March 2015 Keelman Homes will have built another 50 properties (affordable

rent), of which 6 will be for sale (Keelman Homes to take the sales risk this time). They are also currently formulating a bid to the HCA 2015-2018 round of approximately 150 units, including applying for guarantees funding.

This complements other housing initiatives such as:

- The Gateshead Regeneration Partnership, which will develop on a larger scale than Keelman Homes and include homes for sale on designated sites over an extended period
- The Local Plan which covers affordable housing but has more significant implications for house building for sale and housing growth
- The Council's Housing Strategy which identifies small to medium sized affordable housing developments
- Work with housing associations that are often unable to build because of existing financial commitments.

This model is another way of attracting inward investment and delivering new affordable housing within Gateshead.

St Leger Homes of Doncaster

The ALMO St Leger Homes of Doncaster is currently working with a private development company QSH (Quality Social Housing) on a *Pathway into Affordable Home Ownership in Doncaster* project. This involves St Leger Homes of Doncaster acting as managing agent for QSH (Quality Social Housing) for 106 properties (20 bungalows for over 55's, 1 flat and 85 houses) within an affordable rent to buy model.

Tenancies will be allocated as assured shorthold tenancies (12months) at affordable rents with an option to purchase during the period between the 1st and 5th anniversary dates. A percentage of rent paid (up to 50%) will go towards a deposit / discount at time of purchase and the regular payment of rent will count as a positive credit history for those tenants with no or adverse credit history.

Start on site is anticipated July 2014 with a phased delivery over 18 months. This scheme will enable aspiring home owners who currently do not have a (positive) credit history, to rent a new property at affordable rent levels (within Local Housing Allowance rates), whilst building up a deposit to facilitate a purchase option in years 1-5.

This rent-to-buy solution aligns with Doncaster Metropolitan Borough Council's aspirations and original brief for the redevelopment of the site to provide alternative housing tenure and a mixed community. It also meets the Council's 'New Delivery Model' aspirations to increase tenure options and a better housing market balance. The scheme has the potential to provide deposits of up to 10% for aspiring home-owners and helps incentivise tenants to exercise their option to purchase. A deposit will be accumulated by the tenant provided the property values do not fall below 90% of the option price set by QSH. It is anticipated the majority will rent with the intention of purchasing their own home. This is not a finance vehicle to fund council build and stock acquisition.

Should tenants not take advantage of purchasing the property in the first five years then the properties would be available for rent for the subsequent 15 years.

St Leger Homes of Doncaster will manage the 86 homes and 20 bungalows and provide a rent guarantee until sold (5 years) with maximum 20 year agreement if any of the homes remain unsold to tenants.

Building on the potential of ALMOs to invest in local communities

In 2011 the NFA published a report *Building on the potential of ALMOs to invest in local communities* (enclosed for information) which explored models through which local authorities, where they need greater levels of investment than are provided by self-financing could access additional finance outside the public sector borrowing envelope, through private finance.

Three potential models were developed, all intended to achieve five specific aims:

1. Building on the introduction of self-financing, to enable additional, private sector, off-balance-sheet financing where this is needed to meet important investment requirements such as regeneration, major repairs or new build.
2. Taking as a starting point the experience of ALMOs in engaging with tenants, to provide opportunities for greater tenant empowerment.
3. Retaining the strong element of partnership with the local authority.
4. Providing one or more models which will – by meeting the other aims – offer sustainable options to local authorities, and their tenants, for ALMO management of their council housing in the long term.
5. Examining the options in sufficient detail to enable councils, their ALMOs and tenants to make informed local choices and – if appropriate – adopt and adapt one of the options so that it suits their requirements.

Although not supported by the government despite a lot of work being undertaken with Gloucester City Homes and DCLG we believe the options remain a feasible model for consideration if the imperative is to take new additional borrowing off balance sheet, whilst retaining some of the benefits of the ALMO model.

In the absence of any movement on the HRA debt caps and in order for ALMOs to maximise the number of new homes they are able to develop, the following three options outline reforms to the ALMO model would provide greater flexibility by improving access to private finance whilst maintaining direct tenant involvement.

- **A long-term management contract** – the ALMO would have a much longer contract of 35 years to manage the council's housing stock. It would not be 100% council owned as at present. Instead, the local authority would have a one-third stake, but it would remain the landlord of its homes. As a result of it not being majority council owned, the ALMO would then be able to borrow private finance in a way that they are currently unable to under public sector borrowing rules.
- **A long-term management contract and transfer of vacant properties or land** – this would work in a similar way to a simple long-term management contract with the addition of the council transferring ownership of some empty properties or land to the ALMO. The

ALMOs would then be able to borrow in a similar way to the model above, with the addition of the transfer of empty properties and land giving it extra opportunities to borrow against the new assets that it owns.

- **Transfer to a community-and council- owned organisation (“CoCo”)** – the ALMO would become the outright owner of the council’s housing stock. The ALMO itself would be jointly owned by the community and the council, maintaining the crucial link with tenants. The local authority would retain the housing debt, agreed under the planned reforms to the housing funding system, and the “CoCo” would make payments from its income to cover that debt. As a result of the homes being owned by the ALMO, rather than the council, the ALMO would then be able to borrow more, outside the rules restricting public sector borrowing. However, unlike a stock transfer to a housing association, the council and the ALMO would maintain their financial ties

4. How local authorities can best drive efficiency improvements in both their management and development of social housing to free up more resources to support new housing development.

ALMOs have shown their ability to drive through efficiencies within their organisations throughout their existence. Under the previous efficiency regime for local government ALMOs contributed two thirds of all local authority housing efficiency savings even though councils with ALMOs constituted only 25% of local authorities in England and managed only half the total stock.

Under the current regime regular management fee negotiations with their councils help drive value for money with most councils seeking to either keep the fee unchanged whilst delivering more or reducing the fee for the same or improved service levels. This helps free up more HRA revenue to be put towards investment in the existing stock or new build where the council so wish.

For example Derby Council has required Derby Homes to reduce its management costs by £1m in real terms over four years and Derby Homes has in fact outperformed this target and reduced costs by 14% in real terms. The resources released from this are intended to cross subsidise an ambitious new build programme which is intended to almost match the loss of stock through the Right to Buy.

Derby Homes also use proprietary software to evaluate individual development proposals and consider whether the shortfall that is required to be met can be supported from reserves set aside for that purpose from delivering savings ahead of target. They are constantly evaluating the best method of procuring new homes and are trying out different approaches – through Joint Venture, Community partnership, in house development with subcontractors and standard development contracts. All these approaches can work in different circumstances and they work hard to secure the best value for money overall in each case. They expect that there will be some circumstances where a direct approach will save money through avoiding profit and development risk pricing but that in other cases there will be a need for developer risk to be taken by a third party. Where an in house development is preferred, they expect to work with good value local tradespeople on specific schemes, reducing costs overall as a consequence.

They have integrated installation and maintenance into a single in house team to provide best value for money over the longer term rather than on a short term contract basis where problems with quality have been an issue in the past.

A number of ALMOs in the Midlands, like others across the country, led the set-up of the procurement consortia Efficiency East Midlands (EEM) to drive down the costs of procurement and major projects. Newark and Sherwood Homes, Nottingham City Homes, Derby Homes, Ashfield Homes and A1 Housing make up 5 places of the 7 exec Board members. Since its set-up in 2010 EEM initially worked on procurement related to investment programmes and servicing. The partnership progressed to finding energy efficiency solutions and is now driving to find off site low cost low carbon solutions for ever more affordable housing solutions. The aim of this current project is to offset the expected cost rises as the construction market recovers and maintain an effective delivery mechanism. The project is working with the HCA and D2N2 LEP.

ALMOs across the country have also used their own company surpluses to help build new homes for example Nottingham City Homes is using its own company reserves to build 5 houses in the city as part of a mixed programme building a further 61 with prudential borrowing through the ALMO and 17 with HRA borrowing.

Much of the value of an ALMO comes from being close to the council and being able to see where links could be made across the wider services that they provide. ALMOs are often able to identify how new appropriate housing could help to save the council money on its on-going revenue support to some residents. Many of our members have recently been working with their parent authorities to identify priorities for supported and sheltered housing options and many have either just completed Extra Care schemes such as the ones in North Manchester by Northwards Housing and in Bury built by Six Town Housing or are currently working on schemes such as Newark and Sherwood Homes, Poole Housing Partnership and Nottingham City Homes.

Other ALMOs have provided alternative housing solutions for their communities, freeing up much need family housing and saving money on the General Fund too. Your Homes Newcastle for example has built over 200 homes across the city including 67 bungalows, 86 houses and 55 apartments. Included within these units are 19 homes specifically for young families and 32 homes for people with learning disabilities. The provision of bungalows for the elderly to downsize into helped reduce the level of support many of them required from Adult Social Services as well as freeing up much need family sized accommodation and the specialist accommodation for people with learning disabilities significantly reduced the cost of providing support to those clients as the new purpose built block made support easier and cheaper to provide.

At A1 Housing Bassetlaw they are currently expanding their 'extra care' warden service for the elderly and infirm in the district and looking at providing accommodation in partnership with Social Services and the Health Authority for a Clinical Assessment Centre. The assessment centre would be a transition between the hospital and home for people who have stayed in hospital for a number of weeks. A1 Housing also provides elderly person 'Hubs' which are sheltered schemes surrounded by bungalows which support the needs of the residents using fewer care staff to provide care efficiently.

5. How data on local authority Housing Revenue Account owned assets, including housing and land can be made more transparent, building on the Government's recent Transparency Code measures.

The new self-financed HRA business plan provides a great platform to make information about council housing assets more transparent and helps to focus the minds of ALMO Boards and councils on ensuring that the housing business runs efficiently, making the best use of the assets and delivers good quality housing for their community. As part of HRA Business Planning councils, with their ALMOs, have developed their asset management strategies and have started to identify sites that could be developed by themselves or others.

ALMOs are well placed to provide that focus on the business and the assets with their independent boards of councillors, independents and tenants with the responsibility of running the housing business.

We would be happy to see local HRA Business plans published in a clear and transparent way with assets listed and development plans set out as they come forward as part of a community engagement strategy. Most of our members are working with their councils to identify any dis-used or under-utilised land or properties as well as working with the wider corporate council asset team to consider other council land for housing where appropriate.

At the start of self-financing we lobbied for clear guidance on how councils should publish information from the HRA Business Plan so that tenants and other stakeholders could scrutinise decisions by ALMO Boards and councils in terms of meeting their stated objectives and plans to invest in existing stock, build new homes and set rent levels.

Since the introduction of self-financing there has been no clear guidance from government on the form this should take and what information should be provided or any central monitoring to ensure that it is being provided. We therefore believe different councils are providing different levels of information to their communities.

6. How the public sector costs of local authority-led housing development compares with private sector driven routes, including housing association led development. What local authorities can do to reduce costs and increase value for money in their housing development, e.g. through working with private sector partners.

The overall cost of ALMO led building programmes compare very favourably with housing association led development and where they have been subject to the HCA grant regime they have often been able to develop for lower levels of grant on average than their local housing associations. An NFA survey of developing ALMOs indicates that average unit cost for the sector is in the region of £122,500 although this obviously varies depending on the size of the unit and the area it is developed in.

Many councils and ALMOs have also been able to utilise their own resources, where possible and not make any call on HCA grant to subsidise developments.

Councils and ALMOs have made good use of their own land, often land that is of little or no value and is difficult and expensive for any other developer to build on, such as dis-used garage sites or small infill sites on existing council estates. These sites tend to be small sites within existing communities that have been left undeveloped by the private sector over many years despite some council's best efforts. Where an ALMO can now start to plan a longer term development programme, typically starting with 50 or so units per year and then increasing as capacity is developed and sites and funding become available to a 100 or 200 per year they can achieve both value for money over the whole programme as well as quick deliverability due to their close working with the local communities and strong knowledge of the local planning issues.

The fact that many developing ALMOs pick up grant as part of the slippage in the HCA programmes every year indicates their ability to be flexible and put together schemes quickly and deliver on time at a good price.

Many councils and ALMOs are happy to work with the private sector and the housing association sector where appropriate and in most places there will be a mixed economy of providers ensuring the council gets the mix of housing in different areas of their neighbourhoods. However we believe that the new self-financing regime already showing that councils with ALMOs are responding to the built in incentives and the responsibility to develop their own business plans and make the best use of local resources and assets rather than being forced to do things or controlled by central government through the old subsidy system.

For many councils, of all different political persuasions it is important to retain control of their local housing assets. They have a duty to their communities for the long term and through their housing stock they can help influence the wider housing market, the availability of local housing options and critically for many, help meet their statutory homelessness duties.

For tenants too, many really value the democratic link to the council that council or ALMO housing provides and are pressing their local politicians not to sell off the "family silver" but to make better use of it and provide the homes that they need locally themselves.

**For further information, please contact Chloe Fletcher at chloe.fletcher@almos.org.uk
or on
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Enclosed for further information:

Let's Get Building
Building on the potential of ALMOs to invest in local communities.