



## Response to the Freud Report

### Key Messages

- ▶ The Freud Report provides a stimulating perspective on the future of the UK's welfare to work system and we welcome much of its central message, particularly in terms of providing more targeted long-term support for the hardest to help.
- ▶ However the report follows series of fundamental changes in the welfare benefits system, and there is need to be aware of impact these changes have had on claimants and on those administering the system.
- ▶ The suggestion that Jobcentre Plus should focus its resource on a twelve-month period at the start of a claimant's time on benefits is sensible. It provides opportunity to create a one-stop-shop for benefits advice and administration and a stronger focus on rights and responsibilities. The subsequent transfer of claimants to voluntary and private sector providers seems appropriate, allowing a fresh approach at this critical point.
- ▶ However Jobcentre Plus should retain ownership of claimants after their transfer to contracted providers, particularly in terms of conditionality and sanctioning.
- ▶ The development of a market based approach to welfare to work could allow for a better return on welfare investment, although the model proposed by Freud requires significant levels of up front investment, effectively precluding voluntary sector organisations from pursuing Prime Contractor status.
- ▶ Moreover there is a risk that the profit motive may result in a pressure to drive down costs, by reducing interventions and focussing on 'quick wins'. This could dilute the focus on the 'hardest to help' and potentially damage the provider base, innovation and creativity.
- ▶ The focus on job retention as a central element of welfare to work delivery is a critical one, particularly for tackling in-work poverty amongst vulnerable groups.
- ▶ Increased conditionality, in a context of rights and responsibilities may be appropriate, however the right support must exist to support the most vulnerable to move into and stay in employment, before this can be put in place.
- ▶ There is a clear need to address the dysfunctional complexity present within the welfare benefits system, and the notion of a single Working Age Benefit is one that may be worth further investigation.

## Introduction

1. The Wise Group strongly welcomes this opportunity to comment on David Freud's recent report, 'Reducing Dependency: options for the future of welfare to work'. As an employment and training organisation, founded in 1983, the Wise Group was an early voice in the call to recognise work not just as a route out of poverty, but also as a means of providing people with independence and a better quality of life. In 2006 just fewer than 3000 people experienced the benefits of moving into employment as a result of one of our programmes.
2. We recognise that the report has been commissioned by the Secretary of State for Work and Pensions as an independent review of the government's progress on welfare reform; to provide an analysis of future challenges in welfare reform and to make recommendations on how the government might maintain its drive for a better, more responsive welfare to work system that meets the needs of all individuals using its services.
3. The report comes at a time when government has already progressed a series of fundamental structural changes to the way welfare will be delivered in the UK via the introduction of the measures contained within the Welfare Reform Act 2007. The effects of this Act in terms of increased conditionality for claimants and the introduction of the Employment Support Allowance (ESA) will take some time to assess, given the implementation timescales. We would suggest that whilst the Freud report has stimulated much debate at a time of change and provides further and more radical thinking on the future of welfare reform, government must be mindful, as Freud himself acknowledges, of the effects that this type of fundamental change has, both on the individual claimant, and on those working within the management and delivery of the welfare system as a whole.
4. In general we welcome the overall direction of the report and its emphasis on helping those individuals furthest from the labour market. The focus on those in receipt of Incapacity Benefit and lone parents, who could, with the correct level and type of intervention and assistance, play a more active and fulfilling role within the wider workforce, is an appropriate one. We would also welcome the opportunity, as advocated in the report to work with these clients for a longer period. For the 'hardest to help' a 13-week programme is insufficient if sustainable results are to be achieved.
5. Our comments on the report fall broadly into four areas: the role of Jobcentre Plus; the development of a new market-driven, output funded, contracting structure; greater emphasis on work-focused activity and conditionality for some benefit groups; and greater simplification of the current benefit regime.

## The role of Jobcentre Plus

7. Freud's suggestion that Jobcentre Plus should work with individuals for a defined period of twelve months, focusing on active job search and job matching has much to commend it. Allowing Jobcentre Plus to develop a one-stop-shop for benefits advice and administration also offers further opportunity

- to strengthen the intrinsic links between the right of claimants to receive benefit, and their responsibility for an active and participatory role in seeking, securing and retaining work.
8. The report commends Jobcentre Plus for its focus on the 'work-first' approach and highlights its ability to deal effectively with high volumes of claimants; in particular its success in dealing with shorter-term unemployed people and we would echo this. However, Freud clearly suggests that this success has not easily translated across to dealing with those who are suffering from persistent and entrenched periods of inactivity. This suggestion requires further scrutiny and explanation, something that the report fails to provide.
  9. In the late 1990s political priorities were focused on achieving a reduction in youth unemployment of 250,000 and so Jobcentre Plus was tasked with the delivery of the New Deal programme, an approach that was later expanded and diversified to different client groups. During the government's first five years of power no real or sustained attempt was made to orientate Jobcentre Plus resource toward addressing the issue of stock claimants.
  10. In the last three or four years a number of approaches have been developed to try and address the issues of endemic unemployment and inactivity in particular locations or amongst particular client groups in the UK. However, only Action Teams, Working Neighbourhood pilots and the New Deal for Disabled have made concerted attempt to drill into the harder to help client groups. Most of these have not been delivered directly by Jobcentre Plus staff, but through a series of intermediary organisation from the private and voluntary sectors. As a result there is very little evidence to show conclusively that Jobcentre Plus performs less well than its private or voluntary sector counter parts.
  11. However Jobcentre Plus is less likely to be able to deliver the necessary flexibilities, within both its core delivery or contracted out provision, to meet the diverse social, cultural and economic needs of benefit recipients and at the same time interact well enough within a dynamic labour market. The reduction in Jobcentre Plus' resources as part of the government's commitment to efficiency savings mean that in the medium to longer-term it might never be able to tackle properly the inactive stock of claimants focused on by Freud. The report's recommendation that Jobcentre Plus should concentrate solely on working with the on-flow of those individuals thought to be nearer job readiness, therefore seems appropriate.
  12. Freud points out that off-flows from benefit tend to flatten out at around the 12-months mark and that this might be the sensible time to take a fresh look at the type of approach needed to make sustained reductions beyond this point. The introduction of what in effect would be a national twelve month 'Gateway' period for all new claimants makes sense and has, to some extent, been tested out within the New Deal programmes over a number of years.
  13. However we would argue that Jobcentre Plus should retain 'ownership' of claimants after their transition to contracted providers. This is essential to

ensure that contractors comply with the core service delivery requirements for claimants and that in turn claimants comply with conditionality rules surrounding their entitlement to support. Any further move toward contracting out of the sanctioning powers of Jobcentre Plus to the external provider at this time seems premature and highly risky for the claimant, the contractor and government. Any abdication of the government's obligation to ensure those most in need are protected by the state in relation to their benefit entitlement would be a dangerous step.

14. Freud has suggested that Jobcentre Plus may evolve into a one-stop-shop for all benefit administration and delivery. This approach could offer a simple way to develop a one-tier platform for administering benefits in the UK. It is almost universally accepted that the dysfunctional complexities inherent within the current system mean that many claimants receive a service that is disjointed and inconsistent and this can actively disadvantage some of the most vulnerable claimants.
15. The Jobcentre Plus platform of local offices, web enabled IT infrastructure, call centres and national data processing capabilities offers an opportunity to simplify the, at times impenetrable, systems that exist within Jobcentre Plus, the Inland Revenue and Local Authorities. Bringing together the administration and management of tax credits, housing benefit, ESA, JSA and so on, would not only deliver substantial and direct administrative savings to the public purse but also provide a clearer and more efficient process for claimants. In addition there would be a far greater opportunity to create clear links between an individual's entitlement to benefit and their responsibility to seek work.

### **Contracting support for the hard to help**

16. At the heart of the Freud report is the view that government would be able to meet its 80% aspiration for working age employment if it turned to the free market to deliver job placement services for certain harder to help groups of economically inactive benefit claimants. In doing so it is likely to receive a better return on its welfare investment on the basis that the private and voluntary sectors are better suited to place larger numbers of these claimants into work at a lower unit cost than the public sector mechanism could secure.
17. We would provide cautious support for the development of an expanded market-based approach to welfare to work services in the UK, based on individual need and the ability of the market to return a demonstrable saving to the public purse over time. However the implementation of such an approach, even as a prototype would carry high risks in the early stages of creating the market approach advocated by Freud, and in particular within the timeframe attached to the implementation of the new ESA regime. We have reservations as to the strength of the current provider base in the UK to deliver the suggested approach, and would have concerns as to the ability of government to implement the approach, even within elongated timescale suggested by David Freud.

18. The report suggests two possible contracting models, one of which - the 'contracting out' model - is dismissed despite the fact that it at least potentially provides '*more scope for government to influence the services on offer*', is '*more responsive to local conditions*', and has '*a better fit with local conditions and initiatives*' (p62), all of which would seem to be critical to the successful implementation of an employment strategy.
16. In reality, and as Freud points out, the real reason for not giving a great deal of credence to the contracting out model is that the financial institutions necessary to the pump-priming of private sector led investment would not find the offering and subsequent risk conducive to profitability.
17. The preferred model in the shape of the 'Prime Contractor' model is predicated on the idea that the best way to deal with the level of 'stock' claimants is the creation of a large number of privately financed regional Prime Contractors who would in effect accept the transfer of risk for the delivery of job placement services in their region.
18. Although the report suggests that both private and voluntary sector organisations could act as prime contractors there is an acknowledgement that due to the level of financial risk involved only larger private sector organisations could lever sufficient working capital to provide government with the necessary assurance around financing and delivery.
19. In return for private sector investment, providers would be offered long-term contracts, certainly in excess of three years, with significantly higher payments for achieving agreed milestones of job retention and labour market progression. However, there are acknowledged dangers in creating such 'monopoly' providers whose basic business mission, regardless of how this is couched in social investment and human capital terms, is the creation of profit from the delivery of welfare services.
20. Whilst the pursuit of profitability is in no way incompatible with the drive to create customer choice and deliver better value for money in public services - especially if contracts are engineered to provide a neutral fail cost to government - we have reservations around how large monopoly providers would meet the needs of the hardest to help clients and deal with the provider base with whom they sub-contract.
21. As a not for profit provider we have some experience in working alongside private sector providers in the delivery of large-scale welfare to work programmes such as Employment Zones and New Deal for the Disabled. This direct delivery experience has informed our view that in some cases, although certainly not all, government needs to be more aware of the tendency for large monopoly providers to focus on those clients that can make them the greatest degree of profit in the shortest time - not an uncommon approach, even within the ranks of voluntary sector providers. Indeed many large-scale providers generate sufficient financial return from contracts by concentrating their effort on placing less than 40% of their clients into work. This in turn has the effect of

- disenfranchising a significant number of programme participants, who become even less employable due to an indifferent service offering.
22. Regional contractors (voluntary or private) on the scale suggested would be taking on significant financial risk and therefore there is a danger that the corresponding pressure to drive unit price down, reduce interventions and focus on quick wins is ever present. We would argue that maintaining competitive pressure does not always drive value for money, nor in our experience does it necessarily drive up sustainable performance.
  23. In terms of sub-contractor relationships our concern is that larger monopolies would have a tendency to centralise functions purely on the basis of cost reduction and profit maximisation. This in turn, if cost is driven too low, could stifle innovation and creativity leading ultimately to an erosion of the provider base over time. It could be argued that in some area/regions reducing the wider provider base would not only be desirable but necessary if we are to deal with duplication of provision, build better demand-led approaches and drive more resource to the front-line service. Our concerns are around not what might be done so much as **how** for-profit contractors will manage this process, when they are likely to be many levels removed from the front-line service provision offering, in effect acting as 'absentee landlords'. It is certain that they would seek to push the risks that they take on in accepting a contract down to their sub-contractors, making the provision of quality services a more challenging prospect for welfare to work providers.
  24. Despite positive rhetoric from government about the role of the voluntary sector in the delivery of public services, the recommendations made by Freud effectively preclude our participation as Prime Contractors. The model would leave us in a more vulnerable position at the bottom of a food chain dominated by monopoly providers whose prime motivation is maximising profit from welfare to work activity. If there is to be any prospect of meaningful voluntary sector involvement in the implementation of a Freud model there would need to be a significant offer of support to the sector involving pre-procurement capacity building. Government would need to work with the sector to help us to become investor ready, identifying those voluntary sector organisations already at the stage where they could compete for significant contracts if given additional support to gear them up to the challenge. Support such as direct investment, promoting investor readiness and brokering links with potential partners and investors would help to create a genuine climate of contestability, putting homegrown social enterprise in a stronger position to compete. This support could be provided by existing agencies such as Scottish Enterprise and the RDAs.

## Rights and Responsibilities

25. We strongly applaud the increased emphasis on building job retention as a core part of the welfare to work process, something that is to a great degree lacking within our present suite of standardised national welfare to work programmes.

26. David Freud has rightly pointed out that much headway has been made over the last decade and that *'by any measure, the Government's programme of welfare reform has been a success'*. However, we would argue that it must not be forgotten that whilst in headline terms the welfare to work programme over the last 10 years has indeed delivered impressive returns, this is only part of the story. Job retention, as defined by a post 13-week retained job, is and has been poor across most welfare programmes. Many people have been placed in short-term, entry-level jobs that in turn have led to greater levels of in-work poverty and benefit cycling. We have failed to deal with the corrosive problem of 2.7 million people in receipt of Incapacity Benefit, nor have we effectively managed to tackle the entrenched effects of child poverty associated with 780,000 lone parents claiming Income Support in the UK today.
27. We would agree with David Freud's general presumption that a consensus exists that individuals have a clear responsibility to take active steps toward moving into work, or at least improving their employability levels, in return for their right to benefit and the support that goes along with these benefits.
28. However, achieving the correct balance between the individual's rights and responsibilities and the state's legal and moral obligations to help and support the individual claimant has over the last decade become a more difficult balancing act to get right. The spiralling cost of direct benefits and their administration, the loss of economic output and competitiveness in the economy, the UK's demographic time-bomb, the collateral costs in terms of health, social care and housing, and the accrual of societal costs associated with generational poverty all combine to increase the pressure for increased conditionality.
29. Clearly there is a question around whether government has already achieved the right balance, particularly for the most vulnerable groups - lone parents, the sick and disabled and long-term unemployed. The suggestion by Freud that there is still room for a tightening of conditionality around lone parents and, over time, incapacity benefit recipients is contentious, but perhaps not unreasonable given the right levels of concomitant support for both groups.

### *Lone Parents*

30. David Freud provides some evidence that the UK, in comparison with other OECD countries, demands less of their lone parents in terms of the individuals' responsibility to seek work. His report also suggests that eight out of ten lone parents also want to work. It may follow that increasing the conditionality regime for this group would seem at first glance to provide both a necessary spur to those lone parents actively thinking about engaging in work-focused activity, and at the same time legitimately bring the UK into line with other OECD countries in terms of regime.
31. The report rightly highlighted Lisa Harker's recent work on child poverty in which she states that 61% of children living in poverty are actually are part of a two-parent household. It logically follows that perhaps a more sophisticated approach to engaging workless households with children will be needed and

that conditionality measures on their own are unlikely to achieve the desired effect.

32. We would point out, as others have, that despite the UK's relatively job rich labour market the distribution of suitable jobs for lone parents is uneven and at times non-existent. The absence of universal childcare has long been a real and enduring problem; as has the difficulties faced in reducing the complexities of managing what has been a worthy and much needed tax-credit regime.
33. The suggested and more immediate removal in 2008 of entitlement to Income Support for lone parents with their youngest child aged 12 seems illogical, given the 2010 target date for wrap around childcare availability. In our view the introduction of this increased conditionality to coincide with the introduction of ESA needs careful consideration of the support lone parents need if they can be expected to move into employment.

#### *Incapacity Benefit Recipients*

34. It would appear that the suggestions for dealing with people with health conditions and disabilities are broadly based on driving forward and strengthening the combined agendas associated with Pathways to Work and the introduction of ESA. Both agendas are recent developments and therefore untested. As such the Freud recommendations, whilst they appear to be in-line with overall thinking, need to be looked at in terms of phasing and implementation timescales.
35. We would broadly support the idea of introducing private and voluntary sector provision for customers after they have spent 12 months with Jobcentre Plus and early entry for some elements of the caseload as suggested within the report.
36. We would also support the longer term aim of migrating people over to the ESA regime and acknowledge that given the high numbers of long-term sick and disabled recipients in the UK that it would make sense to begin with those who have spent the shortest time on IB.
37. We would advise great care when considering how providers apply the conditionality in relation to an individual's particular circumstances. Freud has rightly indicated that for those with mental health conditions for example considerable sensitivity will need to be applied.

#### **Benefit Reform**

38. Clearly the more complex the benefit system the harder it is to get clear messages through it to underpin the link between entitlement and responsibility. We would agree that our current system can act as a disincentive to progression into work and that in many cases it acts as a barrier rather than a mere disincentive, particularly for those claimants who do not neatly fall into one category of disadvantage.

39. Looking at ways of simplifying the current system and moving toward a single system or universal benefit will take some time, although we do await with interest the results of research underway by IPPR and Roy Sainsbury into the concept of a single Working Age Benefit. The introduction of ESA will in many ways allow government to look carefully at the effects of structural change in the current benefit system and as such identify any impediments to further change in the future.

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