



ERSA Response to the Freud Report

***Reducing dependency, increasing opportunity:
options for the future of welfare to work***

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i. Summary and Key Recommendations

ERSA welcomes the broad thrust of the Freud report "*Freud is everything we have been asking for in terms of flexibility in delivery*". However, ERSA believes that further discussions are essential in order to develop a detailed design specification for change and to ensure that the potential implications of this are understood by all stakeholders. Such on-going discussions will provide a very real contribution to more effective welfare to work services.

The fundamental shifts in the structure of welfare to work services proposed by Freud are broadly welcomed by ERSA. They represent a significant challenge to current delivery but are built on four principles which we fully endorse:

1. We need to invest more heavily upfront in services for more disadvantaged clients in order to see any return in greater participation in the labour market;
2. We need more flexible, personalised support to make this happen and a service that can become and remain fresh and innovative;
3. We need to ensure that payment is by results and that good performance is supported through effective supply chain management and, fundamentally, an appropriate contracting procedure; and,
4. We need to remove caps on services and the link between Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME)

ERSA would urge the Department to adopt the central premise of the Freud Report that new investment is required to significantly improve our welfare to work service for the most disadvantaged and that this can be provided by the private and voluntary sectors. The Department should make a commitment to deliver this improvement within a given period of time (2-3 years).

ERSA's key recommendations are as follows:

- ERSA does not believe that programme reform and improvement is dependent upon, or should be delayed by, benefit reform. While a single benefit will aid flexible delivery of services, this need not wait for the development of a single benefit structure. It will be more important to work flexibly with all clients whatever their benefit entitlement.
- Increased conditionality is to be welcomed but we also need to ensure that remaining barriers to work are addressed, particularly adequate provision of affordable childcare and removal of the housing benefit trap associated with high rent accommodation.
- ERSA strongly supports the development of a range of contracting models to test their strengths and weaknesses in terms of more

effective delivery structures, their ability to raise private finance, or provide a better basis for developing informed client choice.

- ERSA would also welcome any initiative from the Department to develop a strategic approach to supporting the capacity of the welfare to work market in the UK. Freud represents a major opportunity for the sector to show its potential, but there is a concern that small providers of key services for the more disadvantaged may get left behind in the process.
- There remains insufficient evidence against which to judge the Prime Contractor model. ERSA contends that the Department needs to become more closely involved in understanding how delivery structures operate from the outset, and therefore better able to make judgements should the system need to evolve to meet changing circumstances. An informed, more flexible approach will be required to get the best out of the system.
- ERSA recommends that provision is made for a developmental period in the contract schedule to help reduce risks (for both the Department and contractors). An initial period of open-book contracting would help inform both parties on the broad parameters of regional contracting and maintenance of local capacity.
- ERSA believes that there is not enough evidence on which to set robust prices across such a varied client group. More work needs to be done to explore client segmentation, pricing and the interplay between these and maintaining high quality customer service. ERSA is in a unique position in that it has a wide range of practical experience and would welcome the opportunity to share this experience with the Department.
- ERSA firmly believes that informed client choice is a necessary adjunct to provider competition and that together they provide an important driver for improved customer service and more cost-effective delivery to the Department. Space needs to be found in the delivery of the Freud recommendations for client choice and provider competition beyond re-contracting.
- ERSA welcomes output-related payments as we believe this will reward effective sustainable practice. Striking an appropriate balance of risk and reward is fundamental to success. If all the risk falls on the contractors, then this will have to be paid for through higher risk premiums and this will eat into the resources available for delivery.
- ERSA endorses the emphasis in Freud on longer-term sustainable outcomes. Again, the terms of the outcome-related payments will have a direct relationship to the cash-flow implications of performance measures and the timing of these. ERSA would be happy to contribute our experience of good practice in outcome-related payments and provide some insight into the trade-off between different payment structures.

- ERSA would wish to see a range of delivery options tested in order to speed the adoption of more effective ways of working. Contracts for sub-regional delivery will encourage more interest in bidding from the voluntary and private sector and serve to maintain a more vibrant market for future bid rounds.
- ERSA is content with the recommendation that in general clients should be referred from Jobcentre Plus at the 12 month point. We would also fully endorse Freud's recommendation that for certain groups early intervention is essential. It is paramount that such groups are referred to appropriate support as soon as these issues are identified.
- ERSA believes that current screening technology is not reliable and as such referrals prior to the 12 month point should be made on clear criteria not to any "black-box" process.
- ERSA believes contracting to LSC provision is highly structured and inflexible and rarely reflects the needs of more disadvantaged clients. It would be highly detrimental to shackle the introduction of ground-breaking flexibility in the delivery of welfare to work to such provision and the Department will need to secure much greater flexibility to deliver demand-led qualifications.
- ERSA considers that the successful implementation of Freud will require further examples of close working across key government departments including the Department for Work and Pensions, the Department for Education and Skills, the Treasury, the Department for Trade and Industry, the Department of Health and the Ministry of Justice. Clearly the objectives of increased employability, raising skills and the eradication of child poverty are issues that must be addressed within one uniform framework of activity.

ii. Background and ERSA

ERSA is the representative body for providers of publicly funded employment programmes with a membership consisting of both private companies and not-for-profit organisations.

ERSA welcomes the opportunity to take part in discussions with the Department on the future shape of welfare to work delivery. We are particularly keen to develop a dialogue concerning procurement and performance issues so that innovative flexible approaches to service delivery are supported by appropriate incentives and payment structures.

Flexible contract terms and conditions are central to providing a mechanism for improved welfare to work delivery. Developing a fundamentally different approach to contract management – more a shared learning experience – will be essential to design a service with the range and complexity of provision envisaged by the Freud recommendations. On-going discussions, away from the pressures of particular contracting rounds, should provide a very useful contribution to more effective welfare to work services.

1. Single Working Age Benefit

1.1 The introduction of a single benefit for working age people will help deliver more flexible support for welfare to work clients. Much of the current range of provision is conditioned by the particular benefit a client may be claiming and ERSA considers that the system is simply too complex.

1.2 However, general entitlement to employability support, whatever the clients' benefit, would remove much of the confusion around the plethora of different programmes. **ERSA believes this need not wait for the development of a single benefit structure. Programme reform and improvement should not be dependent upon, nor should it be delayed by, benefit reform.**

1.3 ERSA welcomes the opportunity the introduction of a single benefit will provide to send out a message to all claimants that work is the best route out of poverty and, for many more disadvantaged clients, can form part of their recovery process.

1.4 **ERSA fully supports a strengthening of conditionality for those able to work but this needs to be set in the context of positive incentives to work.** A more personalised service delivery means that no clients should be required to undertake activity which they do not see as relevant help.

1.5 However, there are concerns with barriers to employment which lie outside the employability and motivation of clients. **ERSA believes that in introducing a single benefit, the Government should consider any outstanding benefit traps and the wider incentives of moving into work.** The high cost of accommodation in some areas and the inflexibility of housing benefits have been identified as key issues alongside the availability of affordable childcare. Also, more thought needs to be given to joining up government policy – Freud proposes that conditionality be extended to lone parents when their youngest child reaches 11, just as their entitlement to wrap-around childcare ends.

2. Contracting Issues

Regional contracts

2.1 Regional contracts represent a significant shift from the current contracting landscape – they would involve a scale and complexity beyond any contracting procedure currently operating. **ERSA supports the principles which underpin Freud’s recommendations on the introduction of regional contracting**, but we have two caveats:

- a) Regional contracts will deliver significant market power to a relatively small number of prime contractors to dictate the shape of welfare to work provision – the system needs to have some regard to maintaining diversity and capacity in delivery; and
- b) The introduction of client choice and effective competition have been major drivers for innovation, better customer service and improved performance for the Department. The Freud recommendations should build on this experience through an appropriate contracting structure.

2.2 **ERSA strongly supports the development of a range of contracting models to test their strengths and weaknesses in terms of more effective delivery structures, their ability to raise private finance, or provide a better basis for developing informed client choice.** What is important is that these different approaches are given a chance to prove themselves. Inevitably, many of the alternative contracts would cover smaller spatial areas. This could be on the basis of existing administrative boundaries (for example, Jobcentre Plus Districts) or could fit more closely with labour markets and emerging city-regional policy by being based on travel-to-work areas.

2.3 **ERSA would also welcome any initiative from the Department to develop a strategic approach to supporting the capacity of the welfare to work market in the UK.** Freud represents a major opportunity for a step change in welfare-to-work delivery, but a concern remains that small providers of key services which are very close to particular disadvantaged client groups may get left behind in the process.

Contract management

2.4 ERSA welcomes the suggestion that contract management would shift into a new environment where the leading players had built their businesses on effective supply-chain management.

2.5 There remains insufficient evidence against which to judge the success of the prime contractor model. There needs to be a shift in procurement practice: **ERSA believes that it will be impossible to draw up a contract which will cover all eventualities across such a diverse client group over an extended period. While the major design features may be relatively straightforward, the devil is very much in**

the detail and we think it is essential that the detail be approached flexibly and based on a shared experience of what works.

2.6 What is required is a more developmental approach with the Department being more closely involved in understanding how delivery structures operate from the outset, and therefore better able to make judgements should the system need to evolve to meet changing circumstances.

2.7 ERSA recommends that provision is made for a developmental period in the contract schedule to help reduce risks (for both the Department and contractors). In a long-term investment process, it would make as little sense for the contractors to make short-term super-profits as for the Department to secure below-cost provision – each scenario will critically weaken provision in the longer-term. An initial period of open-book contracting would help inform both parties on the practical outcomes from contract design. This knowledge could then be re-invested into the contracting process.

Segmenting the client group

2.8 ERSA fully supports the principle of invest-to-save: by investing early and with a level of resources commensurate with clients' needs, we can deliver significant savings to the Government. ERSA has been calling for payment differentials to be introduced and the re-direction of resources towards the hardest to help for some time.

2.9 Segmenting what will be a very broad client group with a wide range of needs represents a significant challenge. Freud suggests that the *"funding model will recognise that some groups will be more expensive to help than others"*¹.

2.10 Some clients will require significantly more help than others to enter sustainable employment and the contracting process needs to ensure that there is an appropriate balance of risk and reward across a very varied client group in circumstances where their real barriers to employment (and therefore service costs) are often unknown and likely to vary over time.

2.11 To date, price setting on welfare to work programmes has been an inexact science, more closely related to the available budget and the size of the target client group than a considered assessment of the real costs of service delivery.

2.12 Getting the right balance between price, quantity and quality in the prime contract will be essential to support effective intervention across the spectrum of client needs. Specifying prices in detail runs the risk of reducing flexibility and increases the chances that the relative payments will be wrong and could create perverse incentives. Equally, we believe it is important that the Department specifies minimum quality standards in the welfare to work

¹ Freud report, p58

services, but these have to be derived with regard to their cost and their real impact on the quality of service delivered by contractors.

2.13 ERSA believes that there is not enough evidence on which to set robust prices across such a varied client group. More work needs to be done to explore the merits of different approaches to client segmentation, the prices that are attached to different client groups and the interplay between these and maintaining high quality customer service.

2.14 ERSA is in a unique position in that it has a wide range of practical experience of client segmentation techniques and the issues surrounding the costs of intervention across different client groups. We would welcome the opportunity to share this experience with the Department.

3. Client Choice and Competition

3.1 ERSA fully understands the relative merits of the client choice debate. However, we consider that informed client choice is a necessary adjunct to provider competition and that together they provide an important driver for improved customer service and more cost-effective delivery to the Department. Space needs to be found in the delivery of the Freud recommendations for client choice and provider competition beyond re-contracting.

3.2 It will be important to ensure that choice and competition do not prevent the achievement of economies of scale in delivery. We believe it is better to offer a high quality service where the client is fully involved in determining the best route to achieving their career goals.

3.3 ERSA believes that smaller sub-regional prime contracts will interest far more welfare-to-work providers and this would provide a very healthy basis for competition to drive service innovation.

4. Outcome Related Payments

4.1 Outcome-related payments help drive innovation and mean that more efficient delivery will contribute to Departmental savings. **ERSA welcomes output-related payments as we believe this will reward effective sustainable practice.**

4.2 A key issue for ERSA is striking an appropriate balance between risk and reward – a major thrust of the Freud recommendations is that the private and voluntary sectors might shoulder a greater proportion of the risks involved in securing sustainable employment for more disadvantaged clients. ERSA endorses this approach, but it needs to be explicitly recognised that this will only bear fruit if contracts strike a balance with the rewards for achieving this. If all the risk falls on the contractors, then this will have to be paid for through higher risk premiums and this will eat into the resources available for delivery.

4.3 **ERSA is concerned at the degree to which current payment systems are able to provide adequate incentives/ penalties to ensure the system works for the very hardest-to-help.** More needs to be done to ensure that every effort is made to support the very hardest-to-help but this may require a specific focus in terms of customer feedback rather than “leaving it to the internal market”. If Departmental policy is to help all clients then this needs to be explicitly addressed in the realistic pricing of support: too often in the past providers have been criticised for not fully supporting the needs of the very hardest-to-help when this would not be fully-funded under the terms of the contract.

4.4 **ERSA welcomes the emphasis in Freud on longer-term sustainable outcomes. Again, the terms of the outcome-related payments will have a direct relationship to the cash-flow implications of performance measures and the timing of these. ERSA would be happy to contribute our experience of good practice in outcome-related payments and provide some insight into the trade-off between different payment structures.**

5. Working with Jobcentre Plus

5.1 Freud acknowledges, and we would support, that Jobcentre Plus does a good job with those clients who are self-reliant and require little support in finding work. Equally, we endorse Freud in identifying the advantage of the private and voluntary sectors in delivering services to more disadvantaged clients. We look forward to working positively in partnership with Jobcentre Plus in circumstances where our respective roles and responsibilities have been clarified. Too often in the past Jobcentre Plus has been both procurer and competitor to the private and voluntary sectors and this has prevented more effective working relationships.

5.2 ERSA is content with the recommendation that in general clients should be referred from Jobcentre Plus at the 12 month point. However, this should be held under review. Depending on performance in practice, this principle may need to be revisited.

5.3 ERSA fully endorses Freud's recommendation that for certain groups early intervention is essential and fully supported by available evidence – ex-offenders, homeless, drug and alcohol issues and some disabled and ethnic groups, those who are re-cycling through the system and especially those who have a combination of these, face severe penalties in finding employment. It is paramount that such groups are referred to appropriate support as soon as these issues are identified.

5.4 ERSA believes that current screening technology is not reliable and as such referrals prior to the 12 month point should be made on clear criteria not to any "black-box" process. We are wary of Jobcentre Plus' ability with more disadvantaged clients to build up sufficient trust to provide an accurate assessment of their future potential in the labour market – something which Freud implicitly recognises. The role of the initial assessment and subsequent support for clients who are ultimately referred to contractors needs careful planning.

5.5 Greater partnership working between Jobcentre Plus and contractors will be essential to ensure that lessons learnt in preparing clients for the labour market are taken on board in each circumstance – it would not do for Jobcentre Plus to hold on to clients until the 12 month point if they have no realistic prospect of helping them and in turn, contractors have a responsibility to inform Jobcentre Plus of good practice delivery, so that any client who can enter sustainable work in the first 12 months does so.

5.6 ERSA would also like to explore the respective roles and responsibilities between contractors and Jobcentre Plus in the three-year period relating to sustainable client outcomes.

6. Implementation Issues

6.1 **A decade on, the Freud recommendations need to be approached with the same belief that heralded the introduction of the New Deal.**

6.2 **ERSA sees no merit in establishing a short-term pilot of a long-term investment process. Evolution in delivery will be inevitable as the process matures. If the Department is willing to fully engage in the process of developing and implementing provision, then the learning should be re-applied directly.**

6.3 **Piloting does not have a good track record in welfare to work in the UK and ERSA would wish to see a range of delivery options tested in order to speed the adoption of more effective ways of working.** More involved contract management will be essential to drive up performance, including supply-chain development: this is an area where ERSA would wish to see significant improvement.

6.4 Our preference is to see a staged introduction of the recommendations – we would welcome the development of different contracting models in different regions, but such is the consensus around the core recommendations surrounding personalised and flexible delivery, that we see no point in making more disadvantaged clients wait for better services. Making the transition could involve a number of different routes:

- Big bang – move directly to regional prime contracting on the grounds that it will speed the introduction of more holistic delivery and instigate more effective supply-chain management based on performance.
- Staged development – introduce contract management expertise from the private sector by handing over existing contracts before moving towards regional prime contracting.
- Mixed economy – introduce a range of contracting options, regional and sub-regional level to ensure that existing smaller organisations with strong track records in welfare to work delivery can participate as prime contractors.

6.5 The ability to engage City-Region Strategies in the wider delivery of Freud will be an essential part of delivery. In principle, **ERSA is of the opinion that there will be sufficient areas of mutual interest for each of the initiatives to co-exist.** However, establishing practical working relationships will require some support from the Department to help clarify roles and responsibilities.

7. Welfare to Workforce Development

7.1 Sustaining outcomes for clients over an extended period will allow providers to build much stronger attachment to the labour market for their clients. The development of skills is a core concern for welfare to work. Sustained employment is closely associated with a clients' ability to progress from entry-level wages and pursue their career goals and this in turn requires qualifications and experience. **ERSA believes that the key to achieving this will be combining employer engagement with the integrated delivery of skills development.**

7.2 However, this is about addressing low skills not just delivering vocational qualifications. ERSA's experience of vocationally-based training is that it is too often not demanded by the employer and requires too lengthy a commitment from more disadvantaged clients. Too many clients drop out without completing their courses. Job specific training leading to recognised qualifications engages employers in progressing their staff, and crucially, produces relatively quick results for individuals.

7.3 In ERSA's experience contracting to LSC provision is highly structured and inflexible and rarely reflects the needs of more disadvantaged clients. ERSA considers that it would be highly detrimental to shackle the introduction of ground-breaking flexibility in the delivery of welfare to work to such provision. The Department will need to secure much greater flexibility to deliver demand-led qualifications. We would strongly recommend that this process remains with welfare to work contractors, at least in the short term, given the poor track-record of LSC provision in engaging the core target group in successful completion of training and entry into work.

8. Joined-up Policy

8.1 The successful implementation of the Freud report will require close working across key government departments including the Department for Work and Pensions, the Department for Education and Skills, the Treasury, the Department for Trade and Industry, the Department of Health and the Ministry of Justice. Also apparent is that for Freud's recommendations to work consideration must be given to the recommendations of both the Leitch Review of Skills and Lisa Harker's report *Delivering on Child Poverty: what would it take?* Clearly the objectives of increased employability, raising skills and the eradication of child poverty are issues that must be addressed within one uniform framework of activity.