



Report of the Director of Neighbourhoods and Housing Department

Executive Board

Date: 5th July 2006

Subject: The Future of Arms Length Management Organisations for Housing in Leeds

Electoral Wards Affected:

Specific Implications For:

Ethnic minorities

Women

Disabled people

Narrowing the Gap

Eligible for Call In

Not Eligible for Call In
(Details contained in the report)

EXECUTIVE SUMMARY

The report sets out the conclusions of the review of ALMO's.

The ALMO's have brought great benefits to Leeds, particularly through increased investment and tenant involvement. The review has sought to build on their achievements.

The review has concluded that the Council should not continue with the status quo of six ALMO's. There are problems of financial viability but also, given that the Government has removed any prescription of size, there is a positive opportunity to improve connections to the Council and take advantage of new freedoms by a reduction in number.

A financial review of the ALMO's concluded that one or two ALMO's presented the greatest advantages. A proposal to ballot on these options was presented to the ALMO Boards. All ALMO's, despite differences of views on other matters, believed that three ALMO's should be an option on the ballot.

In the light of this, and an improved HRA position which has mitigated some future risk, it is considered viable to offer a three ALMO option. In order to provide a clear choice to tenants it is proposed to ballot on the alternatives of one ALMO, favoured by the DCLG, and three ALMOs.

The three ALMO option is E and NE (including all of EASEL), S and SE (excluding EASEL) and W and NW. In light of the views expressed, it is proposed that this represents the Executive Board favoured option.

It is proposed to ballot tenants on the above option over a three week period from the middle of August. A report setting out the result of the ballot, with governance arrangements for supporting structures and the main Board(s) will be presented to Executive Board in September.

SECTION 1

PURPOSE OF THE REPORT

- 1.0 This report advises members of the Executive Board of the conclusions of the review of ALMOs in Leeds. The report sets out the background to the review and assesses the options available. It is recommended that tenants are balloted on the alternatives of a single ALMO or three ALMO's.

Background

- 1.1 In February 2003 six Arms Length Management Organisations (ALMOs) came into being to manage the housing management functions delegated to them under s.27 of the Housing Act. This was the result of two and half years work under the "Going Local" project. The choice confronting the Council in order to access funding to meet decency was between stock transfer and the ALMO route. Following an options appraisal and extensive consultation, culminating in a ballot, the ALMO route was chosen.
- 1.2 One of the key decisions taken in the "Going Local" project was to have six independent ALMOs. It is important that the context within which this decision was undertaken is understood. Leeds had around 67,000 properties at the time that decisions were taken. The guidance issued by the ODPM at that stage looked for ALMOs of no more than 15,000. Taking this into account, it was proposed to create ALMO's which aligned with wedges of the city. However, this would have left an East ALMO with towards 20,000 properties and under the then Office of the Deputy Prime Minister (ODPM) guidance this would not have been accepted. As a result the East wedge was sub divided between an East and South East ALMO, to make six ALMOs in total.

- 1.3 The creation of the ALMO's has brought tremendous benefits. The award of 2 star status to the ALMO's in 2003 and 2004 has delivered enormous investment to Leeds - £420m, which otherwise would not be available. The establishment of the ALMOs has also led to significant increases in both democratic accountability and tenant involvement in the decision making processes. It is the intention of this review to build on these achievements.

SECTION 2

2.0.0 REASONS FOR CHANGE

- 2.1.1 The context in which the ALMO's are now operating has significantly changed since the decisions in 2002. The reasons for reviewing the current arrangements are set out below.

2.2.0 ODPM Guidance

- 2.2.1 Current DCLG guidance is now silent on the issue of size of an ALMO. Indeed Nottingham, Newcastle and Sheffield, with stock numbers ranging from 33,000 to 53,000, have recently been accepted onto the ALMO programme with one main Board and sub structures underneath this Board. This change of thinking enables the Authority to consider now the most appropriate size to meet its objectives.

2.3.0 Stock Numbers

- 2.3.1 Since the six ALMOs were set up, the number of properties has declined to around 62,000. 2,000 properties were sold in 2005/6. Whilst the rate of loss through right to buy is dependent on a number of factors, the success of the decency programme has increased its attraction. As stock numbers continue to fall, it is not sustainable or desirable to continue to operate with six ALMOs.

2.4.0 Governance Relationship

- 2.4.1 The Management Agreement requires the Leeds ALMOs to fully contribute to the Council's corporate aims. In reality it has proven difficult to pull six organisations together in this way. The pressure for them to develop their own identities often is in direct contrast to the need to come together to deliver corporate priorities.

2.5.0 Financial Viability

- 2.5.1 There is significant concern about the financial viability of six ALMOs in Leeds over the medium to long term. There are inherent financial structural problems created by duplications in costs. In a report commissioned from PWC to look at the costs of the ALMOs in Leeds against the national picture, the following conclusions were reached. Whilst, overall, Leeds ALMOs were at or below the average running costs of an average ALMO, and repair costs were broadly in line with comparator ALMOs, senior management costs, on average across the six ALMOs, are higher than those in comparator ALMOs. As a result, the average senior management cost is £8 per property higher in Leeds. If Leeds achieved the average cost of the comparator

ALMOs, then costs would fall by approximately £500k per annum (based on stock numbers in the 2004/5 audited accounts)

- 2.5.2 Price Waterhouse Coopers (PwC) were also engaged to carry out a piece of work to give an assessment on the financial position and prospects of the six ALMOs. Their conclusion was that if there were no actions taken to address the underlying financial problems then Leeds ALMOs would collectively be in deficit by £11.8m by 2009/10, based on the ALMO's own projections at that time. ALMO draft accounts for the year ended 31 March 2006 became available on 12th May and the position has now been updated to reflect the improved position that these now show, which is a deficit of £10.3m. Detailed work has been undertaken with the ALMOs to assess and quantify their savings plans to see how far these would bridge the gap. If all non-repair savings are achieved in full this will still leave a £4.8m deficit at 2009/10. (Those savings related to repairs (£3.1m) are to be re-invested back into property.)
- 2.5.3 In considering the financial viability of organisations, account should also be given to the susceptibility to risk. Housing subsidy is vulnerable to significant swings due to changes in central government formula in any year. A more concrete concern, however, is that if Right to Buy sales and demolition figures fall below 3000 over two years, the Council is liable to lose £3.5m in subsidy. Whilst the HRA has now made partial provision for this eventuality, the capacity to adjust to such changes must be borne in mind in the selection of any model.
- 2.6.0 Future Vision for ALMOs
- 2.6.1 Some ALMOs in the country will complete their decency programme by the end of this year. As a result of this there has been considerable debate both within the National Federation of ALMOs (NFA) and the DCLG about the future of the ALMOs after decency has been achieved.
- 2.6.2 A recent speech by Ruth Kelly MP, minister at the DCLG, gave a commitment to see ALMOs continue beyond delivering decency. The speech set out the intention to enable Excellent Local Authorities and ALMOs to borrow money to invest. This approach by the DCLG increases the need to create sustainable ALMOs in Leeds that would be in position to take advantage of these changes. It is estimated that £1m in revenue can generate £10m of investment at present rates.

2.7 Conclusion

- 2.7.1 In view of all of these factors, it has been concluded that the Council should not continue to operate with the six ALMO's.

SECTION 3

THE OPTIONS CONSIDERED

- 3.1 In an earlier report to the Executive Board the option of returning the stock to Council management or seeking stock transfer were ruled out. The assessment of options, therefore, concentrated on the number of ALMO's which should operate. The review considered in detail the following options:

1. one ALMO
2. two ALMO's, covering W, NW, NE and E, SE and S respectively;
3. and two combinations of three
 - 3a. E and SE, S and W, NW and NE;
 - 3b. W and NW, NE and E, SE and S.

The following factors were taken into account in assessing the options:

- Financial Viability
- Retention of local decision making
- Ability to deliver improved performance
- Compatibility of merged geographical areas
- Fit with existing regeneration plans

3.2 Financial Assessment

- 3.2.1 PwC were employed to look at the potential financial impact of reducing the number of ALMOs. The report by PwC made some high level assumptions around management costs. All of the assumptions were agreed by an officer working group which included ALMO representation and was tested against PwC's knowledge of the sector. The chief savings are with regard to the number of senior managers and support functions that would exist within the options.
- Reducing the number of ALMOs to one or two ALMOs has the most potential to deliver a sustainable position through to 2009/10, although this is subject to the achievement of the identified savings plans.

3.2.2 The summarised results from the PwC exercise, as amended to reflect draft ALMO final accounts for 2005/2006 are:

Option		Savings in 2008/09	Savings in 2009/10	Cumulative Savings by 2009/10	Cumulative ALMO Reserves by 2009/10	100% ALMO savings identified achieved by 2009/10	Net position if ALL savings achieved	ALMO savings - repairs	ALMO savings - non-repairs	Net position if ALL ALMO non repair savings achieved
		£m	£m	£m	£m	£m	£m	£m	£m	£m
1	One ALMO with Local Boards	2.3	2.4	4.6	(5.7)	8.6	3.0	3.1	5.5	(0.1)
2	Merge into two ALMOs : W, NW & NE, SE , E & S	2.3	2.4	4.7	(5.6)	8.6	3.0	3.1	5.5	(0.1)
3a	Merge into three ALMOs : NE & NW, SE & E, W & S	1.7	1.8	3.5	(6.8)	8.6	1.8	3.1	5.5	(1.3)
3b	Merge into three ALMOs : E& NE, SE & S, W& NW	1.7	1.8	3.5	(6.8)	8.6	1.8	3.1	5.5	(1.3)

3.3 Assessment of the Options

OPTION 1 - One ALMO

There are significant advantages of moving to a single ALMO, a position adopted by all other local authorities. Government thinking has switched significantly away from small sized ALMO's, to the extent that DCLG have expressed the view that this would be their preferred option in Leeds as any additional borrowing by the ALMO would be more easily serviced through a single HRA. A single ALMO delivers the maximum savings and gives the greatest flexibility in terms of adjusting its cost base as stock numbers decline. Local panels could be set up to sustain tenant involvement in decision making. Such an arrangement would enable the ALMO to participate in city wide partnership and local partnership initiatives. A single ALMO would concentrate expertise, enable further delegations from the Strategic Landlord and simplify contact with the Council.

Despite these advantages, however, there is concern that what would be the largest ALMO in the country, would be remote from local problems and unresponsive. The advantages that the ALMO's have gained of managers and boards who are rooted in their areas would be

lost. The establishment of a single ALMO would also be seen by many as a return to a centralised housing department in another form.

Option 2 - Two ALMO's

The two ALMO option represents a compromise position. It delivers the financial savings associated with a single option but provides for organisations at, arguably, a more manageable scale.

The disadvantages of the model are also bound up with its compromise position. It does not have the same simplicity of arrangements as the single option but neither does it provide for the degree of local management as three ALMO's.

3.4 Three ALMO Options

3.4.1 In terms of the broad advantages of three ALMO's, it seeks to preserve a more local model of management and Board involvement which in turn is held to be more responsive to local need.

The disadvantage of three ALMO's is that does not deliver as much savings as the other options, nor does it deliver the simplicity of arrangements with the Council offered by the single ALMO.

Two options for three ALMOs were considered in the initial appraisal work.

Option 3a

- **NE & NW**

Assessment

There is a natural Housing Management link from being the North Leeds ALMOs with very similar types of profile. The combination, however, cuts across police boundaries. Stock size is 17,028

- **SE & E**

Assessment

South East and East would establish EASEL in one ALMO. Stock size is 18,742

- **W & S**

Assessment

This would create a large ALMO with the areas split by the motorway. They have similar stock profiles. Stock size is 23,419

- 3.4.2 Overall option 1 provides for a reasonable fit when merging areas and establishes EASEL in one ALMO. However, it does leave imbalances in stock sizes with the new West / South ALMO having 23,419 properties compared to 17,028 and 18,742 in the others.

Option 3b

- **E & NE**

Assessment

This makes a good fit with police boundaries and existing community safety areas. Stock size is 17,426.

- **SE & S**

Assessment

There are strong commonalities between the issues confronting the outer SE and S. Stock size is 19,407.

- **W & NW**

Assessment

There are good links from a policing perspective. Housing links will develop as the West Leeds Gateway develops.

- 3.4.3 Option 2 leaves EASEL split between ALMOs. The EASEL programme is of enormous significance to the Council and requires the intimate involvement of the ALMO with regard to key issues of clearance, resettlement and the provision of social housing within the area. Bringing together the EASEL project within a single ALMO area will assist the Authority in the further development of the initiative. In the light of this issue, it is recommended by officers that this option is rejected.

SECTION 4

4.0 REPORT TO ALMO BOARDS

- 4.1 On the basis of the above assessments, which illustrate the financial advantages of proceeding with one or two ALMOs, officers consulted the ALMOs on the options on

which to ballot tenants in August 2006, recommending the choice of these alternatives. At this point the financial disadvantages of three ALMO's were felt to outweigh its merits.

4.2 With the exception of Leeds West Homes all the Boards accepted the need to take action. The Boards were all disappointed that it was not proposed to ballot on three ALMO's

4.3 Below is a summary of the written responses from the ALMO Boards:

4.4 **Leeds East Homes**

4.4.1 The Board felt that this option would best safeguard tenant involvement. The Board felt that the timetable was rushed and that the ballot should be delayed to September to ensure maximum participation. The Board recommended that EASEL should be retained within one ALMO and were keen to ensure that staff were provided with reassurances as early as possible.

4.5 **Leeds South East Homes**

4.5.1 The majority of the Board were against the one ALMO option, feeling that this option would lose tenant involvement and feel like the Neighbourhoods and Housing Department had taken over. There was wide spread disappointment that the three ALMO option was not included. It was recommended that the two ALMO option and the three ALMO option should go forward for consultation.

4.6 **Leeds South Homes**

4.6.1 The Board were strongly in favour of balloting on a one ALMO option and a three ALMO option, with a preference for option 3a. The Board rejected the two ALMO option and felt that in combining Leeds East, Leeds South East and Leeds South, significant levels of deprivation would be grouped in one ALMO. The Board felt that one ALMO might look too much like the Council had taken control this was of particular concern to tenant Board members.

4.7 **Leeds North East Homes**

4.7.1 The Board felt that the minimum numbers of ALMO should be two and that preserving local accountability was crucial. The Board also wished to see all viable options on the ballot paper. The Board was concerned as to whether or not the costs associated with the wind down of the existing ALMOs had been fully assessed. The Board also wished staff to be appraised of the impact of the proposed changes at the earliest opportunity.

4.8 **Leeds West Homes**

4.8.1 The Board felt that there was no compelling case for the review and that the status quo, or Leeds West Homes as an entity, should be allowed to continue. The Board is concerned that the proposed changes will undermine the delivery of decent homes and the achievement of the three star, excellent, status. The Board believes that local

accountability will be lost whether or not there are local panels. The Board would also like to see the tenant consultation period extended and the ballot delayed. The Board believes it has a financially viable position to 2009/10 and that the overall financial position has changed since the inception of the review. In its view the poor financial position that underpinned thinking at the start of the review was based on false understanding. The Board recognises that falling stock numbers will force a need to change but that this should be after 2009/10 when decent homes has been delivered. However, if the review continues then the Board would wish to see a three ALMO option, where Leeds West comes together with either Leeds North West or Leeds South.

4.9 Leeds North West

4.9.1 Leeds North West Homes held a special Board Meeting to discuss the ALMO review on 5th June 2006. Overall the Board did not want to go back to something that looked and felt like the Department of Housing and favoured a three ALMO option. The Board were anxious that tenants were given full information on the options in order for them to make a decision at the ballot stage. The Board felt that the ballot paper should not reflect the view of the DCLG. There were concerns that the overall timetable was unrealistic and that there might be a danger that key elements of the implementation were rushed.

4.10 Belle Isle Tenant Management Organisation

4.10.1 The Board felt that a one or two ALMO option were detrimental steps for tenant involvement. The one ALMO option would be seen as the Council taking control and the two ALMO option would be seen as too big and remote, even with local panels. The Board felt that BITMO had benefited from working alongside a small and local organisation such as Leeds South Homes and that this would be lost with the preferred options. The Board asked for a three ALMO option to be considered.

SECTION 5

5.0 RESPONSE TO CONSULTATION

- 5.1 Clearly there have been mixed views expressed by the Boards and it is not possible to accommodate all their preferences. Despite some Boards strongly arguing against the single ALMO being a ballot option, it is recommended that this is retained. The arguments for a single ALMO are strong and it was recognised by many that it would offer a clear and distinctive choice to tenants.
- 5.2 In contrast, given the consensus against the option of two ALMOs, where the arguments in its favour are weaker, it is proposed that this is now removed from the ballot options.
- 5.3 All of the Boards would wish to see a three ALMO option as a preferred option. In view of the feedback from the ALMO Boards the option has been re-evaluated

- 5.4 The final position for 2005/6 shows the HRA is in a healthier position than had originally been assumed in the PwC modelling exercise. The result of this makes the three ALMO option more viable. There have been a number of reasons for this improvement. There has been a reduction in the level of empty properties from 2.3% to 1.9% and reduced provision for bad debt as overall arrears have fallen at year end. There have also been significant reductions in the costs of disrepair claims. Surpluses have been generated by Property Services due to a rise in fees associated with the delivery of the ALMO capital programmes. These developments have generated additional reserves of £4.4m. The department has set aside some of this for special reserves. £2m has been set aside for the potential impact of changes in housing subsidy arising from reductions in right to buys. £0.5m has been set aside for the pre-procurement costs of the Beeston / Holbeck PFI. £1.9m is proposed to return to the ALMOs.
- 5.5 By dealing with a number of future risks and increasing the allocation to the ALMOs, the financial sustainability of the three ALMO option has been improved. Whilst a three ALMO option remains more expensive, weight should be given to the importance placed upon the smaller sized organisations' ability to provide a more strategic focus at a local level and the strength of the consultation response.

5.6 **The Preferred 3 ALMO OPTION**

In the light of the feedback and following discussions with the Executive Member, a variation to the three ALMO option has been explored: The option is as follows

- **E, NE & part SE** (the EASEL area)

Assessment

This option establishes EASEL in a single ALMO by moving some 3,000 properties from the South East. The stock shifted from SE has a greater commonality of issues with East than the outer part of SE. Stock size is 20,458.

- **S and part SE** (the outer SE area)

Assessment

The outer SE area shares much in common with the outer areas of South. Stock size is 16,375.

- **W & NW**

Assessment

There are good links from a policing perspective. Stock size is 22,356.

- 5.7 The net result of these changes means that EASEL is contained within one ALMO. This option leaves stock sizes across the ALMOs unbalanced but reduces the largest ALMO size in option 3a by over a 1000.

5.8 FINANCIAL MODELLING

- 5.9 The financial model that was produced by Price Waterhouse Coopers (PwC) has been reworked to reflect the movement in properties that will result from the revised three ALMO option.
- 5.10 The overall level of savings generated by the different boundary options around 3 ALMOs are not significantly different. The main driver of costs is the number of organisations and the level of local devolution. The model assumes, in all options, that the structures have no impact on the level of resources spent on repairs and there is also no impact on front-line delivery staff. The projected position is a deficit of £1.2m by 2009/10.
- 5.11 Given the measures taken at the close of the financial year to improve the robustness of the HRA and reduce risk, this is considered to be a bridgeable gap. In light of the financial position, the views expressed by the ALMO and the administration, this option can be recommended as the alternative to the one on the ballot..
- 5.12 **Conclusions**
- 5.13 As a result of the above assessments it is proposed that the Council ballot tenants on the options of 1 or 3 ALMO. The 3 ALMO option will be constituted by W and NW, NE, E and the EASEL area of SE, and S with the remainder of SE. There is a broad consensus across the boards and amongst Members in favour of 3 ALMOs. It is proposed that the Council signals its preference to tenants for this option.

SECTION 6

6. LOCAL PANELS

- 6.1 One of the successes to date with the ALMOs in Leeds is the enlargement of tenant involvement. The number of registered groups has doubled to around 120. There are also investment conferences and a host of local arrangements for getting tenants views and involving them in decisions.
- 6.2 By reducing the number of ALMO Boards to one or three, tenants could feel remote from the decision making body. However, there is an opportunity to guarantee and indeed increase involvement in decision making by introducing local area panels, as operated by other ALMOs elsewhere. The ALMO Boards were unanimous in expressing their support for the establishment of such panels.
- 6.3 Panels would receive delegated authority from the main Board and contain representation from the main Board at Councillor and independent level, augmented by tenants from the areas. Delegation from the main Board of performance management of areas, such as rent collection, environmental management and tenancy issues, along with powers to influence capital and revenue programmes for the areas, would give local area panels real responsibilities.

- 6.4 These arrangements would give greater involvement in decision making than currently. A commitment to this principle would have the effect of clarifying that the ALMO review is not about re-centralisation of management.

It is recommended that a further report is brought to the Executive Board setting out the full governance arrangements, including the operation of local panels.

6.5 **Next Steps**

Following the decision of Executive Board it is proposed that a series of events are held across the city to explain the options presented on the ballot paper. In anticipation of the Board decision, 24 events have been arranged. This will be supplemented by an explanatory letter to each tenant explaining the advantages and disadvantages of each option. It is proposed that a postal ballot will be conducted over a period of three weeks from the middle of August. The Electoral Reform Society will administer and oversee the ballot. The result will be reported to the September Board, together with in implementation plan.

SECTION 7

7.0 RECOMMENDATIONS

- 7.1 The Executive Board is asked to agree that the preferred options for the future of ALMOs in Leeds are the one ALMO option and the three ALMO option which brings together, Leeds North East and East (to include all of EASEL), Leeds South East and South and Leeds West and North West. Both options would have local panels.
- 7.2 The Executive Board is asked to agree that these options should be put to tenants in a city wide ballot of all tenants.
- 7.3 That the Executive Board indicates its preference for the 3 ALMO option.
- 7.4 The Executive Board is asked to agree to the principle of local panels and request officers to bring a further report on the detailed workings of local panels and governance arrangements for the main Board(s).