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## Report of the Director of Environment and Neighbourhoods

**Executive Board**      **30th March 2011**

**Subject:**                      **ALMO Review Update and Use of Reserves**

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### 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)

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## EXECUTIVE SUMMARY

This report provides Members with an update on the progress with implementing the recommendations set out in the November 2010 Executive Board report on the Future of Council Housing.

Significant progress has been made on the two key reforms contained within that report, mainly the establishment of a Strategic Governance Board and the creation of a Shared Services Centre. The report also requests Members to take a decision on the use of reserves, following the November 2010 recommendation to guarantee the ALMOs pension liabilities. Finally this report sets out some of the key principles behind the recent proposal from government for a self financing HRA regime, which will replace the current housing subsidy system from April 2011.

### 1.0 Purpose Of This Report

1.1 The purpose of this report is to:

- to request Members to take a decision on the use of reserves following the November 2010 decision that the Council would guarantee the FRS17 pension liability of the ALMOs.
- update the Executive Board on progress with the implementation of the key reforms to the 3 ALMO model in Leeds as set out in the recommendations to the November 2010 report on the future of council housing.
- to provide Members with an understanding of the key principles contained within the government's proposals for a self financing HRA

## 2.0 Background Information

- 2.1 At the November 2010 Executive Board it was agreed to retain the three ALMO model in Leeds but that two key reforms should be made to that model to overcome current weaknesses.
- 2.2 The key reforms included in that report were the creation of a Strategic Governance Board, which would provide a more coordinated approach to decision making, without removing any decision making powers from the Executive Board or the ALMO Boards, providing a formal link between the City Council, the 3 ALMOs and the Belle Isle Tenant Management Organisation for the development of policy and strategy in relation to council housing. The second reform saw the Executive Board approve the creation of a Shared Service Centre (SSC) to provide a common set of back office teams to support the housing operations undertaken across the City.
- 2.3 The proposed changes will not only tackle the perceived weaknesses of the multi organisation operation of the housing service, without losing the strengths and benefits that those local organisations have brought to the City, but will also offer the opportunity to maximise the efficiencies required to secure a long term sustainable financial future for the overall service.
- 2.4 The November report made a significant recommendation in respect of the ALMO reserves and their FRS17 liabilities. The report noted that at 31<sup>st</sup> March 2010 the FRS 17 liability would be £3.49m in excess of reserves held by the ALMOs and that the ALMO business plans between 2010/11 and 2012/13 were reliant on the utilisation of some of their reserves in order to balance budgets. Consequently it was agreed that the ALMOs would transfer their reserves to the Council and in return the Council would guarantee their pension liability and return free reserves back to the ALMOs.

## 3.0 Transfer of FR17 reserves from the ALMOs

- 3.1 The decisions taken at the November Executive Board to guarantee the ALMOs FRS 17 pension liability and to transfer back ALMO reserves to the HRA has meant that £15.522m has been transferred back to the HRA.
- 3.2 The table below summarises the decisions taken and recommendations made for the utilisation of the transferred reserve. £0.283m has been returned to WNW ALMO to match their liability. This return is necessary because in the transfer back to the Council of that ALMOs reserves, the Council overestimated their pension liability. £6.206m has been used to support the HRA capital programme following the loss of capital receipts to support the General Fund revenue budget 2011/12. Executive Board agreed that £4m was set aside to support a bid to the HCA for decent homes backlog funding to remodel unpopular bed sit sheltered housing into self contained one bedroom flats. Regrettably this bid was unsuccessful but it is recommended that the £4m set aside should be used to fund a smaller remodelling scheme. £3m is proposed to be set aside as a reserve to support the move from the current housing subsidy system to the new self financing regime. The department is currently assessing the detailed impact of the proposals for a self financing HRA and it was felt prudent to set aside a reserve until the detailed assessment is completed. This then leaves £2.033m free to return to the ALMOs.

	£m
FRS17 reserves to be transferred from the ALMOs	<b>£15.522</b>
<b>less:</b>	
Transfer back to WNW ALMO to make the transfer match the liability	£(0.283)
<b>Revised Balance</b>	<b>£15.239</b>
<b>Use of Funds</b>	
Support the HRA capital programme following the loss of capital receipts to support the General Fund revenue budget 2011/12	£(6.206)

<b>Balance :</b>	<b>£9.033</b>
Sheltered remodelling scheme	£(4.00m)
Self financing HRA reserve	£3.00m)
<b>Balance</b>	<b>£2.033</b>

- 3.3 It is proposed that the £2.033m is to be distributed equally to the three ALMOs. They have been asked to submit details for the use of this money that would offer added value to the stock rather than the money being subsumed in to maintain decency. Each ALMO will have £0.678m allocated, with WNW receiving a further £0.283m as described above.
- 3.4 ENE intend to utilise the whole of their allocation to remodel an unpopular sheltered housing scheme on Brander Road into 2/3 bedroom houses. The proposal would allow for the conversion of 24 flats for which there is no demand into 12 2/3 bedroom family houses.
- 3.5 WNW ALMO have a significant outstanding investment need for non traditional build housing which requires work over and above decency levels in order to make the stock sustainable. The ALMO proposes to allocate both the £0.678m and the £0.283m to commence a significant refurbishment of the Waterloo Estate.
- 3.6 AVH have indicated they would use the £0.678m to fund DDA and H&S schemes. In detail the ALMO plans to replace the lifts at Cottingley Towers and Heights at a cost of £0.400m and utilise the remaining £0.278m on accelerating works to tackle the backlog of fire safety work required to be carried out under the Fire Concordat with the West Yorkshire Fire and Rescue Service.
- 4.0 Strategic Governance Board**
- 4.1 The Strategic Governance Board (SGB) has been convened, with the first meeting held on the 9<sup>th</sup> February. The Board consists of representatives from the City Council, the 3 Arms Length Management Organisations and the Belle Isle Tenant Management Organisation.
- 4.2 The members of the SGB are :
- The Executive Member for Environments and Neighbourhoods (LCC & Chair)
  - The Chairs of the three ALMOs
  - The Chief Executives of the three ALMOs
  - The Chair of BITMO
  - The Chief Executive of BITMO
  - The Director of Environment and Neighbourhoods (LCC)
  - The Chief Statutory Housing Officer (LCC)
  - The Head of Housing Partnerships (LCC)
- 4.3 Terms of reference were considered at the first Board meeting, with ratification of the draft proposals to be agreed at the next meeting.
- 4.4 The SGB intends to meet on a monthly basis and will have a detailed forward plan which will be developed to review the range of issues common to all parties in the management of the council housing service. The Board will also act as a Project Board for the implementation of the programme of change and the creation of the shared service centre.
- 4.5 Although no powers have been delegated to the SGB, agreements and recommendations will be made, with each organisation having an equal vote. The Executive Member for Environments and Neighbourhoods will chair the meeting, but will be a non-voting member. Noted below is the proposed approach to agreements and recommendations for the SGB.

Type of Report	Strategic Governance Board Authority
<b>1. Reports for Recommendation</b>	Citywide matters of housing strategy and policy, including rent and lettings policy, regeneration proposals and affordable housing programmes for consideration by the City Council.
<b>2. Reports for Information</b>	Any information report can be considered by the Board and comment may be made for any follow up reports or briefings to be provided to the Board.
<b>3. Reports for Agreement subject to Ratification</b>	Matters of common interest or impact across the 5 organisations where a joint agreement is required to implement proposals.
<b>4. Reports for Agreement</b>	All matters relating to the governance of the Shared Service Centre Project e.g. SSC performance and service provision.

- 4.6 The forward plan for the SGB review will cover specific issues related to the creation and delivery of the shared services and all matters of common interest to the housing service, including :
- Housing Strategy and Policy
  - Housing finance and income
  - Investment standards and strategies
  - Asset management strategies
  - Service standards, good practice and service improvement planning
  - Performance and benchmarking
  - Business planning for the service
  - Tenant involvement strategies
  - Strategies to balance city wide needs with local priorities
- 4.7 The SGB will define strategic priorities in line with City Council Strategies and the City Offer and support the creation of delivery frameworks, whilst enabling ALMOs to deliver and manage day to day services.
- 4.8 Work is underway to review the ALMO Management Agreements and constitutions of the ALMOs to assess if any revisions are required to reflect the role of the SGB.
- 5.0 Shared Service Centre**
- 5.1 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.
- 5.2 Work has commenced on establishing the SSC and in addition the proposals approved by Executive Board on the 3<sup>rd</sup> of November 2010 have been subject to review by a working group of the Environment and Neighbourhoods Scrutiny Board, whose recommendations are proposed to be reported shortly and will support the implementation programme.
- 5.3 The Chief Executive of WNW has been appointed to lead the SSC. Whilst WNW ALMO will become the employing organisation for the SSC, the management of the SSC will be very much coordinated between all the ALMOs and the Council.

- 5.4 The appointed Chief Executive, together with the Head of Strategic Landlord has created an interim project team to manage the initial preparations for the programme of change required to create the SSC, pending recruitment to key posts.
- 5.5 The plan for implementation of the required changes has established a series of working groups consisting of appropriate officers from within the ALMOs and the City Council. These working groups will undertake the detailed work for the planning and implementation of the changes needed both in terms of revised working arrangements and process, and the development of new staffing structures for the SSC with the linked revised structures in the ALMOs and the City Council. There are two main types of working group :
- **Infrastructure Groups** – to support the changes proposed including HR support, finance support, communications, accommodation review and ICT changes.
  - **Functional Groups** – to plan out the necessary changes to processes between back office and support functions (SSC) and operational functions (ALMO). The groups will operate under three main headings – Corporate Services, Housing Services and Asset Management Services
- 5.6 A Blueprint for change will be provided to ensure the work groups will be working to an agreed overall plan and methodology. Support will be provided through the City Council's Business Transformation Team to ensure that a robust and consistent approach is adopted and to ensure that the project links to significant changes underway within the City Council, such as the locality working agenda.

## 6.0 Shared Functions and Processes

- 6.1 The approach to the split of functions into the shared service centre was outlined in the Executive Board report of 3rd November. A joint ALMO and City Council workshop was undertaken on 17<sup>th</sup> February 2011 to clarify the scope for functions to be considered for detailed consideration by the above mentioned functional working groups.
- 6.2 The proposed implementation plan is proposing a phased implementation of the necessary changes and restructuring over 2011.
- **Planning Phase** – February – April
  - **Phase 1** – Implement by end of June 2011
  - **Phase 2** – Implement by the end of September 2011
  - **Phase 3** – Implement by the end of December 2011
- 6.3 It is proposed that the key functions of human resources, finance and asset management are implemented as part of phase 1 of the programme. Phase 2 is currently proposed to include the remaining corporate services changes and phase 3 the housing services changes. However the final detail of phase 2 and 3 will be subject to the current planning work being undertaken in the functional work groups.
- 6.4 A detailed schedule of the functions to be reviewed is noted in the table below.

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		Investment Planning

Role around Systems to remain at Leeds City Council)		
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## **7.0 Infrastructure Support**

- 7.1 To support the overall programme of change it is necessary to ensure that adequate planning and support is given to the functional working groups.
- 7.2 The human resource support programme includes the following arrangements: provision of an Early Leaver Initiative for ALMO staff, which replicates the current scheme covering LCC staff, joint organisation vacancy planning, including use of a recruitment freeze and cessation of general use of agency and temporary staff and workforce planning for the overall changes, including necessary training and induction for new or revised job roles.
- 7.3 The Chief Executive and Head of the SSC will ensure that the overall programme of change is undertaken within existing budget allocations, as well as tracking the agreed target savings sought from the programme of change.
- 7.4 The changes sought through the creation of the SSC will require the movement of staff from current locations into suitable accommodation of sufficient capacity to house the new integrated teams. It is unlikely that there is existing capacity in the current accommodation portfolio to house the SSC in one location. However subject to completion of a current review, it is likely that the majority of staff can be located within no more than two main locations.
- 7.5 The creation of the SSC will require changes to the use and access of ICT data, so that data can be shared. The SSC teams will require city wide access to data in order to provide support to all three ALMOs. At present certain data is restricted within ALMOs. An ICT workstream is being established to tackle these issues.
- 7.6 In order for the programme of change to be successful all stakeholders need to be kept informed of progress in delivering the change. A comprehensive communications strategy is being produced. This will provide regular common briefings to all stakeholders as the project develops.

## **8.0 Financial Budgets and Projected Savings**

- 8.1 The Executive Board report of 3<sup>rd</sup> November 2011 proposed that in establishing the SSC a minimum of £1.6m would be saved with a reduction of 49 posts. Further savings will be achieved through process review in areas such as contract management and procurement.
- 8.2 Work has already begun to secure the £1.6m staff cost savings from the creation of the SSC. A number of savings have already been achieved as a result of the recruitment freeze and the Early Leavers Initiative for posts that would have been subject to the creation of the SSC.
- 8.3 A total of 8 posts have or will have been vacated by the end of March 2011 through staff leaving and the early leavers initiative, at a total saving of approximately £192k
- 8.4 The Government proposes to introduce the 'self financing regime' for housing revenue account services from April 2012. The impact of those proposals will govern the organisational, service and investment proposals for the housing service from April 2012 onwards. The key principles of this change is set out below.

## **9.0 Self financing for council housing – implications of the Government’s proposals**

- 9.1 In March 2010 the previous Government set out its proposal for the reform of the Housing Revenue Account (HRA) in the form of a Prospectus. In summary, this proposal was, that after a one off allocation of debt between local and central government the current HRA subsidy system would be abolished and councils would be able to retain all their rental income to manage and maintain their housing stock. The Council responded to the proposals and was supportive in principle.
- 9.2 On the 1<sup>st</sup> February 2011 the Government published its paper “*Implementing self-financing for council housing*” which sets out the rationale, methodology and financial parameters for the reforms. Although the document does include indicative figures for each council in respect of its opening debt figure, the document’s key purpose is to provide local authorities with information in order that they can begin their detailed preparations for self-financing.
- 9.3 The proposals for reform have not fundamentally changed since March 2010 i.e. from April 2012 councils will be able to retain all their rental income in return for a one off debt settlement. The methodology of calculating the one off debt settlement is also broadly the same, although there have been changes to some of the variables used in the modelling:
- PFI allowances have now been removed from the debt settlement;
  - 75% of Right to Buy receipts will continue to be paid to the Treasury. (The previous settlement allowed Councils to retain 100%);
  - There will continue to be a “borrowing Limit” for each Council, which is likely to be set at their opening debt figure;
  - The Localism Bill allows for the Government to “re-open the settlement” under certain circumstances e.g. major national change in rent policy;
  - The HRA ring fence will be retained but no guidance will be issued. The current legislation will remain in place alongside the principle of “who benefits”.
- 9.4 The impact of these changes, combined with higher rent increases and the implementation of the proposals slipping to April 2012, has increased the debt settlement for Leeds from £403m to £696m.
- 9.5 Work is currently ongoing to determine the implications of the revised debt settlement upon the HRA Business Plan. Further work is also ongoing to update the capital investment requirements for the period covered by the Business Plan. Completion of both of these workstreams will provide an update of the shortfall in capital resources that has previously been reported to Executive Board. On completion of these exercises a further report will be brought to the Executive Board.

## **10.0 Implications For Council Policy And Governance**

- 10.1 The creation of the Strategic Governance Board will not alter existing arrangements for decision making at the Executive Board, the ALMO Board or through delegated authority, with the Board making recommendations for action or agreeing joint approaches for ratification through the appropriate delegated arrangements within the ALMOs.
- 10.2 No changes have been made to the proposed arrangements for the Strategic Governance Board as set out in the Executive Board report of 3<sup>rd</sup> November 2010.

## **11.0 Legal And Resource Implications**

- 11.1 To ensure that the proposed support service changes can be implemented without adverse impact on service delivery the changes are proposed to be implemented in 3 phases during 2011.
- 11.2 A key requirement for the functional work groups is to ensure that proposals for change are made ensuring that no adverse impact results on a ‘business as usual approach’

11.3 Provision has been made in the 2011/12 HRA budget to deal with any one off costs required to be incurred to deliver the programme of change including project management costs. All other costs will be contained within existing budget resources.

## **12.0 Conclusions**

12.1 The release of the reserves will allow for a scheme to remodel sheltered bedsits and for the ALMOs to deliver additional schemes currently unfunded. All of these schemes will be over and above decency works.

12.2 The programme of change for the council housing service has commenced with the setting up of the Strategic Governance Board for housing to co-ordinate the delivery of the overall housing service across the city.

12.3 A Chief Executive has been appointed to oversee the SSC, with the changes to the service being implemented in 3 phases throughout 2011. Recruitment for the SSC will be from the existing staff covering the service functions to be shared, with the Head of the SSC now in place.

12.4 Savings of £1.6m will be achieved through the creation of the SSC with further savings coming from process reviews once the SSC is fully established. Savings through staff reductions to date amounting to approximately £192k.

12.5 Proposals for the reform of HRA financing have been received and detailed work is underway to assess the impact. The results of this work will be reported to a later Executive Board. A reserve of £3m has been set aside to assist in the transition from the HRA subsidy system to the new self financing regime.

## **13.0 Recommendations**

13.1 The Executive Board is recommended to approve the allocation of the transferred HRA reserves in line with the arrangements set out in 8.0 above

13.2 The Executive Board is asked to note the progress made in implementing the key reforms to the ALMO model in Leeds.

13.3 The Executive Board is recommended to ask the Director of Environment and Neighbourhoods to bring a report to the Executive Board in June 2011 setting out the detailed implications for Leeds of the government's proposals for a self financing HRA.

## **Background papers**

CLG – Implementing Self Financing for Council housing

Report to Executive Board 3<sup>rd</sup> November 2010 – The Future of Council Housing