

## NFA Response to Government Consultation on Welfare Reform “21<sup>st</sup> Century Welfare”

### Introduction

The National Federation of ALMOs (NFA) represents all 69 arms length management organisations (ALMOs) who between them manage more than one million council homes across sixty-five local authorities, more than half of all council housing in England.

Since their inception eight years ago, ALMOs have provided tenants with excellent local, customer-focused and cost-effective housing management services. They have significantly improved performance and customer service by forging a new, closer relationship with residents. ALMOs manage homes for some of the most vulnerable people in society and work in some of the most intractable areas of the country. The NFA therefore makes this submission on the basis of that experience.

### Summary

The NFA supports the government’s intention to reform the way in which benefits and tax credits are paid in order to put “work at the centre of working-age support” and reduce the complexity of the system. As a sector we recognise the need to make the system simpler for tenants as well as ensuring that the welfare system as a whole supports tenants, who can, to get back into work.

However, we are concerned that a radical reform of the system is not attempted too quickly and without due consideration to the effects on the most vulnerable in society if reforms are made in haste and there are problems with implementation. A national single benefit system sounds like a very good idea in theory but we think it can be a very blunt tool and that in order to work on the ground there will need to be some local tailoring and discretion built into the model to deal with the particular issues of some communities.

The NFA believes that the key to any new approach to welfare is in making it a more personalised and flexible system. This, alongside the desire to bring all of the benefits together into one assessment will require a complete change of culture and level of expertise in delivering the service on the ground and we are concerned that the current delivery model for helping people into work is just not up to the task.

As ALMOs manage more than one million council homes across England the NFA is also very concerned about the effect that any reforms might have on the level of arrears and the cost of collecting rental income. As a sector we would expect any change to paying housing benefit directly to the tenant to lead to an increase in rent arrears as those on low incomes try to balance the competing demands of household expenditure. This will lead to more time and money being spent chasing the rent, time and money which the social housing sector can ill afford.

We are also concerned as to whether the level of earnings disregards and tapers will be high enough to make the reform successful in terms of providing sufficient

financial incentive to work and not penalising deserving benefit claimants. We would urge the government to ensure that any reforms are fair to people who are trying their best but are unable to find work and therefore need the appropriate financial support.

Whilst we agree that ensuring that “work pays” is a fundamental building block for any reform of the welfare system, we would urge the government to ensure that it is considered alongside other requirements to ensure that the system doesn’t continue to fail some of the harder to reach people. Our members are concerned that a number of unemployed households are de-skilled due to having been out of the labour market for some time or have never worked since leaving education. A number of long-term unemployed people have multiple problems, which will need addressing as part of the reform to the system to ensure that work pays. Mental health issues, illiteracy, drug and alcohol dependency can all play their part in keeping people out of paid employment and these will need to be addressed.

Proper consideration also needs to be taken of lone parents and facilitating their choices including the cost and quality of childcare and the availability of part-time work that is worth taking from a financial point of view.

The consultation paper puts forward a number of options to reform the welfare system and asks for people’s views on the most appropriate way forward: The NFA supports the idea of a single unified taper. We would welcome the simplicity of a universal credit but as managing agents we are very concerned about the loss of a direct payment of housing benefit and the arrears that would accrue which could significantly affect the delivery of the management and maintenance of social housing, particularly within a self financed HRA business plan. We would like to seek assurance from government at this stage that any structural reform of the benefits system into one single payment will not lead to a reduction in the overall level of benefits received by any one particular group of claimants.

The NFA believes that building more social and affordable housing is key to delivering on wider welfare reform and providing better value for money for the tax payer than paying high private sector rents through the local housing allowance. The provision of good quality affordable rented housing can provide families with the stability and affordability that they need to get back into work and improve their economic position.

## **Consultation questions**

### **1. What steps should the government consider to reduce the cost of the welfare system and reduce welfare dependency and poverty?**

The NFA supports the government’s intention to reform the way in which benefits and tax credits are paid in order to put “work at the centre of working-age support” and reduce the complexity of the system. We believe that if reform is delivered in a fair way which gives a clearer and simpler method to calculate the financial gains from work and for people to be confident of being better off either by taking up work or increasing their hours then the taxpayer will benefit in the long run from a lower take up of benefits and more people in paid work. However reforming the welfare

system is only one element of the work that will need to be undertaken by government to reduce the cost of welfare and reduce welfare dependency and poverty.

The NFA also believes that the government needs to simultaneously support job creation in many regions as there are significant problems with a lack of jobs in some areas and many previous government initiatives have now been ended. The government should look at providing support for business and enterprise, particularly small business and self employment in weaker economic areas. Areas that many of our members work in score very low in the community domain of the recent Experian research<sup>1</sup> around economic resilience. Certain social housing areas outside city regions will struggle to attract sufficient large-scale investment, and we, therefore, believe that the encouragement of small and medium sized enterprises are key to the economic future of many areas of low employment.

The government will also need to look at the level of support that will be required to help some individuals into employment as some people have multiple issues, which have prevented them from taking up employment in the past, and if no support is offered but only sanctions then the NFA is fearful that we will end up with higher homelessness, family breakdown and crime within those communities. There is a particular concern amongst our membership that many social housing tenants are especially disadvantaged in competing for jobs due to very high levels of illiteracy and a lack of basic skills in maths and verbal communication. Addressing these issues requires a more innovative approach to just introducing penalties to those not engaged with work.

Our members believe that placed-based budgets could be the way forward and enable intensive support to be provided to those families that most need it. Often, within any local authority area, there are a small number of between 20-40 families that public sector agencies spend most of their time and energy dealing with. Local agencies need to be able to co-ordinate services and have the flexibility to do intensive, multi-disciplinary work in order to address high levels of inter-generational poverty, illiteracy and a culture of worklessness.

The Job Centre Plus service is fairly minimal at the moment and there is an opportunity here for local services to join up and provide more intensive support where it is required. However this change in approach will need staff with very different skills in order to properly deal with the myriad of problems that one claimant may have.

The NFA also believes that building more housing in general and in particular more social and affordable housing is key to delivering on wider welfare reform and providing better value for money for the tax payer. Much of the recent increase in the benefit bill has been due to increased housing benefit payments having to be paid in the private sector due to an overall shortage of affordable homes, especially for homeless families. The provision of good quality affordable rented housing can provide families with the stability and affordability that they need to get back into

---

<sup>1</sup> Experian Public Sector research commissioned by the BBC September 2010.  
<http://publicsector.experian.co.uk/Products/Economic%20Resilience.aspx>

work and improve their economic position. The current high rents in many areas of the country in the private rented sector significantly increase the work disincentives and the financial penalties in gaining low-paid employment and an increase in social housing could really help cut the welfare bill and improve the financial incentives to work.

Our members are keen that “work pays” and that the welfare system does not inadvertently trap people into dependency and worklessness but they do want to ensure that any new system adequately provides for the most vulnerable in society and does not penalise families who are trying to improve their situations. Any new system needs to be tailored to individual circumstances and flexible enough to be sensitive to local situations. It also needs to be part of a wider package of changes to ensure that everyone who needs it gets the support they require.

## **2. Which aspects of the current benefits and Tax Credits system in particular lead to the widely held view that work does not pay for benefit recipients?**

There is much evidence that the tapers and earnings disregards for the various benefits mean that for some households it is quite clear that they would be worse off if in low paid work. This can be particularly acute where the cost of childcare is a consideration or if the family is living in the private rented sector in a high cost area of the country.

The slowness of the housing benefit system to respond to changes in circumstances can cause real anguish and anxiety whilst families have to wait for claims to be assessed, which can lead to rent arrears and lack of knowledge about what needs to be paid. It is often the case that once households have tried to get work and have successfully got a temporary job they can then be deterred from ever trying it again because of the experience in stopping work and having to re-claim benefits. Given that much of the low-paid work available today is either seasonal, temporary or has varying hours in any given month, this aspect of the welfare system needs to be addressed.

The current benefits system is not designed to cope with today’s more flexible workplace where some employers will not guarantee set hours but require employees to respond to customer demand and will only offer temporary posts. For people going after low paid jobs, the benefit system not only has to ensure that “work pays” and they are financially better off, it also needs to be able to respond quickly to changes in working patterns and earned income so as to provide the same level of security with regards to being able to pay the rent and buy necessities as being on benefits provides.

The bureaucracy involved in informing departments of changes and awaiting adjusted benefit levels impacts on the marginal benefits of job market entry or working additional hours. Claimants have to inform the correct benefits department of the change in their circumstances, this is often in a paper based form with multiple “tick box” options and supporting evidence, such as payslips or contract of employment, an additional requirement. These forms historically have a long processing time, often in excess of eight weeks and any further change in circumstance, such as additional/reduced hours worked must be submitted using

further forms rather than amending current applications. All of this will be common knowledge within a local housing estate where many people come into contact with the benefits system and therefore will act as a general deterrent to people considering a fairly marginal financial gain from entering into work. The NFA would like to suggest that consideration be given for the benefit system to allow for short periods of work say for up to six weeks or below a certain financial value with no change to a person's benefit.

The associated costs of work including direct costs like transport, childcare and clothing as well as indirect costs associated with less time for domestic arrangements and not being able to look after their own children also have an impact. Our members' experience tells us that many tenants believe it is just is not worth those marginal benefits to try to enter employment.

Claimants need to be persuaded that the net rewards of employment are sufficient in comparison to the financial value of the benefits they receive to make finding and keeping work a worthwhile activity. Given the associated benefits when out of work, ie, medical, dental etc. consideration needs to be given not only to the minimum wage but to associated benefits and how these will be afforded. For some families, gaining employment is a careful balancing act, which can make households genuinely financially worse off and it is therefore entirely logical and reasonable that those families will want to do what they can to maximise their families financial position.

### **3. To what extent is the complexity of the system deterring some people from moving into work?**

The NFA believes that the complexity of the "better off" calculations that will be done by claimants or advisors when thinking about applying for a job can deter some people from applying for work as they are just so unsure of what they will lose compared to what they might earn to be confident that it is the best choice for them.

Also, the fact is that because of the complexity of the system many tenants do not fully understand the impact of their actions when applying for work and only find out after they have actually taken a low-paid job that they are not any better off. These people then give up jobs they have secured and decide to remain on benefits.

### **4. To what extent is structural reform needed to deliver customer service improvements, drive down administration costs and cut the levels of error, overpayments and fraud?**

The NFA believes that structural reform is essential to deliver these goals. The current structure is cumbersome, unwieldy and slow to react. From a customer's perspective it would be beneficial for the customer to only have to notify one agency when making a claim for benefit or notifying a change of circumstances and in theory this should reduce the time it takes to process the various claims.

Regarding fraud, the NFA believes that although a lot of good progress has been made recently more could still be done. Many members have complained that cases can still take a very long time to come to court and that more needs to be made of

cases where prosecutions have resulted in a custodial sentence. The NFA thinks that developing a fast track prosecution system would help tackle fraud as well as more widely advertising the fact that people who have defrauded the system have been punished for what they have done.

#### **5. Has the government identified the right set of principles to use to guide reform?**

The NFA believes that the government has broadly identified the right set of principles to guide reform. We would urge the government to also strengthen the principle that, where necessary, intensive support would be provided to help address barriers to work and that issues around conditionality and sanctions would only be invoked where appropriate support had been offered first. The NFA is concerned that whilst the intention may be right to increase conditionality and sanctions within the welfare system, in this challenging economic climate it may not be realistic for some people to find work or increase from part time to full time working. Due to cuts in the public sector and the reduction in recruiting to vacant posts, there will be added competition for a smaller number of jobs in some areas and we want to ensure that people who are genuinely trying to find work but just cannot are not penalised for the situation they find themselves in. Our members' experience is that social housing tenants often experience multiple disadvantages in competing for work and a lack of basic skills is a constant barrier to finding employment. The causes of poverty and worklessness within communities are often complex and can stem from ill-health, lack of education or social and emotional problems caused by family breakdown or drugs or alcohol abuse. These complex issues need to be addressed alongside welfare reform in order for it to be successful in helping people in to work and reducing poverty.

If benefits are just withdrawn as a sanction, loss of income will inevitably impact on the ability to pay rent and could result in eviction and homelessness for social and private tenants. This will place increased strain on the whole of the public sector at a time when it can least afford it.

The NFA believes that one of the most important principles in any reform is to ensure that those who genuinely need benefit assistance receive it, in a timely and efficient manner and that the government must ensure that they do not let down the most vulnerable members of our society in a rush to cut the welfare bill.

#### **6. Would an approach along the lines of the models set out in chapter 3 improve work incentives and hence help the government to reduce costs and tackle welfare dependency and poverty? Which elements would be most successful? What other approaches should the government consider?**

The NFA believes that the general approach set out in Chapter Three of '21st Century Welfare' would help to improve work incentives but the availability of employment is a key factor in ensuring the proposals and the government's goals will be reached.

The *Universal credit* proposal is attractive because it would seem to take away the complexity that currently burdens the system as well as dealing with the current

problems of high Marginal Deduction Rates and low gains to work through reform of earnings disregards and tapers. However, bringing together the myriad of benefits and tax credits into one Universal Credit would be complex and the NFA is concerned that if the payment includes an element for housing benefit there is a real danger that some tenants will not use that element to meet their rent liability thereby increasing arrears and costs of collection. This is a great concern to our members who manage businesses on a very tight budget already and any significant increase in rent arrears would both affect their business and services to all council housing tenants in their area. An increase in rent arrears could also lead to increased evictions and homelessness and therefore the cost to the public purse in a different way.

The NFA is also concerned that the government might decide to implement this radical change without reasonable rates of benefit withdrawal due to the current fiscal climate. The NFA believes that this would be a big mistake, which may undermine the whole point of the exercise, and instead urge the government to carry out this radical reform under an “invest to save” initiative, which if successful in getting people back in to work will save the public purse more in the long run.

The NFA therefore currently favours the Single Unified Taper model due to the fact that we have assumed that housing benefit could continue to be paid directly to the landlord under this system but that it deals with the current problems of high Marginal Deduction Rates and low gains to work through reform of earnings disregards and tapers. The single unified taper could reduce complexity and improve transparency, making it clearer to the claimant about the amount of money they will keep. The system could be delivered through a new mechanism using up-to-date earnings information from employers, which appears an attractive option.

However, it is unclear who would deliver the Single Unified Taper and how it would be done and the NFA is keen to explore further details of any proposals with its members before commenting further.

#### *Other models*

The NFA does not believe that the other models outlined in the consultation paper have any other particular merit and are very much against the idea of a flat rate Single Working Age Benefit. To not recognise individual circumstances does not seem a fair and just way of providing a safety net and our members are very concerned that this would leave the most vulnerable in society, the sick, disabled and children and out of work parents without the necessary income to provide for basic requirements. It is stated that the Mirrlee’s model would result in a substantial reduction in support for families out of work. If this is so, there is a real danger that this could lead to increased hardship and homelessness. The single benefit/negative income tax model would seem to be the most complicated to implement and lacks transparency.

#### *Other Issues*

In terms of improving the rewards from work at low earnings consideration should be given to increasing the minimum wage and holding the employer rather than the welfare state responsible for paying a decent wage. Employers also need to commit to providing paid employment following periods of work experience. For example, a

scheme, which sees a supermarket offer a period of work experience with the individual's travel paid for, fails the community as the supermarket does not provide employment at the end of it. The supermarket benefits from the free labour provided but the message it sends to an inexperienced workforce is very bad as they need to have faith in the system in order to be persuaded to engage in it.

**7. Do you think we should increase the obligations on benefit claimants who can work to take the steps necessary to seek and enter work?**

The NFA believes that this is largely dependent on the individual's circumstance and the system needs to be designed in such a way that it can be flexible and personalised and does not penalise the most vulnerable people in society. However, there are certainly scenarios where an increase in obligations on an individual who can work to take the necessary steps to seek and enter work, either of a contracted or voluntary nature, would seem appropriate.

The range and availability of employment opportunities needs to be considered at a local level, as does the lack of confidence or mental health barriers that prevent people from being ready and able to work. The system needs to be able to provide the necessary support to help people take first steps into the job market – particularly in areas of entrenched worklessness, where informal support networks through family and neighbours into the job market are not there.

**8. Do you think that we should have a system of conditionality which aims to maximise the amount of work a person does, consistent with their personal circumstances?**

The NFA believes that extending conditionality in some circumstances is a fair aim of the reforms but presents a very delicate problem in terms of the delivery of that aim.

The NFA believes that the welfare system needs to have built into it the necessary level of appropriate support for all claimants. Conditionality should therefore be dependent on the individual's circumstances and be sensitive to their needs. However, making conditionality dependent on individual is challenging to apply within a national system and a great deal of care would need to be taken that this is delivered in a fair but firm way and in a sensitive manner.

**9. If you agree that there should be greater localism what local flexibility would be required to deliver this?**

There are arguments both for and against greater localism within the welfare system and the NFA is currently unsure of the best way forward in this regard.

A national agency should be able to make efficiency savings and deliver a uniform service to all with integrated technology to prevent under and overpayments and the need for numerous claims from one claimant. However, the NFA also believes that that local delivery of the welfare system could enhance its flexibility and improve customer service.

If all benefits were delivered by one local agency the number of forms and staff to deal with them could be reduced; and if local areas had some element of discretion, as they do with housing benefit payments at the moment, then specific local circumstances and issues may be better dealt with. However this would require a radical change in the way the system is delivered and a need for a different set of skills to be able to deliver it; and there is a danger of some claimants being disadvantaged in the services they receive depending on where they live.

If a national system was in place to provide an efficient and effective basic welfare payment service, it would also be very helpful to have a local resource to help to tackle barriers to supporting people into work. The specific barriers will vary between localities, for example it may be mental health/confidence issues, or it may be that a minibus service from a more isolated estate to a key employment area would make the difference, or building links with particular local employers, or in areas where lone parents were concentrated, local childcare could be the key to unlocking routes into work. Local organisations are well placed to understand the detail of the barriers affecting different estates and if they can be encouraged to work together to provide the relevant services in an area the service could be improved.

**10. The government is committed to delivering more affordable homes. How could reform best be implemented to ensure providers can continue to deliver the new homes we need and maintain the existing affordable homes?**

The NFA believes that building more social and affordable housing is key to delivering on wider welfare reform and providing better value for money for the tax payer than paying high private sector rents through the local housing allowance.

The provision of good quality affordable rented housing can provide families with the stability and affordability that they need to get back into work and improve their economic position.

We believe that both national and local government need to support all types of house building and promote a variety of tenures including intermediate renting. Alongside more social housing, a better regulated, lower-priced private sector that could provide more security of tenure for tenants would also help deliver more mobility within the housing stock and provide alternative housing options for people throughout their life.

Social housing developments are in the main underpinned by borrowing against planned future rental streams for as many as 30-50 years. Therefore, any reduction in rental income, as a result of changes to welfare benefits, will have implications on business plans and future investment in new affordable housing.

Likewise, for existing stock, any increase in rent arrears from a move away from direct payment of housing benefit would impact on the ability to fund repairs and maintenance and management services to all council housing tenants. Any significant loss of rental income capital would also severely affect any future self-financing proposals under the Housing Finance reform. Indeed, sensitivity analysis on their business plan by some of our members has shown that even a ½%

decrease in rent collection would have a significant negative impact on the sustainability of the self-financed business plan.

There is a lot of concern amongst our membership about the possible effects of moving to paying housing benefit as part of a universal credit directly to tenants. In an already challenging financial environment these proposed changes will put further strain on social housing organisations' finances and the viability of the 30 year business plan. This is a key issue for ALMOs and their councils when considered in the context of the potential review of the Housing Revenue Account and self-financing.

**11. What would be the best way to organise delivery of a reformed system to achieve improvements in outcomes, customer service and efficiency?**

Making the system more transparent, easier to navigate and quick to respond to changes in circumstances would improve customer service; if benefit services were then really changed in terms of skills and culture they could improve support for some claimants to get work. These services would need to be locally delivered and be based on a number of agencies working together to address complex issues.

An integrated IT system to manage all claims and a single payment system to apply a withdrawal rate and pay the correct entitlement would seem the most logical way forward in terms of the payment of benefit. However, the NFA does have concerns about both the implementation of a new IT system and the problems it could cause in the short-term as well as the method of self-service and automated processes, as it may lead to more fraud from some claimants and that other, more vulnerable claimants might find it difficult to access benefits in this way.

**12. Is there anything else you would like to tell us about the proposals in this document?**

No.

NFA  
September 2010