



**HOUSEMARK**

performance improvement through business intelligence

## **ALMOs and New Build**

Lessons learnt from the first ALMOs to  
receive NAHP funding

Prepared by: Steve Douglas

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## 1. Key Messages

At the ALMO Chief Executive Conference in March 2007, the Chief Executive of the Housing Corporation announced the intention to include 2\* ALMOs as organisations eligible to receive National Affordable Homes Programme (NAHP) funding from the Corporation.

Whilst there had been some earlier discussions with a number of ALMOs involved in joint ventures either with registered social landlords or councils, this was the first formal invitation for ALMOs to prepare themselves to bid directly for funding.

Since that time six ALMOs have been granted Investment partner status and received £8,550 million in grant funding. A further 17 ALMOs have been granted investment partner status and are now able to prepare bids for funding.

This paper reflects on the experiences of the first 6 pioneers who have received funding allocations and provides some observations for others that are considering becoming developers.

Key messages from this research are as follows:

- An ALMO has the best chance of success if it has local authority support, or at the very least, no council opposition to the ALMO developing
- ALMOs need experienced advice early in the process - in order to avoid reinventing the wheel
- HCA and TSA should learn from the experience of the first 'pioneers' in their approach to future developing ALMOs - for example by developing a standard ALMO development agreement
- The lessons learnt from the ALMOs will be relevant to HCA's approach to local authorities wishing to develop
- ALMOs which have prepared and learnt the lessons from the experiences of the first ALMOs to receive NAHP funding will be well placed to respond quickly and effectively to the new opportunities that arise

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The observations are however those of the author and publisher, who share sole responsibility for this paper.

If you would like to discuss any of the points in this paper, please contact the author, Steve Douglas, at [sf.douglas@btinternet.com](mailto:sf.douglas@btinternet.com).

### 3. Introduction

At the ALMO Chief Executive Conference in March 2007, the Chief Executive of the Housing Corporation announced the intention to include 2\* ALMOs as organisations eligible to receive National Affordable Homes Programme (NAHP) funding from the Corporation. This was as part of a strategy for developing a mixed economy of providers, which by then included private sector developers as well as registered social landlords.

Whilst there had been some earlier discussions with a number of ALMOs involved in joint ventures - either with registered social landlords or councils - this was the first formal invitation for ALMOs to prepare themselves to bid directly for funding.

Since that time, six ALMOs have been granted investment partner status and received allocations totalling £8,550 million to deliver 130 homes. A further 17 have been granted investment partner status and are now able to prepare bids for funding.

The Government has now also indicated that it is looking to open the opportunity for local authorities to commence new building again, either on their own or in partnership with other developers, which might include ALMOs.

This was first announced in the 2007 Green Paper *Homes for the Future: More Affordable, More Sustainable* and has been reconfirmed in statements by Margaret Beckett the Housing and Planning Minister in January 2009.

There is currently a consultation paper out on overcoming the technical barriers to council building. The outcome of this consultation will inform the Government's views on the next steps in extending the mixed economy of providers to include local authorities.

The Homes and Communities Agency has also indicated its intention to conduct a single conversation with local authorities, or groups of local authorities, around their strategic housing development issues and challenges.

ALMOs therefore find themselves at an interesting time in their development. Depending on their relationship and reputation with their sponsoring authority some may be able to position themselves as a key partner of the local authority for development as well as management services. However, others may find themselves placed in the 'sidings' as the local authority considers its various options to progress its single conversation and deliver on its strategic approach to housing and regeneration delivery.

This paper reflects on the experiences of the first six ALMO investment partner 'pioneers' - those who have both achieved investment partnering status with the Homes and Communities Agency and received allocations to deliver new homes. The paper also provides some observations for others that are considering wishing to be developers, on how they might position themselves to be successful. It also provides some observations for local government, central government and the HCA on their approach to ALMO development.

#### 4. Preparing to bid

All of the ALMOs that sought to become an investment partner did so because they wished to contribute to addressing the growing housing needs in their specific localities. Most had finished or were near to completion of their decent homes programme and regarded their role in providing new housing as important both for new and existing tenants.

One or two saw being a development organisation as increasing their status and relevance in the local authority's eyes.

The support from local authorities varied significantly. All local authorities with ALMOs seeking investment partner status have been required to give a guarantee or performance bond to the HCA. As negotiations on the HCA grant agreement have progressed the exact nature of this guarantee has been tested.

Some local authorities have driven the process or were a key partner in the bid with the ALMO. Help from such authorities included assisting in identifying sites, providing free land, providing legal advice or contributing directly to the grant agreement negotiations, and providing personnel or funding for staff.

For others, the support was solely 'in principle' and it was for the ALMO to undertake all of the groundwork.

However, it was clear for all ALMOs that where there was not political support, the success of the ALMO bid was severely reduced. The relationship with the sponsoring local authority is therefore an essential first ingredient to success.

None of the ALMOs had undertaken direct development within the past five years. The approach to preparing for the bid varied.

A range of structures to deliver and own the development activity have been used by ALMOs. Structures have included maintaining the development activity within the ALMO or setting up a subsidiary of the council, with the ALMO on the Board.

The choice has depended in part upon the relationship with the local authority but also the treatment of corporation tax and value added tax. These were issues that did not become apparent until the ALMOs undertook detailed consideration of structures. It should be noted for example, that in respect of stamp duty ALMOs have been advised that they are not currently exempt, whilst RSLs are.

All ALMOs interviewed for this research confirmed they would need to keep the structures under review depending on how much activity they wished to undertake going forward.

## 5. Going through the NAHP process

None of the ALMOs had previous experience of the NAHP. They chose different ways to prepare for the NAHP process; some brought in external advisers, others recruited dedicated staff whilst some partnered with established organisations.

ALMOs varied in their opinion of the NAHP process. Some found it very difficult, particularly the form and negotiations on the grant agreement – i.e. the legal development agreement between the HCA and the ALMO/LA. Others saw the effort as the cost of being a pioneer. One signed the agreement in a matter of months, for others the process has been more protracted.

Those who had experience of PFI said they found it not dissimilar. Those ALMOs currently engaged in the negotiation on their grant agreement have found this to be the area of most contention.

This agreement is different from the funding agreement and regulatory code that governs RSLs. The agreement is felt to be large, complex and attempting to replicate the regulatory functions of the Housing Corporation for engagement with a private sector partner. There were also comments on the process and the relationship between the centre and the regions.

However, there was a general view that staff at the Housing Corporation and then at the Homes and Communities Agency had been trying to make it work, even when there were not clear answers or established guidelines.

None of the ALMOs had fully appreciated what investment partnering had entailed at the start and views ranged on whether they would have approached it in the same way had they known. A number felt they would have sought professional advice sooner. Some were concerned to ensure that they embedded the learning of the process within their organisations at the earliest opportunity.

All noted that the lead time was longer than they had anticipated. However, in the context of commencing a new funding stream, having grant agreements signed or near finalisation and schemes started on site within two years of beginning the process should be regarded as a significant achievement. The experience will generate benefits for those ALMOs which follow.

It should also be noted that once the grant agreement is signed between an ALMO and the HCA, it will cover all subsequent developments undertaken by that ALMO and funded through the 2008/11 NAHP.



All ALMOs indicated they would wish to bid again. However, a number confirmed they would need continuing or specific support from the local authority to do so. A number were still to conclude negotiations on the grant agreement and - subject to satisfactorily resolving the outstanding issues with the HCA and their sponsoring local authority - would wish to bid again.

## **6. Lessons for central and local government**

The HCA should regard ALMOs as part of the local authority sector rather than as part of the private sector in its treatment of guarantees and performance bonds. This however assumes the ALMO takes the grant as a stand alone entity. If it is part of a joint venture with private sector input the boundary begins to become blurred.

The grant agreement, in particular was felt to be more applicable to a relationship with a private sector partner than an organisation that is both scrutinised and guaranteed by the LA. As the Tenant Services Authority considers its approach to domain regulation, both the HCA and TSA should give serious consideration to developing a pro-forma ALMO agreement.

A rationalised and standard ALMO grant agreement, reflecting the experiences of negotiations by the HCA with Stockport, Derby and Hounslow Homes would help to speed up the development process and to enable quicker delivery of ALMO projects at this crucial time.

Local authorities could do more to demonstrate their support for ALMOs as developers. This support could manifest itself in advice, assistance with land identification, free land, match funding, personnel etc.

Conversely, ALMOs should recognise the importance of local authority support, or at the very least no council opposition to the ALMO developing.

In the context of local authorities being invited to consider their options for future development activity, ALMOs should also recognise their need to set out a strong and coherent offer that is attractive to their sponsoring local authority, and differentiates them from other organisations who might be bidding for NAHP funding in their localities.

ALMOs should also consider putting together a clear development strategy at an early stage, setting out what kind of programme is intended, how it will be delivered and funded and how it will meet local housing needs as well as offering choices and opportunities for local residents. This will help to crystallise local authority and stakeholder support - which is vital from the outset.

## **7. Advice for other ALMOs wishing to bid for NAHP funding**

All of the ALMOs spoke of a collaborative culture within the movement and the importance of not reinventing the wheel, each time an ALMO considered a new initiative.

Advice to other ALMOs was as follows.

Make adequate preparation for the 'lead in' time in respect of preparing the development vehicle, identifying sites and taking them through the development process.

Analyse the risks properly and ensure you did not become distracted from your core activity of providing management services for the local authority.

Consider the appropriate structure and approach to development activity. For some this may mean direct development, for others development in partnership with another organisation.

Secure experienced advice early in the process, this might include either recruiting experts or by commissioning external advice.

Recognise that development is not risk free and requires an understanding of the process. Whilst there may be 'myths' around the complexities of development, it should be recognised that being involved requires both experience and understanding of such risks. The lessons of some RSLs and some house builders who are currently facing difficult times should act as a salutary reminder to all potential developers.

ALMOs should consider the potential funding models available for new build and seek to develop a model that is not overly reliant on cross subsidy to fund affordable housing provision, to help reduce some of the risks.

Proper consideration of all of the risks and potential partnerships should always be part of the 'preparing to bid' stage.

Finally, and arguably the most important lesson was to ensure that the relationship with the local authority was one that would enable the ALMO to achieve its ambitions. Aligning these ambitions with those of the local authority will therefore be the key ingredient to success for ALMOs going forward.

As the government looks to new partners and new solutions to meet the affordable homes crisis, those ALMOs who have prepared and learnt the lessons from the experiences of the first ALMOs to receive NAHP funding will be well placed to respond both quickly and effectively to the opportunities that arise.