



NFA SUBMISSION TO LYONS INQUIRY INTO LOCAL GOVERNMENT

This submission by the National Federation of ALMOs looks specifically at how the success of the ALMO model could form the template to better service delivery at local level, enhancing community engagement and resident empowerment, enabling local authorities to concentrate on their broader strategic role and delivering value for money in public services. This paper therefore only looks at some of the questions posed in the consultation paper. A separate report is also attached which proposes alternatives to the current system of funding council housing.

ALMOs that manage the council housing service are not, of course, the only arms length model for delivering local authority services or meeting local priorities. The first local authority ALMOs were created to establish local airports that would contribute to the local economy. A number of local authorities have also established leisure services while the split between strategy, commissioning and delivery is well established within education and social care. However, the ALMO programme is a particular example of central government actively, through the promise of additional funding, encouraging local authorities to develop new forms of service delivery while allowing councils to continue to maintain overall control and ownership at local level.

A logical development of this concept would be to develop broader, neighbourhood based vehicles that deliver a variety of local customer service functions while freeing up the council to determine the strategic vision, identify and commit resources to achieving local priorities and take on the monitoring and, where required, intervention roles to ensure standards are achieved. In such a scenario, however, different local priorities will, by their very nature, result in different levels of service delivery. It would be necessary to establish the base line standards which must be delivered in all services plus appropriate mechanisms for ensuring that local authorities understand and deliver their strategic role effectively.

The ALMO programme demonstrates that it is possible to strike a balance between ensuring national standards are achieved while allowing sufficient variation to meet the diverse needs of local communities and allowing councils to exercise choice over their own priorities. In terms of national priorities ALMOs have been key delivery agents in achieving the decent homes standard in council housing, but in most local authorities with ALMOs there is an additional local standard that they must also work to which reflects local priorities and resident aspirations. ALMOs must achieve at least a 2* (good) housing inspection rating before they can access additional funding and this ensures they all deliver core services to a high standard. However, there is considerable flexibility as to total mix of services that they deliver on behalf of the council and this is a decision made at local level, although it has to be ratified by the Secretary of State.

ALMOs work in a variety of metropolitan, suburban and rural areas but key criteria in establishing an ALMO is that it is a local decision that both the council and the residents must jointly make. Housing inspection results demonstrate that engagement with local communities, and reflecting their diverse needs, are key strengths in the movement as a whole and particularly in the higher performing three star ALMOs. The core business of an ALMO is embedded in the local community and therefore entirely focused on delivering local needs. If it fails to achieve this then its future is in jeopardy. Equally, ALMOs have to contribute to local authority corporate objectives, particularly in terms of value for money and cost effectiveness and again they demonstrate a good track record on efficiency savings compared to housing services retained in house.

Q1 What is the strategic role of local government

In terms of housing the strategic role of local government is blurred. It has an overarching strategic role that encompasses both the broad housing market and the condition of the whole housing stock within its area. In addition it has various statutory functions of which homelessness and housing benefit are the most important. Where the council also owns council stock the relationship between the General Fund, which should fund all strategic services, and the housing revenue account, which should fund landlord services only is not always as transparent as it should be.

The main mechanism for addressing housing market issues tends to be through the planning system. The council has a broad range of powers over the housing stock that it does not directly own or control and which the Housing Act 2004 has significantly enhanced – particularly in the private rented sector - but the resources needed to make the most of these powers are limited. Although the statutory functions can, and sometimes are, delivered through other agencies the council retains overall responsibility. Historic problems in delivering statutory functions through other providers has tended to result in most councils retaining the majority of these functions in house – although there are examples of outsourcing which do work effectively.

The council may own its own social housing stock, and manage it directly or through an ALMO, or it may have transferred its stock to a housing association and have no direct control over the management of any of the social housing stock. There will, in any event, be a number of additional social housing providers in its area over whom it has no direct regulatory powers since regulation is carried out by the Housing Corporation. Many of these providers will also own and have interests in other local authorities. While housing associations generally work well with the local authorities where they have stock, and do their best to contribute to local priorities and meet local community needs, their interests in other areas will make it more complex to respond to local variations since they must, of necessity, also meet the requirements of their tenants in other areas, their regulator and their private sector lenders.

The ability, therefore, for individual authorities to make strategic housing decisions is dependent on the strength and effectiveness of their partnerships with others. In terms of meeting homelessness needs, for example, the lack of direct control over where applicants are rehoused can be a real problem. In ALMOs the properties are allocated according to the local authority allocations policy rather than through a negotiated nominations agreement as is the case with housing associations. This is one example where the council can have surety that locally determined priorities will be delivered.

Q2 What tools do councils need to perform the strategic role more effectively?

In order to perform the strategic role more effectively councils need to be unencumbered by operational responsibilities which distract attention from their overarching role. However, they also need to have a better understanding of the change in working practices and organisational culture that moving from an operational to an enabling role requires. While the more mature and excellent authorities are starting to engage with this others perceive the change in their role as simply about policing and demanding detailed statistical monitoring reports.

There is currently considerable variation in the size and amount of resources that local authorities with ALMOs devote to the client side role and DCLG should carry out a national comparative exercise of the cost and value for money provided by the different models in place, and the permeability of the housing revenue account and the extent to which it is subsidising the General Fund. Effective monitoring needs to be fit for purpose, hands off and avoid micro management. At the same time councils must have confidence in their ability to tackle poor performance effectively.

Strategic excellence requires the active involvement of stakeholders and engagement with partners and the community in developing shared ownership of the strategy. This requires a sophisticated network of formal and informal liaison structures with a range of community interests, voluntary agencies and partners at local, sub regional and regional level. The increased diversity of housing providers and more complex housing markets represent a huge challenge to councils if they are to develop effective intervention strategies.

The success of the ALMO programme proves that the separation of the local authority strategic and functional roles can improve services at local level. However, when making the split it is essential that an appropriate level of resources are retained within the council to enable them to concentrate on their strategic role and to monitor effectively that the ALMO is delivering its function in accordance with the council's aim and aspirations. As a generality inspection scores of the strategic housing service compare less well to inspection scores of ALMOs. There is only one current 3* strategic housing authority compared to 10 3* ALMOs

The reality is that ALMOs are very successful leaders of the social housing business. The significant improvements in service delivery 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 and usually with the same staff that managed the service in house. Nevertheless, the carrot of additional resources has been far more successful at delivering improvement than a decade or so of controls and penalties, which often had the effect of penalising further those residents already receiving poor services. At the same time ALMOs must keep both their councils and their tenants satisfied – their continued existence depends upon it. Unlike housing associations they are not independent of the council, nor are they subject to other regulatory bodies or private shareholders. This means that they offer the council a significantly stronger tool for helping to deliver local authority priorities.

A key feature of ALMOs is that tenants have real involvement in decisions about their homes. Not only do tenants have equal (and sometimes more) weight on the Board but they are increasingly involved in strategic and operational decisions about the delivery of the service, including setting local standards, prioritising the work programme and specifications, selecting contractors and determining investment priorities. This empowerment of tenants has been another feature of ALMOs' success and explains why tenant satisfaction is higher overall in ALMOs than in either housing association or directly managed local authority stock.

ALMOs by definition have a stronger geographical focus than the larger housing associations which work in several geographical locations. They only work in one local authority area and are deeply and actively involved within the local communities. They deliver much more than improved housing and often lead the field in innovative practice aimed at improving the quality of life of people living in many of the country's poorest neighbourhoods. Many ALMOs are involved in projects which stretch well beyond basic housing management and maintenance and are important partners in the delivery of innovative social inclusion and anti-social behaviour programmes. These enhance safety in their communities, as well as combating domestic violence and racial harassment, with many projects also aimed at improving the life chances of residents.

ALMOs' close involvement with the local community means that, through their knowledge of the key issues affecting residents, they can also help inform the local authorities' broader strategic decision making as well as managing the council housing business strategic and delivering services and functions on the ground.

Q3 How important is the fact that local government is elected in relation to its ability to perform its role?

The fact that councils are locally accountable through the election process is critical to giving legitimacy to their decision making. However, it is important to also bear in mind that local government elections are more normally fought on general, national grounds rather than local decisions and that the turnout for elections reflects the views of only a minority of the electorate. It is therefore incumbent on councils to continually seek out other mechanisms for consulting residents and ensuring that local priorities genuinely reflect those of the local community rather than being based purely on party politics.

It is interesting to note that both turnouts and votes for establishing the ALMO option are significantly higher than those that local government elections produce. This is partly because one key question, rather than a range of activities, is being considered which is of great importance to those being consulted. Nevertheless, the way in which local residents are engaged – not only in the establishment of the ALMO – but also in determining its priorities, standards and performance management – and the real involvement of tenants in decisions about their homes is something that could be extended to other council functions.

Another key feature of ALMOs' success has been the structure and tripartite nature of ALMO boards. A balance between council nominees, professional independents and customers on a board dedicated to a positive future for a company is a much more effective way of improving services than decision making on purely party political grounds. Each sector on the board brings its own particular strengths and perceptions with residents helping to ensure community interests are identified and independents bringing a range of professional skills and non partisan expertise to the table.

Q4 Are there services where greater variation in standards would be acceptable if there was clearer accountability and consultation with local people?

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 and each ALMO is different in that the services (beyond the basic housing management function) that they deliver are tailored to local circumstances in accordance with the council's priorities and residents wishes.

The board and staffing structure makes the organisations more business like, efficient and better able to focus on delivery. While the inspection regime ensures that all ALMOs must deliver their service to at least a good national standard. However, it is also important to ensure that standards remain flexible to local aspirations. Customers' expectations rise proportionate to their levels of involvement in making decisions and increased accountability. Local residents' views of priorities in their neighbourhood may not always fit comfortably with set national criteria. ALMOs work with residents to constantly reassess and update the standards at local level.

But the link with the council and the management fee arrangement ensures that ALMOs must also meet local priorities and deliver high quality services if they are to survive – there is a built in monitoring and incentive mechanism. The stock remains council housing allocated in accordance with the council's allocation system and ALMOs key interests will be in good asset management, delivering service improvement and managing the council housing business effectively and efficiently.

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, addressing anti-social behaviour and contributing to the local authority overarching strategy will also be priorities.

If ALMOs had greater freedom over their future they would be able 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
- 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 are well placed physically within the community and are strong proponents of tenant empowerment. They have also been very actively involved in training and employment schemes, working with schools, promoting citizenship, improving access for hard to reach groups etc.

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 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 and our proposals for addressing these problems are set out separately in *ALMOs - a new future for council housing*, a joint report by NFA, Chartered Institute of Housing and HouseMark.

Q6 How can pressures on local services be managed more effectively?

The key features for managing services more effectively includes:

- Maximising local involvement and inclusion
- Better planning and better information about customers and their needs
- Better partnership working and avoiding the silo mentality
- Targeting sufficient resources on key priorities
- Learning from experience and from others, especially high performers
- Taking a pragmatic, not bureaucratic, approach to problem solving
- Being frank, fair and consistent across all services sectors and all service providers
- Being open to innovation and new ideas
- Devolving decision making and budgets.

ALMOs' success is not just due to the sticks and carrots associated with extra funding and the management fee but also due to the nature of the structure of the organisation, which combines elements of both local authorities and housing associations.

Senior officers are not distracted from running the business; staff are dedicated entirely to achieving the objectives of the organisation while the Board and staffing structure makes for more streamlined and effective decision making and brings in additional skills and expertise. 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.

However, council nominated representatives on ALMO Boards sometimes have difficulty separating their role as council members from that of ALMO directors and this can cause problems. On the other hand many council members bring unrivalled skills and experience to the considerable benefit of the ALMO Board. Councils should appoint ALMO Board members on the basis of their expertise rather than as a form of political appointment.

The involvement of tenants in real decisions ensures ALMOs are focused on the needs of the service and less likely to be hijacked by political or corporate objectives. ALMOs are also subject to more intense scrutiny than other sectors which keeps their noses to the grindstone and ensures they deliver stakeholder aspirations.

ALMOs have embraced new ways of working such as partnering contracts that generate wider social benefits through apprenticeships and the use of local labour. The development of joint procurement consortia at sub regional and regional level together with a general drive towards delivering value for money and efficiency have also been features of many ALMOs. While the adoption of new approaches to increase community engagement, tackling anti-social behaviour and promoting community cohesion are high on the agenda for the sector. 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.

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 quality and efficiency of the services they receive or deliver. ALMOs are placed under considerable pressure by their residents and by the Housing Inspectorate to review the services they receive from the local authority and, if necessary, obtain that service elsewhere. However, this can cause considerable problems for the local authority since losing the ALMO part of the service may cause the remainder to be no longer viable. As an organisation which has the local authority as sole shareholder the ALMO also has to give consideration to the broader impact of its activities on the council.

Over zealous monitoring or excessive information requirements can be another area of difficulty or tension. In reality most councils and their tenants went down the ALMO route primarily to access the decent homes funding. Some councils have found it hard to cope with the arms length nature of the ALMO and have been wary of letting go the operational function. This can lead to duplication and confusion of roles. Those who find this most problematic tend to have a less well developed view of their broader strategic function and find it easier to concentrate their attention on operational matters. The best performing ALMOs are generally to be found in the most mature and well run authorities who have a greater understanding of the hands off approach. However, ALMOs are still in their infancy as a sector and experience in the more established ALMOs demonstrates, as time goes by, a greater understanding and confidence by councils in both the performance of their ALMOs and their ability to manage them effectively without having to duplicate roles.

The ALMO concept is a difficult one to explain and tenants also take some time to adapt to the new regime. Their initial reason for choosing the ALMO route was to obtain extra resources without a stock transfer so that they could remain council tenants. However, tenants very quickly appreciate the additional benefits that ALMOs deliver, particularly in terms of a real role in decision making, and develop a strong loyalty to and identification with their ALMO. Most tenants in established ALMOs would now, given the choice, be just as unwilling to go back to directly managed housing as they were originally opposed to any transfer of the stock.

Q7 How could responsibility for local services be made clearer between local government, central government and other agencies?

Although ALMOs have been very successful in delivering national and local priorities, and are popular with their residents, their long term future remains the subject of debate although the DCLG *Review of Arms length Housing Management Organisations* published on 7 June 2006 makes it clear that the government perceives ALMOs to have a key role in assisting local authorities in the wider delivery of sustainable communities.

However, the potential for ALMOs to provide even better services in the future is currently limited. The decent homes funding has been extremely welcome in bringing the current stock up to standard but it does not deliver decent neighbourhoods nor does it address the problem of a diminishing housing stock that will need considerable investment if it is to meet housing needs and expectations in the twenty-first century.

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 housing revenue account is projected to be in deficit in the 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
- **Right to Buy** – 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

ALMOs are restricted by an unpredictable annual housing subsidy system which inhibits long term business planning. 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 council housing managed by ALMOs. Both the short and long (technical) versions of the report are attached separately.

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 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 the new borrowing needed to finance the capital expenditure in the business plan.

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 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.

The Department for Communities and Local Government (DCLG) is currently working with six local authority case studies (three with ALMOs and three without) to assess the impact of a self financing model. This will consider whether it would deliver better value for money than the present regime and help improve service delivery and also what the effect would be on the Exchequer and on those remaining within the subsidy system. The results of the case studies will be fed into the 2007 Comprehensive Spending Review when a decision will be made as to whether to implement the proposals. In such a scenario only the best councils and ALMOs would be eligible to enter the programme, which retains the link between performance and reward that has made the ALMO programme so effective.

Whether or not a council chooses to pursue such an option 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. Residents will need to be convinced of the advantages of ALMOs taking on greater risks. While central government will need to be convinced that the any changes to the current system will be at least cost neutral for the Exchequer and will also be able to provide better value for money through improved services and better outputs compared to those delivered under the current regime.

We believe that our proposed changes would achieve these objectives because:

- local authorities would have control over their income and their investment decisions, enabling them to take a longer-term view of asset management
- more financial certainty enables better and more realistic business planning
- local authorities would move away from the constraints of annuality
- the funding of the housing management service would become more transparent
- ALMOs would be able to respond better to the aspirations of residents for improved service delivery and to the local authority strategic priorities
- ALMOs could become neighbourhood management partners
- residents would have greater involvement in investment decisions
- the proposals are cheaper to the Exchequer than stock transfer.

NFA
August 2006

Background to the ALMO movement

Arms length management organisations (ALMOs) are bodies set up by councils specifically to manage and improve the local authority housing stock. Unlike large scale voluntary transfer (LSVT) the stock remains within the ownership of the local authority, the local authority remains the legal landlord and both existing and new tenants remain secure council tenants. ALMOs remain 100% controlled by the local authority and do not trade for profit. They manage the properties on behalf of the council. In order to access additional decent homes funding ALMOs must achieve at least a 2* housing inspection rating.

The first ALMOs were established in April 2002. 60 ALMOs now manage 906,000 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.

ALMOs deliver excellent services to council tenants. As at July 2006 out of 45 published inspection results there were 10x3* and 29x2* ALMOs while only one housing association and no local authorities without an ALMO have obtained a three star rating in the last three years. Three out of the four local authorities awarded beacon status for *Improving housing services by involving tenants* have ALMOs managing the stock.

ALMOs produce real efficiency savings and deliver value for money services to their residents. 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. In the four years of the ALMO programme 100,000 homes have so far been brought up to the decent homes standard.

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.

ALMOs represent a real opportunity for the continued long term future of council housing and for a better way of delivering the council's strategic and functional roles. As managers of the council's social housing business they differ from other providers in that the structure, organisation and management of the company is at arms length but both the stock and the company are owned by the council thus ensuring that the residents remain council tenants and the ALMO remains committed to meeting local needs. In this way ALMOs can not only deliver the operational function but can be major contributors to helping councils achieve their overarching strategic objectives and meeting the needs and aspiration of their local communities.