

Briefing Paper 3

What are Arms Length Management Organisations?

In its statement on Housing policy of December 2000 the government offered local councils that perform well the option of establishing an Arms Length Management Organisation for the management of their housing stock as an alternative to a Large Scale Voluntary Transfer.

Arms Length Management Organisations:

- Are arms length companies that are wholly owned by the council
- Are included within the public sector for purposes of calculating public expenditure and the public sector borrowing requirement
- Have a board that includes tenant representatives and where council nominees are in a minority
- Manage council housing, including investment, on behalf of the council

Ballots of tenants are not required for an Arms Length Management Organisation, because the housing stock remains the property of the council and the tenants continue to be council tenants. However, there is a need to show that tenant support exists and most councils would hold a ballot. Tenants may favour an Arms Length Management Organisation because the dwellings remain in council ownership, and it offers more investment, and a chance for tenants' representatives to sit on the Board.

Transfers of Undertakings (Protection of Employment) Regulations apply to most staff that would join the Arms Length Management Organisation.

Arms Length Management Organisations have their own budgets and business plans, retain all surpluses earned, and receive all monies paid to the Council for their support.

What are the advantages of an Arms Length Management Organisation?

The government favours Arms Length Management Organisations because they bring about a split between the Strategic and landlord functions. Management of council homes is carried out by the Arms Length Management Organisation with limited involvement from the Council or the Councillors.

Many Councils are attracted towards the option of an Arms Length Management Organisation because it appears to be the only way of achieving the decent homes standard while avoiding a Large Scale Voluntary Transfer and thus retaining a significant role in Housing Management. The Arms Length Management Organisation sets rents, manages estates and determines investment, but the Council retains ownership of the stock and is able to influence the company.

How is an Arms Length Management Organisation established?

To establish an Arms Length Management Organisation, an council must meet the following conditions:

- Clear separation of the housing strategic and landlord roles with housing management and investment the responsibility of the Arms Length Management Organisation.
- The Government's Best Value Housing Inspectorate must have given the council an 'excellent' rating for housing management, or a good rating with a likelihood of improvement to the excellent level.
- There must be a high quality housing strategy and Housing Revenue Account Business Plan.
- The government's plans for rent restructuring and lettings must be in the process of being implemented.

How are Arms Length Management Organisations funded?

The government makes specific funding available local councils that set up Arms length Management Companies. This is now done by allowing them to borrow money to fund investment, and giving them money that enables them to make payments of interest on this borrowing.

The government calculates how much additional funding to make available to councils with arms length management organisations by looking at how much they need to invest to reach the 'decent homes standard' plus an additional 5% to pay for environmental improvements. They then compare this with the resources that the council already has, and pay them enough to make up the difference. They do not provide any additional funding to meet the costs of improvements that are wanted locally but are outside the 'decent homes standard'.

What does the Communities Plan say about Arms Length Management Organisations?

On 5th February 2003 the Office of the Deputy Prime Minister issued the 'Communities Plan'. With regard to Arms Length Management Organisations it stated that the government is looking at ways of giving additional freedoms and flexibilities to councils that establish arms length management organisations:

"Following the recent consultation on council housing finance, we will set out details of possible further freedoms and flexibilities for high performing (three star) Arms Length Management Organisations to borrow prudentially within public expenditure control totals."

The government has yet to decide on the best way to enable the highest performing arms length management organisations to become self-financing, but consultation is expected soon. One option is for council housing debt to be restructured so that councils would not need housing subsidy and could operate in a more 'businesslike' way. This may mean that some councils would have to make a substantial payment as the price of 'opting out' of the subsidy system and realising greater flexibilities. Other councils may receive a payment to help them to repay debt.

Adrian Waite
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