Leeds CITY COUNCIL

Originator:	John Statham
Tel:	x43233

Report of the Director of Environment and Neighbourhoods

Executive Board 3rd November 2010

Subject: The Future of Council Housing

Electoral Wards Affected:

☐ Ward Members consulted (referred to in report)

Specific Implications For:

Equality and Diversity ☐

Community Cohesion ☐

Narrowing the Gap ☐

Eligible for Call In ☐

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

EXECUTIVE SUMMARY

This report sets out the outcomes of the review into the future of council housing. The report shows the context within which the review was undertaken and assesses the future investment need of the city. Different options were appraised as to how that investment need might be met, concluding that none of the options offer a complete solution to the ongoing investment need. Nevertheless, there are opportunities to generate significant efficiencies and improve delivery. The report proposes continuing with the three ALMO model but introducing some key reforms in order to tackle weaknesses within the current model. The first key reform proposed is the creation of a Strategic Governance Board which will ensure that there are single decisions taken on key strategic matters affecting all ALMO's. This Board will also act as a formal link back into the Council for the ALMOs, so that they can be better connected to the development of policy and strategy within the Council. The second key reform is to create a Shared Service Centre for back office services. This will offer significant efficiencies as well as creating better skilled teams within the various disciplines. The report assesses these reforms against the option of a reduction to a single ALMO and concludes that a three ALMO model with the reforms is the preferred option.

The report also outlines proposals to change the manner in which the ALMOs provision for FRS17 is dealt with to bring that process in to line with other Council owned companies, with the effect of releasing resources to meet investment needs.

1.0 Purpose Of This Report

1.1 The purpose of this report is to:

- inform the Executive Board of the conclusion of the Future of Council Housing Review;
- make recommendations on a preferred model;
- make recommendations on key reforms.

2.0 Background Information

2.1 Leeds established six ALMOs in 2003 and submitted a bid to the government for £450m additional investment credits to enable the council housing in Leeds to reach the government's decent homes standard. By late 2004 all six had achieved a two star status with the Audit Commission and were eligible to draw down the money.

2.2 Since 2003 the ALMOs have been delivering programmes of capital works and are on target to meet the government's decent homes target by the end of 2010. By the end of 2010/11 around £825m will have been spent making Council housing decent.

2.3 In 2006 Leeds reviewed the number of ALMOs in the city and reduced them to three. The main drivers for the change were financial viability and reducing stock numbers. That review established three financially viable ALMOs that would be able to complete the decency programme by the end of 2010/11. Now that the decency investment programme is coming to a close the Council has undertaken another options appraisal to identify a suitable model for the future of council housing in the city and this paper sets out the findings and recommendations.

3.0.0 Context for the Review

3.1.0 Localism and Customer Aspirations

3.1.1 In 2002, when the Council took the decision to set up ALMOs in the city, the project was entitled "Going Local". This meant having local based delivery organisations which would better meet customer need and aspirations. In 2006, when the Council took the decision to reduce the number of ALMOs, the project was about "Staying Local". This was achieved by setting up area panels beneath the ALMO management boards to feed in customer aspirations and to oversee elements of service delivery. The localisation of service delivery has been a success, with customer engagement levels far in excess of where they were prior to ALMOs. In looking at the future of council housing in the city it is essential that the advances made in relation to tenant engagement and influence are retained.

3.1.2 Customers' aspirations for the service have grown with the increased responsiveness of locality based service delivery. Customers have seen huge investment in their properties and improvements in the delivery of services to their homes. As a result of this they aspire for continuous improvement in service delivery and a continuity of engagement in decision making. This aspiration is in line with the Council's core values.

3.2.0 Impact of the Proposed HRA Reforms.

3.2.1 The previous government consulted local authorities on the reform of council housing finance. Their preferred option was the introduction of a self financing HRA, whereby the HRA subsidy system is dismantled, and the national HRA debt is redistributed amongst local authorities based on their ability to service the debt.

3.2.2 The Executive Board welcomed the proposals, which would bring an end to the current subsidy system, whereby rental income is pooled and then re-distributed nationally on an annual basis. Not only does the current system lack transparency but the nature of the annual funding arrangements means that councils cannot have any certainty as to the impact of subsidy over the forthcoming or future years. The self financing model proposed at the time would give authorities more control and certainty over funding, allowing the development of medium term financial plans to support robust asset management plans, which in turn will support effective works planning and procurement.

3.2.3 In responding to the consultation the government debt settlement figure at the time was modelled into the 30 year HRA business plan for the Authority. Whilst further work is required to refine the business plan, the inside subsidy and the self financing position have been compared and this shows that over the life of the plan the proposed system would bring significant financial benefit to the HRA, enabling greater capital investment. The new government has pledged to end the existing system and has announced it will introduce HRA reform. However, it is not clear at this stage whether or not this will be the same scheme as that proposed by the previous government. The government has indicated it will outline more details shortly.

3.3.0 Investment Requirements

3.3.1 The Decent Homes programme will have delivered around £825m of investment into council housing in Leeds by 31st March 2011. This is an unprecedented level of investment. At the peak of the decent homes programme, the annual investment was £170m. The Council stock will move from a position whereby 45% of houses met the government's decent homes standard, to 95% of the stock meeting the standard at 31st March 2011.

3.3.2 A full 30 year investment plan has been developed from April 2011. The plan assessed investment need against three standards – minimum decent homes work, decent homes plus (incorporating additional environmental works and some additional tenant aspirations) and a Leeds regenerations standard (equivalent to a PFI standard). A comparison of the investment required and the projected available resources over 30 years is summarised in the table below:

	Minimum Standard	Decency plus	Leeds Regeneration Standard
Investment Need	£2,343m	£3,366m	£4,350m
Resources Available	£1,602m	£1,599m	£1,599m
Resource Gap	**£741m**	**£1,767m**	**£2,751m**
Borrowing cost to cover gap	£327m	£1,099m	£2,035m
Average Annual Revenue Cost	£10.9m	£36.6m	£67.8m

3.3.3 This table shows that, based on expected resources and without any reform to the HRA funding mechanisms, there will be a shortfall of £741m in resources to maintain the decent homes standard over the 30 year period. If the Council is to meet the aspirations of its tenants for higher standards, then the resourcing gap increases to £1.767bn for decency plus and £2.751bn for a regeneration standard.

3.3.4 After 2010/11, government support to achieve the decent homes programme comes to an end, and thereafter capital resources for major repairs and improvements will fall significantly. HRA Capital expenditure will, under the current arrangements, be funded from the usable proportion of Right to Buy (RTB) receipts, the Major Repairs Allowance, and revenue contributions to support capital outlay (RCCO). Subject to the further announcement, capital resources will reduce to approximately £40m per annum.

3.3.5 As a minimum the Council will meet its statutory obligations, such as Fire Safety prevention, and adaptations. It will aim to maintain the decent homes standard across the housing portfolio. There remain particular urgent pressures to find solutions for Sheltered Housing, its non traditional and pre 1919 stock.

3.4.0 Financial Sustainability

3.4.1 Following the successful inspection of the Leeds ALMOs in 2003 and 2004, the Council has drawn down funding under round 2 of the decency programme, which came in the form of Supplementary Credit Approval (SCA), based on an 8% interest rate for borrowing. The Council's actual consolidated rate of interest on borrowing is 4.6%, and it has therefore benefited from approximately £14m annual windfall funding which has been used by the ALMO's to supplement their management fee.

3.4.2 From 2011/12, the support for the borrowing will be commuted into the Council's Capital Financing Requirement, funded at 4.6%, and therefore the windfall funding will cease. Without the additional funding all three ALMO Business Plans are projecting in year operating deficits, before the utilisation of resources.

3.4.3 The table below identifies projected cash balances of the ALMO's for the next three years to 2012/13 as per their current business plans:

ALMO Cash Balances 2009/10 to 2012/13

Organisation	AVH £000	ENEHL £000	WNWHL £000	TOTAL £000
Cash Reserves at 31/3/2010	6,035	11,368	14,352	31,755
SCA windfall (ends 2010/11	4,001	4,453	5,054	13,508
	10,036	15,821	19,406	45,263
In year projected surplus / (deficits):				
2010/11				
2011/12	(1,618)	(2,853)	(2,565)	(7,036)
2012/13	(1,768)	(2,184)	(2,203)	(6,155)
	(1,950)	(2,327(	(2,570)	(6,847)
	(5,336)	(7,364)	(7,338)	(20,038)
Planned expenditure (as per ALMO Business Plans)	(811)	(1,793)	(4,100)	(6,704)
Sub Total	**3,889**	**6,664**	**7,968**	**18,521**
Less minimum balance of £1m per ALMO	(1,000)	(1,000)	(1,000)	(3,000)
Total – cash reserves at 31/3/2013	**2,889**	**5,664**	**6,968**	**15,521**

3.4.4 The table identifies that the ALMO's are currently working with in year operational deficits, which amounts to £20m over the three year period. The ALMO's cash reserves at 31st March 2010 amount to £31.7m, and if utilised over the three year period as per the business plans, to fund the structured deficits and one off planned expenditure, would reduce those cash reserves to £15.5m at the end of 2012/13.

3.4.5 The Council requires that all ALMO's provide appropriate provision within their balance sheet to address the calculated FRS17 liability which requires an organisation to account for retirement benefits when it is committed to them, even if the actual payment is at some point in the future. Between March 2009 and March 2010, the ALMOs FRS17 liability increased from £11.15m to £35.24m. The table below shows that when this liability is compared to the overall level of cash reserves held at 31st March, 2010, there is an overall deficit of £3.49m.

ALMO cash reserves and FRS17 liability at 31.3.2010

Organisation	Cash Reserves @ 31.3.2010 £000	FRS17 Liability @ 31.3.2010 £000	Net Reserves after FRS17 Liability £000	Memo:FRS17 Liability @ 31.3.2009 £000
AVH	6,035	(9,048)	(3,013)	(2,920)
ENEHL	11,368	(19,510)	(8,142)	(4,733)
WNWHL	14,352	(6,686)	7,666	(3,498)
Total	**31,755**	**(35,244)**	**(3,489)**	(11,151)

3.4.6 Additionally, the HRA business plan shows that by 2016/17 the HRA will be operating with reserves below the recommended level and that by 2019/20 the HRA will have no reserves.

3.4.7 These calculations do not factor in any impact of the autumn public expenditure announcements or potential changes to the HRA subsidy system. The management agreement with the ALMO's, which was extended as part of the last review, comes to an end in 2012. There will need to be a clear direction of travel regarding financial sustainability before any decision regarding further extensions can be made.

4.0 Governance

4.01 The current governance arrangements provide for three ALMO Management Boards which are able to take independent decisions on matters delegated to them from the Council within the terms of the existing management agreements and the constitutions of the ALMOs. Below the ALMO Board are a number of Area Panels. The ALMO Boards delegate some responsibilities and resources to these Panels and receive feedback from the Panels on preferences for the future direction of services.

4.0.2 There are no formal arrangements to provide the ALMOs with connectivity into the Council so that they can participate in the development of strategies and policies. Equally there are no formal arrangements by which the ALMOs can work collectively or with other locally based service providers from the Council. An example of this is the lack of formal arrangements for locality working with Area Management.

4.0.3 These arrangements lead to a best endeavours approach to engagement with the Council's strategic vision and plans and its locally based service providers, thereby losing the opportunity to influence and play a key role in the creation of improved, strong, healthy communities. Independent decision making at ALMO Board level, without the overarching Council strategy and priorities, can lead to tensions between city aspirations and local decisions.

4.2.0 Strengths and Weaknesses of the current model

4.2.1 All three ALMOs have achieved a two star and promising prospects status under the Audit Commission's inspection regime. The reports, together with the findings of other internal inspection reports and ALMO performance information have been used to develop further an overview of the strengths and weaknesses of the existing ALMO model.

4.2.2 The key current strengths can be summarised as follows:

- The arrangements enable the housing organisations to concentrate on their delivery role and the Council to take a strategic lead.

- The adoption of the ALMO model has enabled significant investment in the Council's housing stock and the delivery of the government's decent homes standard
- ALMOs are responsive to local issues
- There is an increased involvement of tenants in the decisions of the business
- Overall performance has improved since 2002
- Service standards have been agreed with tenants
- Environmental standards on estates have improved
- Tenant satisfaction is increasing

4.2.3 The key weaknesses can be summarised as follows:

- There is significant duplication across the three organisations especially in back office functions
- Service standards and service priorities vary across the city
- Contract Management/Asset Management and Investment planning are under developed
- Overall governance and associated controls have not always been fully effective
- Tension exists between city aspirations and local aspirations
- Resources are spread thinly across three ALMOs
- Performance varies across the city
- There is a lack of joint working to reduce costs or deliver services more effectively

4.2.4 Even though the Audit Commission will no longer regulate ALMOs, the focus of the review has been to build further on the identified strengths and address the weaknesses.

5.0 Options Assessment

5.0.1 Option Appraisal

5.0.2 It is within the context outlined above that the investigation into the options for future investment needs for council housing in Leeds, as requested by the Executive Board has been undertaken. The review considered four options with a view to recommending the most feasible option that offers the best value for money to deliver the long term vision for council housing. The options are:

1. Return the management of the stock to the Council
2. Transfer the ownership of the stock to a Housing Association, created for the purpose of the transfer
3. A mixed approach that could involve ALMOs, PFI, transfer and return to the Council parts of the stock.
4. The continuation of an ALMO model

5.1.0 The Process

5.1.1 An initial option assessment has been made against the four options. Each option was tested against the following criteria:

- the strategic fit to both the city wide and local objectives
- governance arrangements
- capacity to deliver strong services
- financial viability from both revenue and capital perspectives.

5.1.2 The work identified that the mixed approach was not really an option for the future management of council housing but more an approach to levering into the city further investment.

5.1.3 Leeds currently delivers its housing management service through a small scale mixed approach. The city has three ALMOs, one TMO, one PFI and bids for two further PFI schemes. The intention is to continue to develop this as part of the 30 year Investment Plan, whereby the Council will continue to make best use of any funding opportunities that present themselves.

5.1.4 PFI will not deliver a solution for the whole stock but could continue to provide investment in parts of the city, subject to CLG providing funding for further bidding rounds. Therefore, PFI could and will form part of mixed approach to securing additional investment.

5.1.5 Whilst this option will not resolve the shortfall in capital funding identified in the 30 year investment plan, the Council will continue to explore new funding opportunities as they arise.

5.1.6 The findings for the other options are summarised below.

5.2.0 Option 1 - Return the Management of the Stock to the Council

5.2.1 Under this option the Council would terminate the existing contractual arrangements and take the Council House Management Service back in-house. There are examples, mostly in London, of where management of the stock has been returned to the Local Authority. However, it is important to note that most of those decisions do not appear to have been taken following any objective options appraisal.

5.2.2 A fully costed option appraisal has not been undertaken for this option. A return to centralised management within the Council was not part of the previous government's thinking and does not fit with the current government's approach and is therefore unlikely to place the Authority well in relation to future opportunities. That said the benefits of this option are that savings could be made through the reduction in senior management positions and an alignment with Council objectives.

5.2.3 The disadvantages of this option are that the benefits of operating single purpose organisations responsive to localities, with a clear focus on tenants and accountable for delegated functions would be put at significant risk. Conversely, the day to day management of the housing stock would divert energy from the Council's strategic capacity to address housing and regeneration needs across all tenures.

5.2.4 In addition to the above disadvantages, the initial consultation that has been undertaken has shown that there is little demand for a return to delivery within the Council.

5.2.5 This option will not resolve the shortfall in capital funding identified in the 30 year investment plan

5.3.0 Option 2 - Full/Partial Stock transfer

5.3.1 Housing stock transfer to a registered social landlord is a well established process that has previously delivered the highest level of investment when compared to the other available options.

5.3.2 The value, or purchase price, of the housing stock is known as the tenanted market valuation (TMV) which is based upon 30 year projections of income from rents and service charges, together with spending on management, services, repairs, major works and improvements. These projections are then discounted to their net present values, reflecting the value of money over time, to give the final valuation.

5.3.3 Transfer of the Leeds stock is not a viable option for Leeds because the TMV is negative. The Council would need to achieve a net capital receipt of £823m to enable its housing debt to be redeemed. The appraisal of this option shows that based on decent homes valuations, the TMV has a £2.074m negative value. This would require a substantial dowry from the government for a whole stock transfer to succeed, as the investment and management cost over 30 years cannot be funded from rental income generated.

5.3.4 This view, that stock transfer is not a viable option, is supported by the following:

- CLG funding for stock transfer dowries, known as gap funding, is no longer available and whole stock transfer would be unaffordable without it
- CLG grant for councils to repay the HRA debt is likely to be less generous in the future, particularly if the self financing proposals are implemented.

5.3.5 Partial transfer could provide a solution for some of the Council's housing stock but it should be noted that we believe the TMVs at individual ALMO level are also negative and would require dowries.

5.3.6 Additional disadvantages are that the Council would lose strategic control over the use of the stock and would not be able to exercise any influence in the governance of the transferred organisation to ensure that policies and strategies match council priorities.

5.4.0 Option 4 - The Continuation of the ALMO Model

5.4.1 The ALMO model has delivered significant benefits to the city. The local focus brought about by management boards with tenant directors based in the locality has enabled decisions to be taken that directly benefit the locality. As a result of this, satisfaction with services has increased significantly. The ALMO model has enabled the funding and delivery of the decent homes programme.

5.4.2 Tenants satisfaction has increased with the ALMO model as they feel it is more responsive to their needs than was the case when the service was managed centrally. The Area Panels provide even more connection with communities. Paragraph 4.2.2 describes the strengths of the current ALMO model in delivering these improvements, particularly in relation to locality management and responsiveness.

5.4.3 The model does provide a strategic fit for the Council and does have the capacity to deliver services, with each ALMO rated as a good performer by the previous regulator, the Audit Commission. However, there are tensions around governance where the Council may favour a single approach to an issue and the ALMO Boards prefer local solutions. In addition the current ALMO model needs to find efficiencies to balance budgets. Like the other options the ALMO model will not resolve the shortfall in capital funding identified in the 30 year investment plan.

5.5.0 Conclusion of the Appraisal

5.5.1 The assessment of the options recommended by the Executive Board has concluded that no future model offers a solution to the investment gap identified in the 30 year investment plan. There may be a solution, should the reform of the HRA take place, and once there is greater clarity on this a further funding review will be necessary.

5.5.2 Of all the options, the ALMO model offers the Council the best strategic fit with its own corporate and local strategies. Should HRA reform take place it will offer the opportunity for bridging the investment gap. However, the assessment has identified key weaknesses in the current model in respect of governance arrangements and future financial viability. These issues would need to be resolved by reforming the ALMO model in order to ensure sustainability.

6.0.0 The Three ALMO Model

6.0.1 The continuation of the three ALMO model offers numerous advantages. With no disruption to front line service delivery, there would be continuity of service for the tenant and there should be no reduction in performance levels, avoiding the risk of a dip in performance and the additional cost to recover such a position.

6.0.2 The retention of the three ALMO model is particularly advantageous to the Council as it develops its strategies around locality working. There would be an existing organisation within localities that is recognised and which could easily participate in Council plans and take on the delivery of certain services where this is identified as beneficial. However, it is not recommended that the current model is pursued without accompanying major reforms. Proposed reforms, to make a three ALMO mode workable, are set out below.

6.1.0 A Strategic Governance Board

6.1.1 A significant weakness in the current arrangements is the lack of a co-ordinated approach to the delivery of the services delegated to them amongst the ALMOs. This independent approach has in part been driven by the inspection regime of the Audit Commission. This has been particularly evidenced by the lack of a joined up approach to asset management and investment planning, the development of service standards, multiple Service Level Agreements with Council services, contract procurement and the management and terms and conditions of employees. The abolition of the current inspection regime offers a different approach with less emphasis on the ALMO's standing alone.

6.1.2 Another significant weakness has been the lack of an overall strategic approach in the delivery of services by the ALMOs. Much of this has been due to there not being any formal arrangements linking the ALMOs with the Council's strategic arrangements, nor with other delivery structures such as Area Management. The result of this has been patchy engagement that has relied on best endeavours of individuals. Any future model meets to address this issue.

6.1.3 It is proposed to establish a new Strategic Governance Board. The Board would not take on any existing powers currently placed with the Executive Board, nor would it directly manage local delivery of services. It is proposed that the Board would meet to agree key high level strategies to ensure that there are joint approaches across the ALMOs on key issues. The ALMO Boards would remain responsible for the decisions relating to local service delivery. However, in so doing it would be expected that the Chairs of the Boards and their Chief Executives would work together to ensure that there was greater standardisation in the delivery of those services.

6.1.4 This Board would also offer a formal arrangement through which the ALMOs would be able to meet with the Council to discuss the development of key Council strategies such as the Housing Strategy.

6.1.5 This arrangement would better align the delivery of services but still allow the ALMOs to retain a locality focus concentrating on delivering a high quality service under agreed terms. In so doing this would remove the tension that has often existed between city aspirations and local independence. The independence would remain in the delivery but it would be in the context of agreed city wide objectives.

6.1.6 An example of how this would work is in Investment Planning. Given that resources are to reduce, it will be important that a city wide investment plan is developed that is based on good quality asset management information that allows the informed prioritisation of need in order to make best use of resources to maintain the asset condition. The new Strategic Governance Board will receive the intelligence and make a strategic decision on the distribution of resource across the city, based on the need identified from the data, rather than the formulaic approach operated at present. The ALMO Boards would then have responsibility for ensuring that the various programmes are delivered and that asset management systems are continuously updated with the results of those programmes. The Executive Board would continue to agree and monitor the capital programmes as it does now.

6.1.7 A further example of the work that the new Strategic Governance Board would oversee is the harmonisation of terms and conditions. Since the creation of the ALMOs in 2003 there has been a move away from the terms and conditions as operated at the time by the Council and with which the staff were TUPE transferred. The changes made have not been uniform across the ALMOs and have not always mirrored those changes introduced by the Council. The impact has been that a range of terms and conditions now exist which adds to the complexity of management arrangements and does not assist with the movement of staff between ALMOs or between ALMOs and the Council. The Board would also be charged with negotiating single service level agreements with the Council, ensuring best practice across the city.

6.1.8 The reform, to create the Strategic Governance Board, will require changes to the current management agreements and constitutions of the ALMOs. The management agreements and constitutions will need to be re worked in such a way that they make clear those responsibilities and functions that will be held jointly and those which will be solely for the individual ALMO. In addition, clear and precise terms of reference will need to be developed to ensure that its purpose is clearly understood and that decision making is transparent and can be tested against the terms of reference.

6.1.9 The creation of this Board would also be accompanied by the making of more formal arrangements between the ALMOs and Area Management, local partnerships and the emerging locality working arrangements. In addition, it will be expected that the ALMO Chief Executives and the Council's Strategic Landlord will work more closely together to ensure that services are better aligned. Some of this work has already started with a more formal connection between the ALMOs and Area Management Committees.

6.2.0 A Shared Services Centre (SSC)

6.2.1 A significant weakness of the existing model is the duplication of functions and processes across the ALMOs and the Council, which leads to inefficient use of resources. Under the current arrangements, the ALMOs each have their own back office functions which include, for example, HR, Finance, Governance Support and Asset Management. This has in part been developed in response to the approach of the Audit Commission in the regulation the ALMOs and their insistence that each organisation is independent of each other and the Council, leading to the duplication of services across the three companies.

6.2.2 The Council also provides services from within the Strategic Landlord Group because they are not capable of being split amongst more than one ALMO. Examples of this are the administration of the advertising process in Choice Based Lettings and the procurement and administration of capital contracts. This split in processes is also inefficient and wasteful of resources.

6.2.3 A solution which would make better use of resources, and would unify processes, is to centralise these types of services within a Shared Services Centre. This would enable a single back office function to be created, which in addition could, where appropriate, take on services paid for by the HRA currently provided by the Department. A list of services which are proposed to be delivered from the SSC is set out below. It is proposed that the strategic service centre is managed by a nominated Chief Executive and is accountable to the strategic body.

Shared Service Centre Proposal

Corporate Support	Operational Support	Asset Management Support
Finance	Choice Based Lettings	Procurement
HR	Paralegal (possible secondment only)	Contract Administration
ICT	Leasehold management	Commercial Asset Management
Service and Performance Standards	Disrepair	HRA assets – small land / gardens, misc prop leases
Governance		Technical Monitoring
Marketing		Contract Compliance
Procurement		Contract Management
Housing Applications Support Team (Strategic Role around Systems to remain at Leeds City Council)		Investment Planning

6.2.4 An illustration of the advantages is in the area of asset management, procurement, contract administration, contract compliance and investment planning. There is evidence of weakness in the current arrangements in these areas, a major factor being that resources with the necessary skills and expertise are spread too thinly between the ALMOs and the Council, resulting in these vital functions being under developed and not as effective as they could be. A unified group within the SSC could develop a single approach to procurement, provide a skilled unit to administer revenue repairs and capital contracts, maximise the resources for scheme delivery and provide expertise in asset management and investment planning.

6.2.5 The estimated recurring savings from the creation of a SSC are £1.6m per annum. This saving can be achieved by the reduction of 8 senior management posts, as a result of the removal of the duplication of support services, equating to £500k per annum, with a further 41 posts saved in both operational and corporate support posts, providing the balance. Further savings are anticipated through the subsequent process reviews. One of the key areas for savings is efficiencies generated from procurement. It is estimated that with a consistent approach to quality and cost across the city, for example within repairs and maintenance contract management, the model should be able to deliver efficiencies of around 2.5% per annum over and above those that could be achieved by the ALMOs acting separately. On this basis this would deliver an efficiency of £3m over 2011/12 and 2012/13 on the new contracts currently in procurement and due to commence on 1st April 2011.

6.2.6 The Council also has a management agreement with a Tenant Management Organisation (TMO). Whilst the terms of this arrangement are different to those with the ALMOs, once the SSC is established, the TMO will be invited to explore the benefits this new approach can offer them.

6.2.7 The benefits of this model can be summarised as follows:

- The model retains a clear local focus
- Service is responsive to community needs
- Tenants remain influential in the decision making process
- Continuity of service delivery
- The Strategic Governance Board will remove the city versus local tension
- Supports the Council's vision of locality working
- Offers savings of £1.6m from the creation of the SSC

7.0 One ALMO Model with a SSC

7.0.1 The option to develop a single ALMO solution has a number of attractions. Arguably the model allows both objectives of strategic overview and efficiency to be achieved with greater clarity. The creation of a single board would deal simply with the issues the Strategic Board under the previous option are designed to deal with. Similarly the move towards a single organisation, under a single Chief Executive, would enable efficiencies to be delivered through a centralisation of functions.

7.0.2 In addition to the savings offered through the centralisation of support functions, the model would reduce the existing number of JNC posts by 8 in total. 2 Chief Executive posts would be lost along with 6 senior management posts. In effect this would remove two of the 3 ALMO senior management teams. This would create a saving of £664k. However, these savings are likely to be offset in part by a need to strengthen local management as a result of the enlarged organisation. This cost is estimated at £214k, resulting in a net saving of £450k. It is estimated that together with the centralisation of support function this option would save around £2.05m.

7.0.3 Although these are powerful arguments in favour, there are, nevertheless, considerable disadvantages to pursuing the single ALMO option. A move to a one ALMO model would involve significant upheaval to the current delivery arrangements and would risk a dip in service delivery as experienced after the 2006/7 review, which took the number of ALMOs from six to three. A third major reorganisation in 8 years will in itself be costly. A shift to a single ALMO would almost certainly alienate the many Board members and tenants who have contributed to the ALMOs over the years and undermine attempts at future engagement. Tenants may also view this move as similar to going back to the Council, with decision making becoming centralised and therefore remote and unresponsive to their needs in their localities. In order to overcome this it is likely that the role of Area Panels would need to be strengthened in order to retain a local focus, which in itself could lead to complicated governance. The remoteness of decision making could also make ALMO engagement in the Council's move to locality working more complex.

7.0.4 The benefits of this model can be summarised as follows:

- A single Board
- City wide standards
- Offers savings of £2.05m
- A single relationship with the Council
- Could retains a local focus through strengthened Area Panels

7.0.6 The risks associated with this model can be summarized as follows:

- Board becomes remote
- Tenants see this option as removing local focus
- High set up costs and risk of a performance dip in front line services during change
- The size of the organisation risks it becoming unresponsive to local needs
- It would be by far the largest ALMO in the country.
- Strengthened role for Area Panels could lead to tensions with the Board

8.0 Conclusion

8.0.1 Neither of the models will deliver the shortfall in capital funding identified in the 30 year investment plan. However, both models are capable of improving on the key weaknesses identified in the operation of the current model. In determining whether a three ALMO model or a single ALMO model is best, a judgement has to be made as to the benefits of taking additional savings with the single ALMO, against the benefits of continuity and localism offered by three.

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8.0.2 The single ALMO model can deliver additional savings of £450k per annum through the reduction in senior management. However, against that Executive Board has to weigh the risks of a single Board becoming remote and tenants' concerns that the organisation no longer responds to local needs. The model would not offer the best support to the Council's strategy of locality working. The reform would cause upheaval which would be costly to implement, may damage service in the short to medium term and undermine the considerable efforts of tenants and boards who operate the current model.

8.0.3 It is when considering these issues that on balance it is felt that the three ALMO model is the best option, as it offers stability of service and retention of a locality focus. Tenants will have no concerns about their involvement in decision making. It is important, however, that the reforms proposed are made to rectify the key weaknesses with the current model and deliver annual savings of £1.6m.

8.0.4 Subject to agreement on the model, it is proposed to make some minor changes to the ALMO boundaries, so that they align with the ward boundary changes which were made in 2004. This will assist ward Members and locality working arrangements.

9.0 Consultation

9.0.1 Consultation commenced with two events for all ALMO Board members at which they were invited to identify the strengths and weaknesses of the current ALMO model and make suggestions as to how to make improvements. The outcomes from these events were fed in to the context of the review. More specifically four core "business principles" were agreed. They were that any changes should be capable of:

- Sustaining and improving the recent capital investment
- Meeting tenants aspirations for the quality of service delivery
- Staying Local
- Maintaining and increasing tenant empowerment and involvement

9.0.2 A project board was set up that comprised of the ALMO Chairs, one other ALMO Board member, BITMO Chair, ALMO Chief Executives and BITMO Chief Executive. This Board was chaired by the Chief Housing Services Officer. The role of the Board was to make decisions as the project moved forward so as to ensure that the ALMOs were fully engaged with the process.

9.0.3 Latterly, officers have visited the three Boards for a final discussion on the proposals contained within this report. Specific feedback has been received as follows

ENE

- The Board are supportive of the proposals to retain three ALMOs with the proposed reforms
- The approach is seen as the best way to continue to improve performance and services to tenants
- The Board would welcome further dialogue on the development of the reforms

WNW

- Whilst the Board has not made a formal recommendation, the general opinion of the Board was that a three ALMO option with the proposed reforms was the preferred option.

- The Board would welcome the opportunity of a continued dialogue on the development of the new model
- The Board supports the Council to drive further value for money efficiencies and consistent services to achieve excellent standards of service
- The Board is extremely keen to retain a strong locality focus and for this to continue through maintenance of local governance arrangements
- The Board felt it essential that tenants are consulted on any major changes connected to the review.

AVH

- The Board are supportive of the proposals to retain three ALMOs with the proposed reforms
- The Board viewed the proposals as an opportunity for the ALMOs and the Council to work together in a more collaborative manner
- The Board were keen to see clear terms of reference for the Strategic Governance Board to ensure that there were transparent evidence based decisions

10.0 Financial Reforms

10.1 The requirement that the ALMO's earmark sufficient reserves to cash back the FRS17 liability is premised on the possibility that at some point in the future the Council's housing stock, following an option appraisal, could be transferred to another Registered Social Landlord (RSL). Such an organisation would be unwilling to take on the FRS17 liability unless there was a corresponding transfer of resources equivalent to the liability. Therefore, if there were insufficient resources available in ALMO reserves to meet the accumulated net pension liabilities when Council housing stock transferred, then the Council, acting as guarantor, would be required to fund the difference.

10.2 The effect of this requirement to make provision has seen the need to tie up £31.5m of cash reserves. The reforms proposed below allow for this money to be released so that it can be used to sustain the ALMO business plans over the next three years and allow the Council to determine how to allocate the remaining resources in line with strategic priorities.

10.3 The previous Government's recent consultation paper on the reform of the HRA suggests that overhanging debt will be left with an Authority after the transfer of its housing stock, making the transfer of housing stock not financially viable, as the Council would be left having to resource residual housing debt but without a revenue stream to fund this. Therefore the requirement to completely cash back the net pension liability in ALMOs is less of a requirement since transfer of the housing stock to an RSL is not a financially viable option at the present time.

10.4 The 2009/2010 cash position has been projected forward to March 2013 i.e. the end of the current contract between the ALMOs and the Council for the management of the Council's housing stock. This projected position is summarised in the table below.

Organisation	Cash Reserves @ 31.3.2010* £000	Projected Cash Reserves @ 31.3 2013 £000	Projected Cash Reserves @ 31.3.2013 (net of FRS17 Liability) £000
AVHL	5,035	2,889	(6,159)
ENEHL	10,368	5,664	(13,846)
WNWHL	13,352	6,968	282
Total	**28,755**	**15,521**	**(19,723)**

* NB - cash reserves in the table above are net of the £1m working balance that the Council requires each ALMO to retain.

As the table above shows, it is projected that cash reserves held by the ALMOs will have reduced by £13.234m from 31st March 2010 to 31st March 2013 (i.e. from £28.755 m to £15.521m). This takes into account the projected surpluses, deficits and commitments for the use of resources as identified in the ALMOs latest Business Plans.

10.5 Given this, it is considered appropriate that the Council acts as guarantor to the ALMOs net pension liabilities held within the West Yorkshire Pension Fund. This effectively means that if the ALMOs are not able to continue to pay the required contributions to the pension fund then the Council would be liable for any shortfall. This would be consistent with the approach taken on other Council companies such as Education Leeds and the Grand Theatre. It is also consistent with the approach taken by other Local Authorities with ALMOs. As a consequence of this guarantee, the ALMOs would no longer be required to set aside their reserves to cover future pension liabilities. Under this guarantee, the ALMO reserves would be sufficient to meet their identified business requirements as reflected in their current Business Plans, and allow the balance of ALMO cash reserves to be transferred to the Housing Revenue Account (HRA) to reflect the fact that the HRA (i.e. the Council) is taking on the responsibility for guaranteeing the FRS17 liability.

10.6 Whilst the ALMO business plans show significant deficits between now and 2013 they will remain sustainable until 2013 with the use of usable cash reserves made available. This allows the recurring savings to be generated from the delivery model proposals contained in this report, together with existing cashable efficiency plans already identified by the ALMO's to be generated over the period to April 2013, to achieve financial sustainability from annual resources.

10.7 Following the outcome of decisions relating to the reform of the HRA, it will be necessary to review the funding arrangements for the ALMOs and the TMO in the light of the reform and an assessment of needs.

11.0 Implications For Council Policy And Governance

11.1 The creation of a Strategic Governance Board will make a difference to current governance arrangements. The Strategic Governance Board will have responsibility for setting the strategic framework within which the ALMOs will operate. The ALMO Boards will continue to manage decisions within their areas but in accordance with the strategic decisions.

11.2 The creation of the Strategic Governance Board will not affect the Council's Executive Board in relation to the delegated responsibilities to the ALMOs.

11.3 There have been initial discussions with the Council's legal services department and these will continue as the Strategic Board is established.

12.0 Legal And Resource Implications

12.1 A key lesson learnt from the move from six to three ALMOs was that the project implementation needs to be carefully planned and phased so as to see a smooth transition and to offset dips in performance.

12.2 It is proposed to begin this process after the decision of the Executive Board with a phased implementation from 1st April 2011.

13.0 Conclusions

13.1 The appraisal of organisational options to deliver future investment need in the city's housing stock has concluded that none of the appraised solutions can deliver the required investment. HRA reform may assist the city in meeting its investment need but the detail of the proposals still has to be made clear.

13.2 Given this position, the appraisal has concentrated on the arrangements most likely to deliver the best services to tenants and which align with the Council's broad objectives. It is recommended that the 3 ALMO model should remain subject to the implementation of key reforms, notably the introduction of a Strategic Governance Board and a Shared Service entre. These reforms will tackle some of the key weaknesses of the current model by improving the strategic decision making and bringing about efficiencies and consistent processes in the back office and support functions without affecting front line services.

14.0 Recommendations

14.1 The Executive Board is asked to agree the following recommendations:

14.2 to support the continuation of the three ALMO model

14.3 to agree the establishment of the Strategic Governance Board and a Shared Services Centre as set out in this report.

14.4 to agree to revisions of the Management Agreements and constitutions of the ALMOs to reflect the role of the Strategic Board.

14.5 to phase the implementation from 1st April 2011, with work beginning immediately on the change programme.

14.6 to agree to the proposals for the future arrangements of the provision of FRS17 in relation to the ALMOs.

14.7 to transfer ALMO cash reserves not identified to be used to sustain their business plans to the HRA.

14.8 to require the Director of Environment and Neighbourhoods, together with the ALMO Chief Executives, to bring a report back to the March 2011 Executive Board, outlining progress towards implementation of the above recommendations and the savings both achieved and planned.

Background Papers

Executive Board Report – January 2009