



**ON BEHALF OF THE
HOUSE OF COMMONS COUNCIL HOUSING GROUP**

The Future of ALMOs: Briefing and Questionnaire

Introduction

The Government is carrying out a review of Arms Length Management Organisation (ALMO)s which is expected to be completed in July 2005.

ALMOs were initially promoted as a short-term solution to access additional investment to meet the Decency Standard by 2010 in local authority areas where tenants and, perhaps, elected Members, were known to be opposed to stock transfer. It was clearly an attempt by government to produce a formula that would take the pressure off government to concede direct investment which is widely recognised as the first choice of council tenants throughout the UK. Where local authorities required additional investment to meet the Decent Homes Standard, the government limited the options to stock transfer, the Private Finance Initiative (PFI) and an ALMO.

Many supporters of council housing

have consistently argued that ALMOs are two-stage privatisation. It was argued that the aim was to put as much distance as possible between the local authority and the new private company. In reply Ministers and elected Members and senior officers in councils keen to establish ALMOs have vigorously denied that this is the case.

There are now, as predicted, vested interests keen to expand the role of ALMOs and move them even further away from local authorities. The National Federation of ALMOs has been lobbying government for increased powers including, significantly, the ability to borrow on the private market. In February 2004 the Housing Minister confirmed ALMOs would be able to bid for social housing grant alongside housing associations and private companies, enabling them to carry out new build development.

large liability for local authorities and the public sector generally (Inside Housing, 17 June 2005). So the Treasury wants a bigger legal and financial distance between the council and the ALMO. Opponents of the ALMO formula have always claimed that it means an unnecessary distance between the council and the management of the stock, and now that distance is set to increase.

"The write-off bill could be as large as £5.64 billion - £4.04 billion to redeem HRA loans and £1.6 billion for early redemption 'breakage costs'."
(Social Housing, May 2005).

The link between the council and the ALMO will be so tenuous as to become meaningless. "Although councils will lose control of their ALMOs, they will retain ownership of the stock and monitor ALMO performance. But ALMO regulation may have to pass from respective local authorities to another body, possibly the Housing Corporation or the Audit Commission." (Social Housing, May 2005).

In reality, if these proposals are adopted, the banks/lenders will exercise control over the policy and financial decisions of the ALMO board. And whilst the council still formally retains ownership of the stock at this time the question has to be for how long?

Clearly if the ALMO business plan ran into difficulty the council would either have to bail it out or sell its homes. If, for instance, the ALMO had either spent anticipated HRA income for future years or borrowed against that income then the authority would find itself unable to take management of the homes back in house. In this situation it is not hard to envisage that the authority would be telling its tenants that there was no alternative but stock transfer.

Review of ALMOs

When government launched a review of ALMOs in September 2004 Inside Housing reported: "Arms-length management organisations could take over ownership of council homes by 2006 under radical new proposals drawn up by the Office of the Deputy Prime Minister" (3 September 2004). But transferring ownership of the homes into the ALMO would require a tenant ballot, and therefore attract opposition. The Chartered Institute of Housing looked at the option of the council selling the stock to the ALMO, but concluded "there was little support for such an approach".

Instead a new proposal has been developed - councils keeping the stock, but giving up a majority stake in the ALMO private company. A 51% majority

would be transferred to take it into the private domain to raise private finance. The proposals recommend that the government would write off debt for those councils with ALMOs, and the council will have to hand over control of the Housing Revenue Account to the ALMO. The ALMO would be financially self-sufficient and able to borrow on the private market outside public sector borrowing controls, just like a housing association. The ALMO will be given a long-term (35 year) contract, with the banks having the right to step in if problems arise. (ALMOs: A New Future for Council Housing, Housemark/NFA/CIH, April 2005).

The Treasury is concerned that "councils would remain liable if their ALMOs' business plan failed" which could be a

As Inside Housing commented when these proposals were launched:

"But there's a paradox here. Don't people like ALMOs because they are well, ALMOs? They've found a happy medium between the status quo and the irreversible wrench of stock transfer... Putting ALMOs on a similar footing to associations carries some risk of endangering that harmony. Opponents of ALMOs have said all along that they were a stepping stone to 'privatisation'. There was little difficulty in rebuffing them in the past but now they'll have more ammunition."

Outsourcing and expansion plans

Many ALMOs have already/are considering outsourcing repairs and maintenance and other services. Some are expanding taking over management of housing associations homes and exploring moving into regeneration activities. They are under increasing pressure from the Audit Commission to review agreements which tie them into buying services from the council. One consultant claimed that "Audit Commission inspections has meant the ALMOs relationship with the local authorities' support services has changed out of all recognition in the last year" (Inside Housing, 5 May 2005).

There is already talk of ALMOs merging into bigger group structures. This mirrors the drive to create massive national multi million pound landlords in the RSL sector.

ALMOs diversifying into new build and regeneration inevitably carries big financial risks. At the end of the day it will be council tenants and local authorities who will carry that risk and suffer the consequences if the budgets don't balance.

The latest proposals are consistent with the comments two years ago by Wendy Jarvis, then head of local authority housing finance at the ODPM. She said:

"The housing association model is an obvious one to look at and we are looking at it... If you go to the City too soon, they won't be interested, they need something tangible... Our view has to be that it stays within the Whitehall family until we have formulated our own views and particularly that the Treasury is comfortable. Then we will go out to the relevant private sector partners." (Inside Housing, 13 June 2003)

It also follows the agenda set by the early ALMO champions.

"...if you are a council who thinks ALMO is an easy, no-change option that keeps the council in control, you are wrong." Gordon Perry, former chair of the National Federation of ALMOs, (Housing Today 4 April 2003)

Commitments and assurances to tenants

However the views and proposals stand in stark contrast to the commitments and assurances given by councillors and senior housing officers to tenants in order to secure their support.

In many authorities tenants were given the clear promise that once Decent Homes had been achieved the homes would revert back to council management. In other authorities tenants were assured that the ALMO would only involve a cosmetic change and they wouldn't notice any difference.

All authorities promoting ALMOs strongly denied that ALMOs would evolve or somehow move in any other way into the private sector.

Clearly, there are vested interests setting an agenda which will effectively marketise and privatise ALMOs.

ALMOs have been heavily promoted as giving tenants additional control. Yet there is no evidence of tenants in ALMO areas calling for the proposed change of policy. In fact there is not one single tenants organisation represented on the ODPM ALMO review group.

As the ODPM Select Committee commented:

"139. In the Committee's view, Arm's Length Management Organisations are not without virtues, but for well-performing Local Authorities where both tenants and the Council have a preference for stock retention, ALMOs are an entirely unnecessary diversion of time and resources with the sole aim of unlocking Government funding. There is no reason why the advantages often cited in relation to ALMOs, i.e. increased tenant participation and satisfaction could not be achieved through in-house stock management. We have not heard evidence that creating an ALMO per se enhances the achievement of Decent Homes, or indeed of tenant satisfaction. The option of creating an ALMO should continue to be available to Local Authorities, but there should be no financial incentive for Councils to do so." ODPM Select Committee: Decent Homes, 7 May 2004

The cost of setting up ALMOs and the extra investment available to them all comes from the pot of money that gen-

erally 'belongs' to all council housing. This means that authorities who don't apply to set up ALMOs effectively contribute to subsidising the extra investment available to the ALMOs. This inequality will increase if the government was to agree to write-off overhanging debts to ALMO authorities as well as those that stock transfer their homes.

Only councils where tenants democratically decide to remain as council tenants will have to continue to carry the burden of overhanging debt. This cannot be either equitable or a 'level playing field'.

The ODPM Select Committee made clear recommendations.

152. "The Committee recommends that Local Authorities be granted wider rights to borrow prudentially against rental income streams for the purpose of improvements to their stock and to help create sustainable communities. We recommend that the Government reconsider adopting the principle of investment allowances to Local Authorities." and

153. "Apart from enabling Local Authorities to borrow on an equal footing with Registered Social Landlords (RSLs), it would clearly be fair for Local Authorities to receive the same levels of Government investment grants as those available to ALMOs or PFI schemes."

Keith Hill, the former Housing Minister, told London tenants reps:

"It does not seem to me that an ALMO can in any serious sense of the word be described as part and parcel of a process of privatisation. As I say it remains a fact that the ownership of the properties is with the local authority and let me give you the absolute assurance that it is inconceivable that without a major and extremely unlikely change in government policy that any move towards a privatisation arising from an ALMO would ever be likely to occur." (London Tenants Federation meeting 27 November 2003)

The proposals from the National Federation of ALMOs and the Chartered Institute of Housing develop the ALMO formula as we anticipated. They should be opposed by all those who believe that decent, affordable, secure and accountable council housing offers an essential alternative to the private market - for existing tenants and future generations.

Questionnaire

The Centre for Public Services published The Case for the 4th Option for Council Housing in May 2004. For over 30 years the Centre has made the case for the improvement and development of council housing.

We are carrying out this survey with Defend Council Housing on behalf of the House of Commons Council Housing Group to assess the views of tenants associations and federations, elected members, trade unions and housing organisations on their perspective for the future of ALMOs.

Please complete the following:

Name

Organisation

Address

Telephone Email

Please indicate whether you are a:

Elected Member Tenant Representative Trade union representative Housing officer Other

You can simply answer yes/no and we have left space for additional comments

1. Were tenants promised that there was no element of privatisation involved in ALMOs - they would never end up in the private sector?

Yes No

Comments.....

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2. Do you agree with the statements made at the time when ALMOs were first proposed that they were a temporary mechanism to access additional investment solely to meet the Decent Homes Standard?

Yes No

Comments.....

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3. Do you support the case for the 'fourth option' for council housing which would allow local authorities to retain and invest in council housing?

Yes No

Comments.....

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4. Were tenants given assurances that the ALMO was only a mechanism for achieving additional investment and they wouldn't notice any significant changes?

Yes No

Comments.....

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5. Has your council made a policy decision which approves of the ALMO becoming more commercial and operating independent of the local authority?

Yes No

Comments.....

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6. Are you concerned that the National Federation of ALMOs/Chartered Institute of Housing proposals could put the future of council homes under ALMOs in jeopardy?

Yes No

Comments.....

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7. If your local authority has an ALMO, is there evidence that tenants support it expanding into building new homes, managing homes for housing associations and/or regeneration activities?

Yes No

Comments.....
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8. Are you members of either the National Federation of ALMOs/Chartered Institute of Housing and did they consult tenants or councillors in your area on their proposals prior to producing their report?

Yes No

Comments.....
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9. Do you agree that ALMOs should be returned to direct council control when the Decent Homes Standard is met to safeguard the future of council housing?

Yes No

Comments.....
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10. Did tenants originally understand that the ALMO would revert back to the council once the Decent Homes Standard had been met?

Yes No

Comments.....
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Please send your completed form to the Centre for Public Services in the FREEPOST envelop provided.

Thank you for your cooperation.

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Note: The House of Commons Council Housing group has produced a new report "Support for the 'fourth option' for council housing".

Copies of the full report (£10 - free to tenants) and a four page summary can be obtained from:

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