

Extracts from :

‘Reducing dependency, increasing opportunity: options for the future of welfare to work’ David Freud 2007

(an independent review commissioned by The Secretary of State for Work & Pensions)

In this report I recommend that UK welfare policy applies its resources further towards helping and encouraging the least advantaged into work. The Department should develop a funding approach which will allow it to direct spending towards such groups, who have complex and demanding problems, in a more individualised way. **Such programmes should be outsourced into the private and voluntary sector, giving them the incentive to improve performance.**

Jobcentre Plus, the Department’s one-stop shop benefit and job broking arm, should concentrate on those closer to the labour market, for which its standardised programmes have proved appropriate and successful.

.... as these successes have happened, so they have brought into sharper focus the remaining challenges, including improving poor performance on low skills and tackling multiple disadvantage and benefit dependency.

The Government now needs to build on these successes, ensuring that resources are targeted in the most effective manner and on those who need them most, and that the **expertise that exists across the public, private, voluntary and community sectors is fully utilised in tackling the challenge of extending employment opportunity to all.**

The extent to which disadvantages work together and reinforce each other is striking. Multiple disadvantage does not receive the attention it deserves because of the Government’s “client group” approach. It needs more work to be understood fully. Figure 1 overleaf shows how a lack of qualifications combines with other indicators of disadvantage to depress employment rates still further. Harder to measure disadvantages, such as addiction, criminal records, and homelessness, are thought to lower employment rates even more.

So, as the Government moves beyond its traditional groups and further into the very hardest to help, the current regime will have to evolve further. It will need to move from a traditional approach based on client groups and specific symptoms to one based on individual needs.

While current policies are making progress for those closer to the labour market, further reforms are needed for those further away. The welfare system will need to both widen and deepen its contact with those furthest from the labour market, and deliver innovative and flexible new ways to help people to find work.

While there is no conclusive evidence that the private sector outperforms the public sector on current programmes, there are **clear potential gains from contesting services, bringing in innovation with a different skill set, and from the**

potential to engage with groups who are often beyond the reach of the welfare state. Therefore this report recommends that once claimants have been supported by Jobcentre Plus for a period of time, back-to-work support should be delivered through outcome-based, contracted support.

The private and voluntary sector would be responsible for intensive case management and for providing individual, tailored help for individuals to re-engage with the labour market. The contracting regime would set a core standard that everyone would receive, but beyond this there would be freedom between the provider and the individual to do what works for them. There may need to be enhancement of arrangements for the very hardest to help, who are the clients of multiple agencies, and supported by third sector contractors.

These contracts would roll up the existing patchwork of public, private and voluntary provision and **put in its place a flexible approach that looked forward rather than back – focused on the barriers individuals face rather than the benefit that they are on or the Public Service Agreement category they are in.**

The report recommends that these contracts are outcome-based, long term, and based on the 11 regions and countries in Great Britain. They should be let to “prime contractors” who would be responsible for marshalling an appropriate blend of subcontractors to deliver the services required for the variety of claimants in that region. The prime contractors, who would compete on both price and quality for a regional contract, would need to arrange the finance to cover the upfront cost and risk of achieving adequate off flows from benefit. While it will be important to test this recommendation, I believe that on balance, each region should become the province of a sole prime contractor because of the complexity of the arrangements likely to be required with many other parties. The Government will need to balance this with the need to avoid over-dependence on single monopoly providers. The quid pro quo for local monopoly arrangements would be a totally transparent performance regime, so that innovative strategies that work could be quickly replicated in other regions. The prime contractors would also be required to work with local agencies and through any City Strategy consortia to ensure that the provision was responsive to local conditions and objectives.

The contracting approach described above would work as **a public-private partnership** to deliver up-front investment in order to realise savings over the life of the contract. **In order to deliver this the Department would need to develop a model that allowed it to understand the full costs and benefits of different groups of individuals moving into work.** The more sophisticated this model becomes, as it develops over the years, the easier it will become to target early interventions cost-effectively.

The Department would **need to develop a world class contracting capability** so as to ensure that the Government’s complex social goals were met without compromising the robustness of the outcome focus. It would also **need to develop sophisticated performance management tools** and be prepared to remove contracts from providers who were not performing.

Through the New Deal for Disabled People, Employment Zones, and the forthcoming private and voluntary sector led Pathways to Work, amongst other programmes the Department already delivers a substantial proportion of its business through a range of contracts with the private and voluntary sector. In my view there are good reasons for taking this involvement of the private and voluntary sectors further in the delivery of welfare to work.

The Department currently has a complex patchwork of public, private and voluntary sector provision across the country. Jobcentre Plus has more than 900 suppliers of welfare to work provision. Contracts follow a variety of different models, according to the area and the group of people that they are designed to support. Several problems have been identified with this approach.

- One is that the **contracting structures too often specify process rather than outcome**, which limits the value that private and voluntary sector providers can add.
- Another is that the **contracts have ceiling values in expenditure, which means that providers cannot be rewarded for over achievement.**
- **Contracts are not only small scale, but are let according to benefit groups so that it is difficult to set up adequate systems to handle sub-groups with specific barriers.**
- The system has a **multiplicity of requirements and start and finish dates for each contract.**
- A common complaint among providers is that the **length of the contracts – at a typical two years with an option to extend for a further year – is far too short to set up the systems and recoup the investment necessary to provide outstanding performance. This is also a barrier to new entrants to the market.**
- There are also complaints that the **monitoring process looks more at compliance than on performance.**

The private and voluntary sector would, then, compete for long-term contracts to provide support to disadvantaged people, with payments based on successful individual outcomes over an extended period. Correctly contracted on output based criteria, providers will be incentivised to experiment and innovate to find effective solutions.

Perhaps the most surprising early outcome of the Australian outsourcing was the rapid introduction of group therapy as a tool for re-activating the demotivated. It is easy to envisage a series of other innovative approaches. For instance, a significant sub-group are trapped in the benefits system through fear of debt collectors coming to call when they have a wage. Providers may therefore be incentivised to provide support to address debt.

In order to make this work, and to ensure that providers can properly set themselves up to support people over a long period of time, this report recommends that the contracts are longer than those traditionally let by the Department.

There would be a key role for smaller voluntary sector providers, and perhaps even parts of the public sector, at the sub-contractor level. It is possible to envisage a group of large charities, voluntary and public bodies coming together to form a consortium to bid for these contracts, incorporating a private sector company as their prime contractor.

To obtain the benefits of local responsiveness it may be necessary to build a core contract management capability within the Department in each of the regions. It would also be necessary to make arrangements to provide financing for the smaller providers which would find it hard to raise the funds and assume the risk inherent in an outcome based contract.

Government agencies have traditionally focused on delivering the services for which they are directly responsible with at most very limited consideration of, or support for, a person's broader needs. This has started to change – for instance Jobcentre Plus staff operating from prisons – but the pace of that change must increase dramatically. The public service of the future will put aside organisational boundaries to deliver services designed around the whole of their needs.

The recent report by Sir David Varney provides a blueprint for this change. Sir David outlines how the time and money of Government, citizens and businesses could be saved by examining the scope for integrating front-line service delivery. He makes a range of recommendations, including the development of:

- a change of circumstances service, starting with bereavement, birth and change of address, with initial work to be led by DWP; and**
- a cross-Government identity management system to enable greater personalisation of services and to reduce duplication across Government, building on a proof of concept project to share data between DWP, HMRC and 12 local authorities.**

As a major deliverer of services to millions of citizens, Jobcentre Plus has a vital part to play in the transformation of public services that Ministers and Sir David Varney envisage. They also have the only public facing Government network of offices across the entire country as well as sophisticated call centre and internet operations. Jobcentre Plus already has strong relationships with a myriad of partner organisations, and staff on the ground seek to link customers to other services they might need. For example, separately from the above proof of concept project, Jobcentre Plus is already running a trial with HMRC to improve the overall experience in relation to benefits and Tax Credits on starting and leaving work.

A large number of functions are currently spread through the system, making it hard to navigate. With responsibility for tailored employment support for the hard to help transferred to the private and voluntary sector, Jobcentre Plus should have the capacity to become the natural one-stop shop for a large number of standardised services for the mass market. This would place Jobcentre Plus at the heart of a connected set of welfare services, giving claimants and the taxpayer the full advantage of the contact it has and its physical presence on

the high street. Jobcentre Plus could provide a one-stop base for relevant changes of circumstance, as proposed by Varney; consolidate the provision of benefit services, including working tax credits and housing benefit; sit at the heart of an integrated employment and skills service (Leitch); and further promote access to formal childcare (Harker).