

CEL Brief guide

The Freud Report



Reducing dependency, increasing opportunity: options for the future of welfare to work; An independent report to the Department for Work and Pensions by David A. Freud, published March 2007¹

1. At the end of 2006, the Department for Work and Pensions commissioned David Freud to draft a report on how Labour's unemployment and training policies could be reformed to increase employment levels. Freud's inquiry was to form part of a long-term review of unemployment policy that DWP was conducting, under the leadership of then-Employment Minister Jim Murphy.
2. Freud's remit was '*to review the progress on the Welfare to Work programme since 1997, taking account of evidence from the UK and international experience, and make policy recommendations on how the Government can build on its success in using policies such as the New Deal to continue to reduce inactivity and in-work poverty, and meet the Government's 80 percent aspiration [to have 80 percent of working-age adults in work].*' Freud delivered his report to the DWP in March 2007.
3. Freud declared the New Deal to be highly successful, with 2.5 million more in work and 900,000 fewer people on unemployment benefit (a decrease of nearly 17 percent). The percentage of working-age adults in employment is at a record high, at 74.5 percent (it was 72.7 percent in 1997). Almost every group identified as vulnerable to unemployment by the Government (lone parents, minorities, older workers and disabled persons) has recorded an increased level of employment; only low-skilled workers have seen a decline.

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¹ <http://www.dwp.gov.uk/publications/dwp/2007/welfarereview.pdf>

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The Hardest Cases

4. Freud points out, as Lord Leitch did in his Review, that more than one-third of British adults are without any qualifications, and half of these are out of work. In an increasingly global economy, these people will become ever more difficult to employ, so training is vital.
5. For the Government to achieve an 80 percent employment level, it has to start recruiting workers from sectors of the adult population that are the hardest to employ – people without qualifications, older workers, people on incapacity benefit, people who have been on income support for more than a year. 300,000 new lone parents will have to be found work; so will a million over-50s, a million on incapacity benefit, and 1.3 million who have been on income support for more than a year.
6. Freud argues that the New Deal approach, though heretofore very successful, won't work as well with these hardest cases. The New Deals tended to tailor programming and counselling towards '*client groups*,' but many of the long-term unemployed suffer from '*multiple disadvantage*' – they may be unskilled *and* on incapacity benefit, or unskilled *and* lone parents, or all three. Any scheme intended for these segments of the population must allow a great deal of room for individual approaches, given the complexity of the problems that are thrown up.

Recommendations

7. Freud advises that the Government contract with the private and voluntary sectors to provide individually tailored programmes for hard-to-employ adults. Freud says that, '*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 given skill set, and from the potential to engage with groups who are often beyond the reach of the welfare state.*'
8. The commissioning agency in this case would be Jobcentre Plus. Jobcentre Plus would ensure minimum standards of service across all contractors. The main contracts will be assigned on a regional basis, with one contractor for each of 11 regions and countries in Great Britain². The prime contractors would then subcontract specific services out to other providers. The regional-level contractors will have to coordinate with local agencies and consortia.
9. By getting the long-term unemployed off benefits, the programme would ultimately save public money – '*a genuine transformation into long-term work for such an individual is worth a present value of around £62,000 to the State.*' The '*existing level of exit rates from benefit*' can serve as a benchmark for '*outcome payments*' in this scheme. The contracts would also include incentives to entice contractors to seek out a broad spectrum of clients. The Government must

² '*This report recommends that the contracts are outcomes-based, long term and based on the 11 countries and regions of Great Britain*' The report is not more specific than this, though the use of the term '*Great Britain*' seems to suggest the exclusion of Northern Ireland.

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be prepared to develop a '*world-class contracting capability*,' to robustly monitor the contracts and revoke them for poor performers.

10. At the same time, Freud recommends that those already on benefits be subject to stricter work requirements. He also suggests that a single benefit for working-age adults be created, to keep recipients from benefiting from various loopholes or vagaries in the current system that might make work less attractive than remaining on welfare.

Role of Jobcentre Plus

11. In Freud's vision, Jobcentre Plus's role would be refined. Jobcentre Plus would remain the first port of call for any person seeking help towards employment. However, the hardest cases would be referred to the private contractors; Jobcentre Plus would only handle those people who were likely to be placed in jobs within a year. Jobcentre Plus would also retain jurisdiction over benefits.

Implementation

12. Freud anticipates '*it would take at least six years to roll out a full system of provider contracts*, (i.e. 2013), and that it would take '*at least eight years*' to introduce a new benefit system.' He advocated putting lone parents with children aged 12 and over on Jobseekers' Allowance as soon as is practicable; lone parents with younger children would be added on in stages.

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Contact the CEL policy team

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