

In the long run

While ALMOs are a cost effective way of helping to reach the decent homes deadline, tough rules make them less attractive in the longer term. **Johanna Holmes** looks at some possible solutions

Setting up an arm's-length management organisation has been an attractive way for some local authorities to obtain additional money to meet the decent homes standard. Having proved their capability, ALMOs are keen to continue in the longer term but the constitutional, regulatory and funding framework within which they were set up is only geared to the time limited role of achieving the 2010 decent homes target.

ALMO campaigners are pushing the government to give them a permanent role in the social housing arena, but they face a wide range of challenges and uncertainties.

The resources available to fund an ALMO are controlled by government subsidy rules for local authorities' housing revenue accounts. Authorities are obliged to hand back to government HRA surpluses and receipts in accordance with rules that are subject to adjustment from year to year and any changes can have material effects on resources. Around 82 per cent of landlord local authorities in England annually hand back

part of their housing revenue income, and there is little incentive to adopt income or spending strategies for the long term.

Once the injection of decent homes funding is completed, ALMOs' value to local authorities is diminished. The qualitative benefits of ALMO management; tenant empowerment, excellent services and creative, committed staff may not be considered sufficient to offset their costs.

Additional costs arise from two main sources. Firstly, governance processes such as servicing, training and paying a board, producing and auditing accounts, and managing a body that is subject to statutory, regulatory and strategic requirements in its own right. And maintaining the relationship between two distinct bodies adds expense and complexity.

ALMOs argue that tenants should be involved in decisions about their long term future, as they were when the organisations were first created. However, there is no regulatory requirement upon the council

to be bound by the results of such consultation. So the possibility remains that the authority's corporate concerns, particularly where the costs of ALMO management have a disproportionate impact on resources, would carry more weight.

These uncertainties constrain ALMOs' ability to plan further than a couple of years ahead or commit resources to the development of new parts of the business.

There are also a number of 'soft' issues faced by ALMOs that have a real impact on their sustainability in retaining and attracting high-calibre staff and maintaining a culture of achievement.

For instance, decent homes funding is time limited; at the end of the programme a number of key jobs and the feel-good factor associated with the programme will be lost.

Decent homes funding is insufficient to meet tenant aspirations for modern homes, or their desire for a safe and liveable environment. So the ALMO-run

→ **Continued on page 23**



housing investment programme becomes increasingly unsatisfactory over time.

ALMOs' constitutional, statutory and regulatory status inhibits the development of innovative services or new business endeavours on a substantial scale. There is the risk of stagnation.

The majority of ALMOs can expect a reduction of the housing portfolio they manage, and thus the revenue stream which funds them, of 100 to 600 homes a year. This is comparable to a reduction of 10 to 15 per cent in their revenue base for every five years they are in business.

Eventually in order to break even most ALMOs will be obliged to make savings which reduce service levels and their ability to govern themselves effectively. This effect is magnified in smaller ALMOs where there is even less scope for savings in proportion to stock reductions, and is exacerbated if homes are transferred to other landlords.

Making changes

Some two and three star ALMOs are already pursuing a number of innovative activities beyond their original remit.

A small number are undertaking improvement or redevelopment of local authority stock and there is some opportunity for new development. Borrowing could be funded by revenue streams within the ALMO. The scope for this is very limited, though, and for homes to be let at affordable rents capital subsidy must be available through private property sales, application of the local authority's usable capital receipts, section 106, the use of council land, or social housing grant.

However, ALMOs do not have strong balance sheets and are vulnerable to development risk. At present they cannot develop on a scale to make a material contribution to a regeneration programme, impact on local housing needs or make good the losses arising from the right to buy.

ALMOs are supplementing their revenue by selling their services to others. This includes agency arrangements with other landlords, direct labour organisation trading, and consultancy and secondments to other ALMOs. Other forms of partnership include joint ventures in building works procurement and shared back office functions.

However, with the possible exceptions of contracts with direct labour organisations and clever procurement, these activities are not likely to generate profits or economies on a sufficient scale to offset consequent tax

liabilities, prop up shrinking revenue bases or generate a surplus revenue stream.

The National Federation of ALMOs report *ALMOs – a new future for Council Housing* (published in November) proposes freedoms and flexibilities for the housing revenue account. These could substantially improve the scope for ALMOs working in partnership with their local authority to fund redevelopment and new development through borrowing, chiefly by eliminating the uncertainties and disincentives of HRA subsidy.

The government and the local authority would agree a settlement which buys the authority out of the subsidy system and makes its HRA business plan viable. This would be a permanent opt-out and the authority takes the risk on the viability of its business plan. The authority would be able to generate and retain surplus revenue streams through a partner able to borrow and to use capital development subsidy, including social housing grant.

Although this is workable, there are political and practical reasons why the proposal cannot be the answer to ALMOs' problems. The question of which authorities might be offered this option has not been settled. Some qualifying authorities may not wish to take the risk. There is no guarantee that the funds released would be used to finance the ALMO. And the revenue streams involved are unlikely to replace homes lost through the right to buy.

While housing stock remains in local authority ownership ALMOs remain largely dependent on their parent authority for the majority of their business. Therefore more radical solutions are likely to be necessary.

A radical vision

Achieving real sustainability will require a radical approach to the freedom of the ALMO to forge partnerships with organisations other than the local authority.

Mergers between ALMOs are already proposed in Leeds to achieve economies of scale. However, the experience of housing associations has been that operational efficiency benefits are insufficient to overcome differing organisational cultures, ownership and aspirations and mergers with this objective did not materialise to any great extent.

A more realistic scenario may be federations of ALMOs or networks of joint ventures, sharing back office services or centres of excellence. Procurement and investment programme management seem likely candidates, as does the provision of specialist community, support and housing services. Such ventures would need robust

contracts with a life longer than the five year ALMO management agreement, however.

Truly sustainable future options require the unravelling of some part of the ALMO ownership, constitutional and regulatory package.

This would enable them either to build a viable asset base themselves, or more realistically enter into long term partnerships with other businesses which have stronger balance sheets and more capacity to spread risk than an individual ALMO will ever have. The local authority would have to reduce its ownership share of the ALMO to optimise the benefits. If this were achievable some would blossom and the variety of new structures that emerged would be truly sustainable.

● **Johanna Holmes is a director of consultancy Tribal HCH**

