Defend Council Housing

November 2008 Conference Papers

ALMOs and Local Housing Companies

1. ALMOs: 2-stage privatisation moves to the second stage

Some ALMOs (Arms Length Management Organisations) are now trying to move to privatisation - "two-stage" privatisation as DCH predicted. Some are doing this by threatening stock transfer:

> "Kensington & Chelsea Council is considering transferring its 10,000 homes from its tenant management organisation to a housing association….Inside Housing revealed last year that Salford was to become the first council in the country to transfer its homes from a failing ALMO to a housing association (7 September 2007). But that transfer took place following a critical Audit Commission report of the ALMO, New Prospect Housing. If Kensington & Chelsea did proceed with a transfer it would be the first in the country to do so from a successful ALMO. Inside Housing understands a number of other councils are also looking to transfer stock from ALMOs. Stockton Council said its homes needed £600 million of investment over the next 30 years and transfer 'currently appears to have a great deal to offer'." (Inside Housing, 14 November 2008)

Others want to morph into public/private partnerships such as 'Local Housing Companies' - see section 3 below.

Whilst many tenants were promised the ALMO was only a temporary vehicle that would be wound up once the Decent Homes work was completed, there is a strong lobby with a very different agenda.

> "Gwyneth Taylor, policy officer at the National Federation of ALMOs, predicted tensions would develop with parent authorities. 'A number of councils cynically set up an ALMO to get decent homes funding and then planned to wind it up. But that isn't going to happen.'" (Inside Housing, 11 July 2008).

In some authorities tenants have seen big sums spent on expensive set up costs but the ALMO hasn't yet been given access to additional funding. In others the promised improvements have been scaled back and promises to tenants broken!

> "The last wave of arm's-length management organisations looks set for a much tougher funding regime than previous rounds" (Inside Housing, 15 February 2008).

Tenants and councillors in ALMO authorities increasingly see their long term interests in uniting with those in 'retained' authorities to win the 'Fourth Option' that guarantees a secure future for all council housing. More tenants and councillors are also talking about winding up their ALMOs to save on extra costs and see off moves to privatise.

2. 'Local Housing Companies': latest formula to diffuse our campaign

Government is heavily promoting new Local Housing Companies (sometimes also called 'Special Purpose Vehicles' or

'Local Development Vehicles'). They were first promoted as a formula to build new 'affordable' housing - but they are now also a threat to existing council homes as ALMOs threaten to morph into them (see below).

In July 2007 the government launched 'Local Housing Companies' in the Homes for the Future: More Affordable, More Sustainable Green Paper. They involve councils setting up a public/private partnership and contributing valuable public land. Supposedly 50% of new homes will be 'affordable' (that immediately means that half will be for sale at market rates) and some of the so-called 'affordable' 50% will be shared ownership or 'intermediate' housing.

The small number for rent – often referred to as 'council housing' will in fact have 'assured' not 'secure' council tenancies, charge RSL rents and may be managed by an RSL – not by a directly elected and accountable council landlord.

English Partnerships (facilitating the process) said that Local Housing Companies are not about councils building council housing:

> "This package is not advocating a return to Council housing… [it] offers clear incentives for Local Authorities to return to developing (but not constructing) houses in their local area." (Local Authority Land Development Model, 18 July 2007)

In March, following a meeting with the then Housing Minister Yvette Cooper, DCH received formal confirmation that homes built by LHCs and ALMOs would not in fact be 'council housing'. The email explained:

> "If new homes are developed and owned by a separate corporate vehicle, including an ALMO or SPV [Special Purpose Vehicle], then the advice we have received is that the local authority would not have the landlord interest necessary to

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Defend Council Housing, PO Box 33519, London E2 9WW Phone: 020 7987 9989
E-mail: info@defendcouncilhousing.org.uk Website: www.defendcouncilhousing.org.uk

meet the statutory conditions for a secure council tenancy. The properties are therefore likely to be offered on assured tenancies. If they are built with social housing grant then the contractual conditions for receiving grant will ensure they are offered on the same conditions, including tenancies, rents levels and lettings policies, as new social homes provided by RSLs with social housing grant." (DCLG, to DCH, 5 March 2008)

Like any other solution which involves private finance, the credit crunch makes LHCs even less viable. With prices for new homes falling and inflation and interest rates highly volatile, the picture is likely to end up even worse as developers and lenders insist on protecting their profits.

As far as new build is concerned, the Local Housing Company formula is another attempt by government to try and avoid building large numbers of new council homes and promote private sector housing instead. It is a deliberate strategy to divide the alliance of tenants, trade unions, councillors and MPs and diffuse demands for direct investment in council housing (the 'Fourth Option').

Public/private partnerships have a disastrous track record. Impressive sounding objectives to meet public need at the beginning of projects invariably get scaled back. The private sector 'partners' will be looking to maximise profits and minimise their exposure if the business plan goes pearshaped. Councils have a poor track record of effectively policing these kind of arrangements.

Ministers hope to get LHCs up and running with little or no public debate to see off calls to build first class council homes on public land. Now that government has conceded that councils can bid for Social Housing Grant the LHC formula makes even less sense.

"Access to these funds will allow good councils to build new council homes to allocate to tenants on the basis of the same system of affordable rents and secure tenancies which apply to existing council homes." (Letter from Caroline Flint [then Housing Minister], 26 July 2008).

"On 2 September we announced that we will invite all stock-owning local authorities to compete for grant on the same terms as those with special purpose vehicles, in addition to those who have ALMOs or have set up Special Purpose Vehicles for this purpose". (PQ Answer, Hansard, 11 November 2008)

When most authorities have growing waiting lists and there's strong demand for council housing it makes political and economic sense to prioritise the use of public land to build first class council homes with the benefits of 'secure' tenancies, low rents and an accountable landlord that more and more people want.

3. Local Housing Companies: the threat to existing tenants

Worse is to come. 'Local Housing Companies' have now been seized on by councils as a means of pushing existing council homes further into the private sector, and taking the land on our estates away for private development.

Some councils are already talking about 'transferring' their existing council stock to a Local Housing Company. Brighton is proposing to transfer empty homes and temporary accommodation whilst a Barking & Dagenham council proposal discusses moving all homes into a new company!

For example, the London Borough of Ealing set up an ALMO in 2004. In June 2008 it decided that it would terminate the ALMO and instead set up a "new local housing joint venture company" (A future strategy for Ealing's Council housing stock, report to cabinet). The new company would no longer be wholly-owned by the council but would involve a private developer 'partner':

"The most recent housing green paper has proposed new models… including a joint venture local housing company which would act as master developer for new communities within an area, working in public/private partnership …Under a joint venture model the Council would still be a major shareholder in a specially established company and could use its assets to attract long term funding, supported by a 20 – 25 year management agreement …The private sector partner would have a stake in the new vehicle"

It would involve building homes for private sale on council estates:

"The vehicle would have the added benefit of a development function, able to capture the value of development potential…to increase housing supply, providing a mix of tenures to improve the sustainability of communities."

In both these examples - Barking & Dagenham and Ealing - the council would retain ownership of its homes, meaning that they would not be obliged to hold a ballot of tenants. Like an ALMO, the local housing company would only manage the homes, but unlike an ALMO the council would not have a majority share in the company so would not have ultimate control over it. It would be by definition in the private sector and would borrow against tenants rents over a long-term period. It would undertake new development as well as management of the existing homes, with all the risks that that involves in the current state of the housing market (see section 4 below).

This is exactly the same concept as the one put forward by the National Federation of ALMOs in 2005 as a way of privatising ALMOs without a tenant ballot.

In April 2005 a paper called ALMOs: A New Future for Council Housing was published jointly by Housemark, the National Federation of ALMOs and the Chartered Institute of Housing. This paper put forward a new proposal in which ALMOs could mutate into a fully private sector company. Councils would keep ownership of the stock, but give up a majority stake in the ALMO. A 51% majority would be transferred to take it into the private domain to raise private finance. The council would hand over control of the Housing Revenue Account to the ALMO, making the ALMO financially self-sufficient and able to borrow on the private market outside public sector borrowing controls, just like a housing association. Because the council kept ownership of the homes, there would still be no need for a tenant ballot. The ALMO would be given a long-term (35 year) contract, and borrowing would be secured against the rents over that period. Crucially, the banks, not the council, would have the first right to step in if problems arise.

"In the event of an ALMO failing financially the initiative would rest with the funders, rather than with a public sector body" (UK Housing Review 2005/6).

The ALMO model and the Local Housing Company model are clearly much closer than was first suspected.

4. RISKS

If existing council homes are involved in a Local Housing Company scheme then the rents from the next 30 years of our homes will be used as security for any loans the company takes on. If the development the company carries out goes pear-shaped, then it is our homes which are at risk.

The main risks which any development by a Local Housing Company could face are:

• Availability of credit: since the credit crunch, any organisa-

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tion building new affordable housing with private finance will have increasing difficulties in accessing borrowing, with the cost of credit rising with its scarcity: “the small pool of banks that lend to social landlords have been forced either to increase prices dramatically or close shop…THFC [The Housing Finance Corporation] group treasurer Fenella Edge said ‘…the main issue is the availability of funds.’ ” (Inside Housing, 8 August 2008)

• Fall in house prices: The Barking & Dagenham scheme is based on house prices going up by 2.5%. If house prices do not rise then the profit from the scheme will be halved. If they fall by as much as 10% then the LHC would become unviable. A fall of 10% may have seemed unimaginable when the report was written but is now already a reality. “UK house prices are now nearly 15 per cent lower than 12 months ago, according to the Nationwide, with the price of an average house dropping by £30,000 to £158,872.” Commentators expect a further fall to arrive at between 20% to 50% lower than the high point reached in 2007 (The Times, 4 November 2008).

• Cost inflation higher than expected: Inflation at the moment is extremely volatile, reaching a high of 5% in September 2008.

• Availability of Social Housing Grant: The Barking & Dagenham scheme is based on grant of £80,000 per home. If grant is only £60,000 then the scheme will make a loss instead of a profit. The government aims to fund 155,000 new homes over three years with a settlement of £8.4 billion - that means average grant of just £54,000 per home. (Inside Housing, 21 March 2008)

5. Conclusion

Local Housing Companies are an unnecessary risk – we can secure funding for new council housing and make Ministers keep their promise to "ensure that we have a sustainable, long term system for financing council housing".

The following authorities are on the pilot: Leeds, Sheffield, Nottingham, Newcastle, Wakefield, Sunderland, Dacorum, Harlow, Peterborough, Bristol, Plymouth, Wolverhampton, Manchester, and Barking and Dagenham.

If your council is considering setting up a public/private partnership find out the details and organise a public meeting. Invite people on the council housing waiting list as well as tenants, local trade unionists, politicians and political activists and demand that the council conduct a full public debate and produce an alternative plan based on the council applying for Social Housing Grant to build council housing instead.

For the latest information and arguments go to www.defendcouncilhousing.org.uk and take the ‘ALMO’ and ‘Housing Bill’ (for more on Local Housing Companies) text link from top of page and ‘Register’ to get DCH email broadcasts.