

**Meeting:** Executive

Portfolio Area: Housing

**Date:** 22<sup>nd</sup> March 2006

**ARMS LENGTH MANAGEMENT ORGANISATION (ALMO) – FINANCIAL ASPECTS OF THE BID TO ODPM AND ASSOCIATED ALMO ISSUES**

(Housing/Housing Technical Services)

**KEY DECISION**

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**1 PURPOSE**

- 1.1 To note the draft financial details to be incorporated into the Council's bid document for a place on the ODPM's ALMO Programme Round 6 and agree the process to finalise the financial details for the formal bid.
- 1.2 To confirm the Stevenage Borough Council Member's who have been proposed to serve on the Shadow ALMO Board.
- 1.3 To note certain issues related to the letting of the major Repairs and Maintenance contracts to achieve Decent Homes by 2010.

**2 RECOMMENDATIONS**

2.1 That the draft ALMO Bid financial details, currently totalling some £46.8million for Decent Homes, excluding real inflation, and some £2.34million in respect of Sustainability issues, be approved.

2.2 That Section 3 "ALMO Funding Required" of the bid document, as currently drafted at Appendix A attached, be approved and that changes required to this financial part of the bid document, following receipt of the ODPM's Round 6 Bid Guidance, be delegated to the Strategic Director with responsibility for Housing and the Assistant Chief Executive (Finance) in consultation with the Executive Portfolio Holders for Housing and Resources.

2.3 That the Stevenage Borough Council Members who have been proposed to serve on the Shadow ALMO Board, as detailed at paragraph 4.5 be confirmed.

2.4 That the issues related to the letting of the major Repairs and Maintenance contracts to achieve Decent Homes as detailed in paragraphs 4.6.1 to 4.6.5 be noted and that Executive agree that the principle for advertising the Office Journal of the European Union

(OJEU) notice for the entire decent homes programme be approved by Full council on 5<sup>th</sup> April 2006.

- 2.5 That the Executive note, that Full Council will be asked to agree that, for the avoidance of doubt, the advertising and letting of the Decent Homes contracts in the manner referred to in this report should ensure that the arrangements will remain within the Policy and Budgetary framework of the Council and therefore the award of the contracts, anticipated in October 2006, can be delegated to the Executive.

### **3 BACKGROUND**

- 3.1 On 29<sup>th</sup> June 2005, the Council agreed to submit its Housing Options Appraisal to the Government Office for the East of England (GO-East). The submission was sent to GO East on 7<sup>th</sup> July 2005. The Council's proposed option to set up an ALMO was formally signed off by GO-East on 12<sup>th</sup> October 2005.
- 3.2 The Council's housing options appraisal had a caveat attached to it requiring the ODPM to negate the unintended adverse impact on the Council's General Fund of the ODPM's minimum revenue provision (MRP) formula. Positive progress appears to be being made with regard to this issue. The ODPM has consulted on changes to this formula that will negate this impact.
- 3.3 It is planned that the ALMO will "go-live" on 1st October 2006.
- 3.4 The implementation of the Council's decision to set up an ALMO involves the preparation and submission of a bid to the ODPM's Round 6 bidding process. Details of the bidding process and the Council's proposed bid document, excluding the financial aspects, were reported to the Executive in February 2006. That report explained that the bid must be prepared in line with guidance issued by the ODPM. At the time of writing the February report, the ODPM had not made an announcement regarding Round 6, therefore detailed guidance for the Round was not available. It was hoped that the announcement would be imminent and that the financial details of the Bid could be brought to this Executive meeting.
- 3.5 At the time of writing this report, the Government's announcement has still not been received and it is not formally known when the announcement will be finally made. However, informed commentary is that the guidance will be issued this month. GO-East have also advised that it is sensible for Local Authorities to proceed with drafting bids on the basis of the Round 5 guidance as few changes are expected in the Round 6 guidance. As stated in the February report, officers have been undertaking as much preparation of the bid figures as possible based on the guidance issued for Round 5 ALMOs. This report therefore provides information on the latest best estimates of what the financial aspects of the bid are likely to be, based on the Round 5 Guidance.

### **4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS**

#### **4.1 The Bid Document and the Building Cost Model**

- 4.1.1 The primary task of the ALMO is to deliver Decent Homes on behalf of the Council. Therefore, one of the most important sections of the final ALMO bid is "Section 3 - ALMO Funding Required". This sets out the amount of additional resources that the Council will be bidding for to enable it to meet the decent homes target by December 2010. In previous bidding rounds this has had to be calculated using the ODPM's Building Costs Model (BCM).

- 4.1.2 The Council's Housing Options Appraisal identified a gap between the estimated cost of achieving the Decent Homes target by 2010 and the resources that the Council had available to it of some £20million. The Options Appraisal therefore concluded that the Council had insufficient resources to achieve the Decent Homes target and that its chosen ALMO Housing Option would require a minimum bid of at least £20million.
- 4.1.3 A draft Section 3 "ALMO Funding Required" of the bid document is attached at Appendix A based on Round 5 guidance, as explained above. This indicates that it is anticipated that, at some £46.8million, excluding real inflation, the Council's ALMO Bid is likely to be substantially higher than the figure reported in the Options Appraisal submission.
- 4.1.4 The increase in the anticipated level of the ALMO Bid, since the outcome of the Option Appraisal process, arises for the following reasons:
- The inflationary increase in the estimated cost of the works between the price base for the Options Appraisal Stock Condition Survey in spring 2005 and the base year for the BCM in 2006/07.
  - Retail Price Index (RPI) Inflationary increases in the estimated costs of the works from 2006/07 to 2010/11.
  - A reduction in the Capital Receipts available to the Council resulting from a reduction in the level of Right-to-Buy Sales.
  - An increase in the requirements to utilise available Capital Receipts to fund General Fund capital schemes following a reassessment of the Stock Condition of General Fund assets and overall requirements. The Council's overall 5 Year Capital Strategy Update is the subject of a separate report elsewhere on this agenda.
  - Identification of necessary stock condition works that were not included in the Options Appraisal. These include modifications to the expenditure profile for structural works to the non-traditional properties, additional fire stopping and safety works required in sheltered schemes and additional costs for the repair and maintenance of lifts within the Councils' housing properties.
- 4.1.5 These variations will have to be fully justified to the ODPM as part of the bidding process. It should be noted that significant increases from the Options Appraisal to the ALMO Bid are not uncommon amongst authorities in previous Rounds and the level of the Council's final bid is unlikely to be excessive on a per unit cost basis compared to other authorities.
- 4.1.6 It may be necessary to revise the Bid figures in line with the Round 6 Guidance when this is eventually received. It is proposed that changes to the financial aspects of the Bid should be delegated to the Strategic Director with responsibility for Housing and the Assistant Chief Executive (Finance) in consultation with the Executive Portfolio Holders for Housing and Resources.
- 4.1.7 In addition to the basic bid to achieve Decent Homes, in previous bidding rounds an additional allowance of 5% on top of the basic Bid has been given to address sustainability issues. With a base bid of £46.8million a sustainability allowance of some £2.34million could be anticipated. This could be utilised to make further progress on the successful redevelopment, improvement and regeneration initiatives undertaken so far by the Council such as:- ongoing review to ensure the stock best

meets the identified needs of the people awaiting affordable homes, community safety issues that are a high priority with our tenants, to improve their communities as part of ensuring sustainability of the neighbourhoods, ongoing development of anti-social behaviour working group recommendations, developing involvement of all hard to reach groups, assisting the development of the LSP and implementation of the Community Strategy. The detailed programme for allocating the 5% sustainability allowance will be considered, in due course, with the ALMO Board, Tenants and other stakeholders.

4.1.8 The bid document has been compiled in consultation with the Housing Strategy Group and they have been consulted further on the financial aspects.

#### **4.2 2 Star Housing Service**

4.2.1 Members are reminded that the allocation of additional capital resources to the Council for decent homes is dependant on the ALMO achieving a “qualifying rating from the Housing Inspectorate”. The qualifying rating is currently two stars.

4.2.2 In considering the Council’s bid, the ODPM will wish to be assured that the Council has a robust timetable for the launch and inspection of the ALMO and that it has effective improvement plans to ensure that it can achieve the two star rating. The timetable for the implementation of the ALMO and its inspection was included in the bid at section 15 in the February report.

#### **4.3 Anticipated Timetable for Securing ALMO Funding**

4.3.1 When the Government makes its announce regarding the Bidding process for Round 6 ALMOs, Councils will be notified of a deadline date for submission of formal bids. Given the preparatory work detailed in this report the Council is well placed to meet the Bid submission deadline.

4.3.2 The Council will expect the ODPM to confirm its proposals to change the MRP formula during March 2006. This will allow the Council to pursue the ALMO Option without future ALMO borrowing having a negative impact on the General Fund.

4.3.3 The Council can anticipate confirmation of acceptance of its Bid and the level of the approved Bid, within 3-4 months of the Bid submission.

4.3.4 The Council intends to set up the ALMO on 1<sup>st</sup> October 2006 and the project to achieve this is well on target.

4.3.5 The ALMO would seek to gain 2 stars in its Housing Inspection in October 2007.

4.3.6 Following a successful 2 star Housing Inspection, the Council could start to draw down on the additional ALMO funding immediately the results are known.

#### **4.4 Basis of the ALMO Funding Approvals**

4.4.1 As previously reported to members the ALMO funding approvals give the Council access to additional capital resources by allowing the Council to borrow the additional funds. The Council is given Supported Capital Expenditure (SCE) adjustments within the HRA Revenue Subsidy System, which effectively cover the interest charges on the borrowing undertaken by the Council. Provision is not made for the repayment of the ALMO borrowing and there is no indication from the Government as to how resources to maintain Decent Homes will be funded after 2010.

4.4.2 The borrowing is undertaken by the Council and not by the ALMO. The Decent Homes Contracts will be let by the Council and administered by the ALMO. It is not currently anticipated that the contracts will be assigned to the ALMO. The Council will make the capital funding raised available to undertake the Decent Homes works. It will also provide revenue resources for the ALMO to manage and routinely maintain the housing stock from within the Housing Revenue Account (HRA).

4.4.3 Bid approvals will be granted in two year tranches, with details having to be updated and resubmitted to the ODPM for subsequent years of the Bid. (including resubmission of the BCM).

#### **4.5 Stevenage Borough Council Member Representatives to the ALMO Shadow Board**

4.5.1 The following Members of Stevenage Borough Council have been proposed as representatives of the Council on the ALMO Shadow Board:-

- Cllr David Kissane
- Cllr Lis Knight
- Cllr Carol Latif
- Cllr John Lloyd

#### **4.6 Contractual Issues relating to the letting of the Major Repairs and Maintenance Contracts to achieve Decent Homes**

4.6.1 It is the Council's responsibility to complete the Decent Homes programme by December 2010. Due to the tight timescales, it was agreed, at the January executive that the Council would let the major works contracts, prior to the set up of the ALMO, for the delivery of decent homes, in accordance with the Housing Procurement Strategy and contract Standing orders.

4.6.2 It is clearly important that this aspect be appropriately resourced and that the Council is not committed beyond its funding allocations. Officers are working together to prepare careful plans for the delivery of the elemental programmes necessary to meet the Decent Homes standard by 2010. As detailed at paragraph 5.1.1, ALMO funding approvals, give the council access to additional capital resources by allowing the Council to borrow the additional funds. Access to this additional borrowing is dependant on the ALMO achieving the two star 'qualifying rating' from the housing inspectorate, which is anticipated by the end of 2007.

4.6.3 Prior to the additional funds being allocated, the Council's available resources are estimated at £6 - 7million per annum (totalling some £33.8million 2006/07 – 2010/11) based on the estimated available Major Repairs Allowance (MRA), use of some capital receipts and utilisation of estimated available Supported Capital Expenditure (SCE). Based on the overall Stock Condition Survey, the estimated expenditure requirements to 2010 to achieve Decent Homes is £80.6million, significantly higher than the councils available resources.

4.6.4 Therefore, the major works contract documentation will clearly outline the funding streams available, (Councils' own and approved borrowing) and the timing of these funding streams. For the avoidance of doubt the contract documents will set out minimum and maximum funding levels per year based on the resources being available and the associated number of units contractors will be expected to deliver

for each element. As set out in the Housing Procurement Strategy, the form and length of contract proposed will minimise the risks and will ensure that the Council is not committed beyond its funding allocation.

- 4.6.5 However, the Strategy also emphasises the importance of ensuring that the Council secures the best possible price for the overall decent homes programmes. Therefore, it is proposed that the OJEU notice be for the entire decent homes major works programme (to meet the requirements by 2010), but will clearly set out the limitations regarding the level and timing of resources available as part of the ALMO process.
- 4.6.6 As this is one of the most significant investment programmes the council has undertaken in recent years the Executive are asked to agree that the principle for advertising the OJEU notice, as set out in paragraphs 4.6.1 to 4.6.5, for the entire decent homes programme be approved by Full council on 5<sup>th</sup> April 2006.
- 4.6.7 The Executive are asked to note, that Full Council will be asked to agree that, for the avoidance of doubt, the advertising and letting of these contracts in the manner referred to in this report should ensure that the arrangements will remain within the Policy and Budgetary framework of the Council and therefore the award of the contracts, anticipated in October 2006, can be delegated to the Executive.

## **5 IMPLICATIONS**

### **5.1 FINANCIAL IMPLICATIONS**

#### **5.1.1 Capital Funding**

5.1.1.1 "Section 3 - ALMO Funding Required" is one of the most important sections of the ALMO bid document, it will set out the amount of additional resources that the Council will be bidding for to enable it to meet decent homes targets by December 2010. As explained in the report the guidance for making Bids for Round 6 ALMOs has still not been announced by the Government. The current estimate of the anticipated ALMO Bid, at some £46.8million, excluding real inflation, as detailed in this report, is therefore based on the previous guidance for Round 5 ALMO's.

5.1.1.2 In addition to the basic bid to achieve Decent Homes, in previous Rounds an additional allowance of 5% on top of the basic bid has been given to address sustainability issues. With a base Bid of £46.8million a sustainability allowance of some £2.34million is anticipated giving a total Bid figure of £49.14million.

5.1.1.3 The estimated bid of £46.8million is based on an overall Stock Condition Survey expenditure requirement to 2010 of £80.6million to achieve Decent Homes. The Council's available resources are estimated at £33.8million based on the estimated available Major Repairs Allowance (MRA), use of some Capital Receipts and utilisation of estimated available Supported Capital Expenditure (SCE). Details of the Council's available Capital Resources are also reflected in the overall Council 5 Year Capital Strategy Update Report elsewhere on this agenda.

5.1.1.4 The ALMO funding approvals, give the Council access to additional capital resources by allowing the Council to borrow the additional funds. The Council is given Support Capital Expenditure (SCE) adjustments within the HRA Revenue Subsidy System, which effectively cover the interest charges on the borrowing undertaken by the Council. Provision is not made for the repayment of the ALMO Borrowing. The

Borrowing is undertaken by the Council and not the ALMO. The Council will make the funding raised available to undertake the Decent Homes works. Bid approvals will be granted in two year tranches, with details having to be updated and resubmitted to the ODPM for subsequent years of the Bid.

5.1.1.5 As explained in previous reports there are two major risks to the Council being able to access the Government's ALMO borrowing even when the Bid has been agreed:-

- i) Firstly the Council's housing options appraisal had a caveat attached to it requiring the ODPM to negate the unintended adverse impact on the Council's General Fund of the ODPM's Minimum Revenue Provision (MRP) formula. Positive progress appears to be being made with regard to this issue. The ODPM has now consulted on changes to this formula that will negate this impact and confirmation of the changes could be expected in March 2006.
- ii) Secondly access to the additional borrowing is dependant on the ALMO achieving the two star "qualifying rating" from the Housing Inspectorate. Resources have been allocated within the 2006/07 HRA Revenue Forward Plan to fund an Improvement Programme in support of ensuring that the two star rating is achieved.

5.1.1.6 The contractual arrangements referred to in paragraph 4.6 above should ensure that contractual commitments, that are entered into over the Decent Homes period, are at all times contained within the level of resources that the Council actually has available to it at the time.

## 5.1.2 **Revenue Implications**

5.1.2.1 As reported to Council in the Housing Options Appraisal Report on 29<sup>th</sup> June 2005, the impact of revenue interest charges, arising from the ALMO Borrowing, on either the HRA and / or the General Fund will be dependant upon the incidence of interest rates at the time that the borrowing is undertaken. Reports will be brought to Executive, as appropriate, if it is anticipated that the incidence of interest charges could have any more than a minimal impact on either Fund.

## 5.2 **Legal Implications**

The ALMO is going to be a separate legal entity. There is a range of legal implications that will need to be considered particularly in relation to procurement and other legal matters. The Borough Solicitor will need to be involved throughout the implementation process.

## 5.3 **Policy Implications**

The implementation of the ALMO is Council policy.

## 5.4 **Service Delivery Implications**

The process of setting up the ALMO is intended to ensure that the Council is able to deliver the Decent Homes target by 2010.

## 5.5 **Staffing, Accommodation, Equal opportunities Implications and Other Corporate Implications**

None arising directly from this report.

## **BACKGROUND DOCUMENTS**

- “Guidance on Arms Length Management Local Authority Housing”.
- Report to Executive February 2006 - Arms Length management organisation (ALMO) – bid to ODPM
- Report to Executive January 2006 – Delivery of Decent Homes- Housing Asset Management & Procurement Strategies.

## **APPENDICES**

- **Appendix A** – Section 3 “ALMO Funding Required”