



The Freud Review: Reducing dependency,
increasing opportunity: options for the
future of welfare to work

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Key points

- The Freud review was commissioned by the Department for Work and Pensions to review its benefit delivery and welfare to work programme. It adopts a 'work first' approach, discusses the need for sustainable and jobs, and contains wide ranging proposals which include the use of benefit sanctions, the role of the private and voluntary sector in delivery and benefit.
- CPAG supports the government's moves to increase access to employment and support into work. We agree that employment retention and progression are the keys to successful welfare to work programmes, and welcome the report's recognition that more needs to be done to address barriers to employment and to support people returning to employment, or taking employment for the first time.
- We also welcome the report's emphasis on the need to tackle multiple disadvantage, and the acknowledgement that intensive, individualised support is required to improve outcomes for disadvantaged groups is expensive.
- However, we are concerned that the Freud report's over-reliance upon a 'work first' approach takes further policies that are already faltering in the fight against child poverty. Although Freud indicates that 'On international definitions, the UK has the highest employment rate of any G7 economy and indeed one of the highest rates in the world', child poverty in the UK levels remains shockingly high.
- To prevent welfare to work programmes simply shifting families from workless poverty to in-work poverty, we urge the Government to develop the approach recommended in the recent Harker report commissioned for the Department for Work and Pensions.ⁱ
- Even if an 80% employment rate is achieved some people cannot, and may never be able to work. Access to adequate benefits that safeguard these families from poverty is essential. The close link between poverty and worklessness is a stark illustration of the woeful inadequacy of out of work support. Problems are compounded by poor administration and low take up among disadvantaged groups.
- We have serious concerns about the financial feasibility of some of the proposals, particularly around contracting out welfare to work programmes to private and voluntary sector providers and delivery. We do not think that Jobcentre Plus has the ability, skills or resources to oversee the implementation of a wide ranging and ambitious programme of reform which we fear will compromise the independence and integrity of some providers. Profit is not an appropriate motivation for welfare delivery.
- Given the lack of relevant and robust evidence-based research underpinning the reform programme, we question the validity of some of the proposals. We are concerned that insufficient checks and balances have been put in place to protect disadvantaged groups. A rushed agenda does not provide the 'extended period for testing' advocated by Freud. This will have a negative impact on delivery.

Introduction

1. On 5 March 2007, David Freud delivered *Reducing dependency, increasing opportunity: options for the future of work* to the Department for Work and Pensions (DWP). CPAG is pleased for the opportunity to comment on the report. Despite a hasty process, which ran from December to March with little formal consultation, the implications of the report are wide ranging. It considers benefit delivery and welfare to work programme, the use of benefit, sanctions, the role of the private and voluntary sector in delivery and benefit simplification.
2. The Freud report highlights a number of helpful issues. It recognises that reaching an 80 per cent employment rate is 'extremely challenging', suggests that 'UK welfare policy applies its resources further towards helping and encouraging the least advantaged to work' and emphasises that 'the UK's skills base remains mediocre by international standards'.
3. The Freud report also stresses that '[m]ultiple disadvantage does not receive the attention it deserves because of the Government's "client group" approach, and urges the Government 'to move from a traditional approach based on client groups and specific symptoms to one based on individual needs.' However, it accepts that 'The intensive, individualised support which is effective in putting the most disadvantaged people into work is expensive.' We agree that these issues are important and have a direct impact on the effectiveness of delivery.
4. CPAG agrees that removing barriers to employment and increasing the number of disadvantaged people in work must be an integral part of the Government's strategy to reduce child poverty and that the UK workforce needs to become better qualified if it is to compete effectively in a global market. We support the Government's determination to reduce educational inequalities and improve skills.
5. We also believe that much more needs to be done to ensure that employers do not discriminate against disadvantaged groups and provide more flexible, well remunerated and sustainable job opportunities. More support is required to ensure that once people move into work they are able to retain and progress in employment.
6. Although Freud emphasises the need for sustainable employment, we feel that welfare to work policies should recognise that paid employment has proved to be an erratic route out of employment for some, and will never provide a route out of poverty for everybody. The fact that 57% of children live in households in which somebody is in work provides a salutary warning that we need much greater emphasis on job quality. Policy needs to engage with benefit adequacy.
7. The Freud report comes hot on the heels of the Welfare Reform Act - which primarily engages with the delivery of incapacity benefits, and the Harker report,ⁱⁱ commissioned by the Department for Work and Pensions (DWP) to suggest ways to reduce child poverty. It just precedes the DWP's response to the Harker report *Working for children*ⁱⁱⁱ which was published on 27 March, the day the HBAI figures revealed a slight increase in child poverty.^{iv}
8. This submission is divided into two sections. The first section provides a contextual framework for the Freud report. The second section considers the proposals outlined in Freud. The submission concludes with a number of recommendations.

Section 1 – the context

Child poverty

9. The latest edition of the Households Below Average Incomes series (HBAI) was released in March, and indicated that, despite an increase in employment levels, the number of children living in poverty rose by between 100,000 and 200,000 between 2004/05 and 2005/06, the first increase in child poverty since 1999.
10. If the Government is to reach its 2010 target on reducing child poverty by half, a further 1.1 million children need to be out of poverty, double the number of children out of poverty that have been helped so far. This is particularly challenging given that initiatives that have been put in place to reduce child poverty have so far helped 'easier to reach' groups. Recent spending in the 2007 budget will help lift an estimated 200,000 children out of poverty, but are well short of what is needed by 2010.
11. Commentators – including CPAG – are clear about what needs to be done if the Government is to reach its 2010 target of halving child poverty. In-work poverty and poverty in workless households must both be addressed. The former requires a reduction in educational inequalities and an improvement in skills, as well as the provision of better paid, more sustainable employment opportunities. The latter necessitates an increase in the safety net and an improvement in administration and take up.

Work – a route out of poverty?

12. CPAG is supportive of the Government's 80 per cent employment aspiration and agrees that for people who are able to work, employment forms the best current route out of poverty: 12 per cent of all children in a household with a parent in work are in income poverty, compared with 78 per cent of children of workless parents.^v At the same time employment is often an insecure route out of poverty and it cannot work for all. We support moves to provide much higher levels of support and advice to people who face significant barriers to employment and progress has already been made. An impressive increase in lone parent employment rates (up by 11 percentage points since 1997 to 56.5 per cent by spring 2006^{vi}) has been helped by the introduction of tax credits^{vii} and the success of the New Deal for Lone Parents which has doubled the chances of those who join it leaving benefits for paid work.^{viii}
13. *Monitoring poverty and social exclusion* provides a depressing overview of the disadvantages disabled people face in the labour market in the UK and demonstrates the challenge policy faces.^{ix} It reports that the numbers of disabled adults who 'lack but want work' is five times the number included in the official unemployment figures.^x For any given level of qualification, a disabled person is between two and three times as likely as a non-disabled person to be lacking but wanting work.^{xi} Nearly half of all disabled people of working age are economically inactive compared to only 15 per cent of their non-disabled counterparts.^{xii}
14. Recent research from the Joseph Rowntree Foundation reveals that only 20% of Bangladeshi, 30% of Pakistanis and 40% of Black Africans of working age are in full time employment (compared to over 50% of white British people of working age). The research suggests that even with a degree, Pakistani and Bangladeshi

men are less likely to be employed than a white person with the same qualifications. The researchers call for 'an urgent rethink from Government and employers so that minority ethnic groups do not miss out on opportunities in the workplace and higher educational attainment is properly recognised'.^{xiii}

15. Early findings from the 'Employment Retention and Advancement demonstration pilot', created to explore strategies for improving sustainability and progression within work, indicate that the support and advice elements are yielding some positive results, particularly for lone parents.^{xiv} These should inform initiatives designed to increase the employment rate. However, as the Freud report emphasises, effective support is costly.
16. 57% of children living in poverty have a parent in work.^{xv} This means - as Harker^{xvi} shockingly puts it - that for 'around one in three cases, gaining a job means moving from non-working poor to working poor'. As Harker indicates, this 'raises some fundamental questions about the level of reward attached to jobs in different parts of the labour market, the responsibilities of employers towards their employees and the extent to which in-work financial support can be expected to lift families out of poverty'. Although Freud considers the importance of job sustainability, issues around in-work poverty have not tempered the move towards greater conditionality.
17. In summary, for a work-first approach to succeed, the following issues need to be addressed:
 - More emphasis must be placed on job sustainability and progression within work, not just entrance to work. To avoid vulnerable groups of people simply cycling in and out of poorly paid employment, the Government must monitor and measure not just moves into employment, but job sustainability and progress within jobs.
 - **Parental needs must be identified**, and appropriate and targeted support provided to enable them to balance working and caring. For example Harker - who identifies lack of adequate childcare as the key barrier to employment, not a lack of willingness to work – suggests a 'New Deal for Parents'.
 - More emphasis needs to be placed on **reducing educational inequalities**. Welfare reform should be directly linked with and informed by educational reform and the Leitch review proposals on the development of skills and training. Much more personalised support and advice needs to be put in place to ensure that opportunities for training are available to the lowest skilled groups.
 - **Much more should be expected of employers**. For the moment low paid jobs, inflexible working patterns that do not match parenting and/or caring responsibilities, and high levels of discrimination generate consolidate barriers to employment. The Minimum Wage needs to be increased, and severe penalties imposed upon employers who fail to pay the minimum wage or discriminate against disadvantaged groups. The Government should work more directly with employers - for instance through the city strategy approach – to open up decent, family friendly, employment opportunities to those often denied them.

Benefit adequacy

18. Freud reports that a child in a workless lone parent family is five times more likely to live in poverty than one living with a full-time working lone parent. Freud accepts that 'Worklessness is associated with poor health, mortality, poorer mental health and higher usage of medical services'. However, although stark statistics about the link between worklessness and poverty are cited as the main reason to get more people in employment, neither Freud nor DWP's recently published child poverty *Working for children*^{xvii} consider the crucial role that out-of-work benefits play in safeguarding children from poverty.
19. Although Freud does not directly engage with benefit adequacy, his calculation about the savings to the DWP of moving people off benefits make salutary reading from a benefit adequacy perspective. (For example, for somebody on incapacity benefits, moving into work will save the DWP between £5,900 and £9,000 a year – a pitiful income for anybody, let alone somebody who incurs additional disability-related costs).
20. Harker argues that 'The decline in the value, relative to earnings, of benefits and tax credits reduces their effectiveness in preventing child poverty... Increasing benefits above rises in earnings would help offset some of the relative decline in their value in recent years.' Harker's recommendation that 'The DWP should review its benefit uprating policy and the potential impact on child poverty up to 2020' has largely been ignored.
21. Recent analysis from the Institute for Fiscal Studies (following the 2007 budget) has calculated that the government needs to spend £3.8 billion more than is currently proposed by increasing child tax credits.^{xviii}
22. **High levels of poverty in workless households are caused and perpetuated by keeping out of work benefits below the Government's own poverty line. This condemns families to live in poverty and consolidates intergenerational disadvantage. Benefit adequacy should and must be an integral part of any programme of welfare reform.**

Language

23. CPAG has long argued that ministerial language about benefit fraud has a negative impact on people's perceptions of work, poverty and the welfare state. However, as was the case in the early lead up to the Green Paper on welfare reform, negative political rhetoric around benefit claimants escalated over the course of the Freud review. Recent speeches by both the Secretary of State^{xx} and the Minister of State^{xx} have focused on the need for benefit sanctions, and this has led to a series of unhelpful, hard-line media headlines such as: 'Strip 'lazy' Britons of benefits, says Hutton' (Daily Mail online, 18th December 2006); 'No dole for the new jobless' (The Sun online 23rd January 2007); 'Lone parents face cash cuts if they shun work' (Daily Mail online, 30th January 2007); 'Benefit cuts for workshy lone parents' (Telegraph online, 31st January 2007); 'Learn English or lose jobless benefits' (Daily Mail online, dated 12th February 2007).
24. Although ministerial language has become somewhat more tempered of late, a great deal of damage has been done. It has been seized upon by certain elements of the press, reinforcing misplaced public stereotypes and rendering it much harder to generate the sort of public consensus that is needed to ensure that the eradication of child poverty is a key public concern. Headlines like these

frighten vulnerable claimants and deter some vulnerable claimants from accessing the benefits to which they are entitled. Government rhetoric about benefit fraud is doing little to inculcate a more positive attitude among the public at large or a more supportive approach by employers. We believe that government Ministers should exercise much greater responsibility and restraint with the language they use.

- 25. We are concerned that the language utilised by Ministers compounds stigmatising and discriminatory attitudes towards disabled people and other benefit claimants. Unless robustly challenged, such attitudes are likely to permeate the new system of delivery proposed by the Freud report.**

Freud: an evidence based approach?

26. The Freud report argues that there 'is good comparative evidence on the value of flexibility and outcome-based contracting within the New Deal for Lone Parents and Employment Zones'. Although it accepts that such programmes are costly it indicates that the overall 'cost per sustained job' is similar in the employment zones and NDLP. However, it is questionable whether the success of these programmes – which are heavily resourced, provide access to expensive support services and are targeted at those closest to the labour market – will be replicated within a new system which is targeting harder to reach groups and is being implemented by a range of providers at time of significant cut-backs within the DWP, and is intended to save money.
27. Freud reports on the one hand that 'Intensive support at the start of a claim focused on assisted job search' activities is 'the best way to help people move into sustainable employment' (p6) but accepts that 'Intensive individualised support is expensive' and indicates that there 'is no conclusive evidence that the private sector outperforms the public sector on current programmes'. This statement raises serious questions about the rationale for the proposed system.
28. The Freud report also raises concerns that early intervention – as practised in a number of successful Government welfare to work programmes such as the New Deal for Lone Parents, Pathways to Work and Employment Zones – 'may lead to targeting people nearest to the labour market'. It therefore expects contractors to develop systems that identify and support people furthest from the labour market. It is not clear that the DWP is sufficiently able to manage contracts which would satisfy this aim.
29. The Freud report also draws on evidence from a number of other countries in support of its recommendations. However, while it argues, for example, that the UK imposes much less conditionality on people on incapacity benefit and lone parents than many other OECD countries, and states that 'the UK demands very little of lone parents when it comes to taking steps to get into work' and that it 'lags behind other countries in terms of how much it requires of lone parents', the evidence upon which it draws is often inconclusive (for example in Australia and Denmark) alarming (in the case of the USA), or inappropriate (it extrapolates from countries in which social, economic and educational circumstances are very different from the UK, for example Denmark). The UK has a high proportion of lone parent families and also has lower levels of support (especially childcare^{xxi}) and a different skill profile than other countries.
30. The Freud report ignores the fact that in the USA – which is close to the UK in many ways (though operating a tougher regime) – increased conditionality has

resulted in a reduction in welfare caseloads, but alongside an increase in child poverty with larger gaps for families to fall through. US research findings indicate that benefit sanctions in the USA are exacting a high price in terms of their impact on children's health (see below).

31. National contexts vary as do poverty rates and child wellbeing. The Anglo-Saxon countries (including UK, Australia and the US) have scored traditionally badly in terms of poverty and wellbeing. It is therefore perplexing that the Freud report should draw so closely on the policies emanating from countries with a poor record on child poverty. A recent report on the wellbeing of children published by UNICEF^{xxiii} placed the UK at the bottom, with the US being next worst. Australia, which features only in some of the sub analysis, scores only in the middle of the table for child relative income poverty and has a higher proportion of families without a parent in work. Out of six dimensions the UK is worst on three, and very poorly on two others. The US scores at or near the bottom on four indicators (and reports no data for another). By contrast Sweden is first place on half the indicators in the top half for two others and middle for one.
32. **If the UK wants to improve outcomes for children and become amongst the best in Europe, policy makers should look to successful policy initiatives the top of the UNICEF table for ideas, not at the failures at the bottom.**

Rights and responsibilities

33. The Freud report enthusiastically espouses the notion of 'rights and responsibilities' within the new system, but then allocates them on an asymmetrical basis - with significantly more responsibilities being shouldered by claimants (and contractors) and fewer by employers or DWP.
34. We are concerned that the increase in responsibilities for some of the most vulnerable groups saps both their choices and their rights. The Freud report reinforces the tendency to place the responsibility to look for work firmly on benefit claimants; this simplistic approach ignores discrimination within society as a whole, and among employers in particular and fails to take wider family responsibilities and needs into consideration.
35. We very much fear that individuals rather than the state will be left shouldering the costs of any shortcomings or failures within a system that is increasingly reliant upon private and voluntary sector providers and contains fewer checks and balances to protect benefit claimants.
36. CPAG believes the Government has a responsibility to safeguard parents and their children from living in poverty, irrespective of their parents' work status and it will be impossible to eradicate child poverty without addressing safety net benefit adequacy. The Government has the responsibility to ensure that individuals can attain the skills they need to access employment, that employers provide sustainable, flexible and well remunerated jobs, that appropriate services are put in place that prevent and do not simply ameliorate the problems associated with poverty, and that families who are unable to work are safeguarded from poverty.
37. Although Freud suggests that claimants should keep in touch with Jobcentre Plus, it is hard to work out which provider will be responsible for ensuring that people are kept informed about, and have access to, their full benefit entitlement – particularly as they move between different providers. Although it is clear that Jobcentre Plus will continue to be responsible for administering and informing

claimants about their benefit entitlement, the current system is characterised by lack of information and under-claiming, and poor decision making. This situation is unlikely to improve with the roll out of a completely new system which will impose significant additional responsibilities and new administrative procedures on over-stretched Jobcentre Plus staff.

Section 2 - The Freud proposals

38. The Freud report envisages a system in which government agencies will provide 'a one-stop-shop' benefit and job-broking service for those closest to the labour market, while private and voluntary sector providers will provide 'individualised support' to those furthest away from employment. It proposes to 'rationalise the contracts that the Department currently lets to form a single service for all client groups'.
39. The Freud report emphasises that 'perhaps most striking ...is how disadvantages work together and reinforce each other. This is not picked up in the "client group" approach to welfare, and the relationships are not well understood' (p.39). The report suggests that the 'government must move from an approach that categorises people by their disadvantage towards one that focuses on overcoming individual barriers to work'. We agree that this is a helpful approach and that those furthest from the labour market do need much greater support than they are often currently receiving.
40. Although we welcome the fact that sanctions will only be imposed by the DWP, the process of sanctioning is likely to require providers to collect information on which later decisions are taken, and we fear that there is a risk to the trust relationship between provider and client if contractors provide information used by the DWP to implement benefit sanctions.
41. Jobcentre Plus will increasingly focus on 'providing a professional, high quality, work-focused service for all claimants in the first year of their claim' (although this time will vary according to the claimant's particular needs with some vulnerable groups – for example claimants for incapacity benefits - being referred to contractors at an earlier stage in the process).
42. Jobcentre Plus will 'retain its role as the central repository of information on claimants, as well as responsibility for tackling fraud' and 'will need to maintain contact with claimants'. It will therefore have responsibility for 'maintaining information on claimants' progress through the contracted system', 'Building a detailed database on each client handed over to the contracted provider to inform the contracting model', and retain responsibility for 'the payment of benefits and imposition of sanctions'.

Contracting

43. Freud proposes that:
 - Back to work support will be delivered to long-term claimants (i.e. 'harder to reach groups' who have not been helped to access employment via Jobcentre Plus) through 'outcome-based, contracted support' provided by the private and voluntary sector which will 'compete on both price and quality for

a regional contract' and will 'work as public-private partnership to deliver up-front investment in order to realise savings over the life of the contract'.

- Outcome payments' will only be made for 'the performance which exceeds that achieved with current policy'. Bonus payments may be provided 'for hardest to reach or by providing bonus payments where certain outcome levels have been delivered for multiple client groups.' Private and voluntary contractors will need to 'track people consistently for a period of three years'
- 'Specialist programmes' for people 'with the most acute and multiple disadvantages' may be run by the Government.

44. The Freud report discusses how contracts for the provision for welfare to work programmes will be allocated and run. It suggests that:

- Private and voluntary sector providers will compete for long-term contracts. It argues that this will incentivise providers 'to experiment and innovate' and will result in an 'open and flexible' system that will give claimants more 'choice'. It envisages different provision in different parts of the country. It will include incentives to ensure that providers do not simply focus on a narrow group, with higher payments for accessing 'harder to reach' groups.

45. The report envisages a range of contracts, including:

- The 'prime contractor model' – with one large contractor sub-contracting to other providers within the public, private and voluntary sector. This could result in the establishment of a consortium which may get 'substantial funding from the private sector'
- A 'contracting round' may result in different sub-groups or smaller organisations winning a contract, and they will receive 'core contract management' from the Department. Although this may result in small organisations that are more responsive to local need winning a contract, Freud concedes that it will result in smaller organisations taking greater 'financial risks'

46. The Freud report argues that a contracting model will:

- Produce detailed assessment of the fiscal benefits from reduced caseloads with which to make outcome based payments
- Provide measures against which bids by external operators for outcome-based contracts would be assessed
- Help provide a common set of targets

47. Though clearly DWP operates a diversity of provision in some areas already, the contracting role is relatively untested. We fear DWP does not have the skills or resources to contract, monitor and evaluate a huge range of providers, or adequately track the progress and needs of claimants. The model Freud proposes implies the strong need for DWP to be much more sophisticated in letting and managing contracts. The proposed structure leaves a number of questions unanswered:

- How will poor performance by providers be managed, especially if contracts are awarded for long periods?

- What will happen to claimants if providers go out of business?
 - With a greater number of different providers, how easy will claimants find it to challenge poor decision making. The DWP will need to ensure providers have robust monitoring, challenge and complaints procedures.
 - How in practice will contracts prevent providers focusing on those easier to place clients, and failing to locate or provide support and employment opportunities for harder to reach group, as is the case with current welfare to work programmes?
 - Claimants will have to deal with myriad contractors which are likely to generate greater complexity than the current system, with the associated risk of people falling through gaps in provision. We are concerned that claimants will experience even greater difficulties navigating their way through what looks like an immensely complex system.
48. We have serious concerns about the feasibility of some of the proposals, particularly around contracting out welfare to work programmes to private and voluntary sector providers and delivery. We do not think that Jobcentre Plus has the ability, skills or resources to oversee the implementation of a wide ranging and ambitious programme of reform which we fear will compromise the independence and integrity of some providers. We have significant reservations about the risks around the use of the private sector within the social security system: profit is not an appropriate motivation for welfare delivery.

Costs and savings

49. Freud emphasises that a balance has to be struck between expenditure on working age benefits, and on employment programmes and argues that so far, these have not been 'effectively linked'. He argues that the new system must provide savings to the DWP in terms of reduced benefit payment (and include additional tax credit payments) and be more effective than the current system.
50. Freud accepts that DWP will experience difficulties implementing the new system despite a 5 per cent reduction in costs in the wake of the Gershon review. He concedes that the sort of intensive personalised support that is needed to help harder to reach groups access employment is very expensive. Freud argues that the new system will be more flexible and innovative. If these are deliverable these would be significant advantages but such an approach is often more costly. Cash strapped providers may prefer – or be forced to resort to – cheaper, less inventive options.

The role of the private and voluntary sector in delivery

51. CPAG is particularly concerned about the motivations and ability of private and voluntary sector contractors to meet their clients' needs, and the ability of government agencies to police and monitor an extremely complex system. We fear that in its anxiety to reduce costs and risk to the state, it may increase both for others – including contractors and claimants.
52. We outline our main concerns below:
- *Quality control:* As mentioned above, we are not persuaded that DWP will be able to maintain rigorous standards among a range of providers who have different motivations for moving into the market. It may take the government

some time to identify and remove contractors whose services are not appropriate or adequate.

- *Independence:* we are concerned that legislative powers that allow the Secretary of State to outsource services to the private and voluntary sector will result in a more arbitrary, less just and less accountable system than is currently in place. Benefit claimants are currently able to seek out support, advice and advocacy from independent agencies that not only provide advice about benefits and tax credits but support them in independent tribunals and appeals. If such agencies become an integral part of government provision, their independence will be compromised, and an element of trust will be removed. Who will claimants turn to if they feel they have been treated unjustly?
- *Costs:* the Freud review 'makes a series of recommendations to reduce the number of the most socially disadvantaged people in the country...at minimal effective cost and risk to the state.' It argues that attaining 80% employment would 'boost GDP, reduce benefit spending and increase Exchequer revenues to a material extent' (p.75) and that 'the fiscal prize is considerable'. We are concerned that if saving money is a primary motivation for organisations competing to become providers, this could disadvantage claimants. Private providers will seek to make a profit, and voluntary providers will need either to balance their books or risk subsidizing state services.

53. Given the financial risks involved for providers, it is likely that that the larger regional contracts will be given to private sector providers, whose motivation will understandably be driven by profit rather than social conscience. This may result in variable, possibly erratic and sometimes short-term provision. Furthermore, providers will be reliant upon many factors that are beyond their control – such as the availability of flexible, well remunerated, sustainable and accessible jobs and the provision of high quality, appropriate and costly social and medical services.

- *Support:* Although we agree that the provision of more intensive support for those who face the greatest barriers to work is important, effective support programmes are expensive for provider and statutory services alike. It is unclear that the intensive support some claimants need will be adequately resourced, particularly as it may be dependent on support from government agencies over which contractors have no control - such as the health services. Although the provision of support will generate long-term benefits for individuals and society, providers who are driven by short-term contract and budgetary considerations and the need for swift outcomes may not be able or inclined to provide the intensive support and advice required by some groups.
- *Quality of jobs:* Freud's proposal that new contracts should reward contractors for achieving sustained job outcomes is a welcome advance in thinking. However, the rewards proposed appear limited to the length of employment and overlook the importance of progression in work. Although contractors will be expected to ensure that people access jobs that are sustainable, it is hard to see how private and voluntary sector providers will be any more successful than Government agencies have proved to be in this regard. As discussed above, in-work poverty is a huge issue for disadvantaged groups, and one over which contractors have little control. We

are concerned that financial incentives to move people into jobs may result in increases in-work poverty.

- *Sustainability*: The recent collapse of *One Plus* (a major supplier of low cost childcare and a range of other services and programmes for disadvantaged people in Glasgow) raises serious questions about the long term viability of these sorts of services. The failure of a regional provider that may oversee a number of sub-contractors, and provide access to benefits and/or employment to the UK's most disadvantaged groups at regional or national scale, could be catastrophic for claimants.
- *Hard-to-reach groups*: Although Freud recognises the need to put incentives in place to persuade contractors to locate and provide the support needed by those furthest from the labour market, it is hard to see why voluntary or private sector providers should be more effective than the DWP in this respect. As with existing programmes, we fear that budgetary considerations will result in contractors focusing on people who are nearer the labour market. They may seek to keep the hardest to reach off their books. This suggests the need for extremely good contract design and close monitoring of performance.
- *Flexibility and post-code lotteries?* Although we recognize the need for a flexible provision of services that reflect local needs, we believe that this would be better provided by vibrant independent services that complement, but do not replace, statutory services. Greater flexibility also inevitably risks a post-code lottery of provision.

The delivery and receipt of benefits

54. CPAG is concerned about the impact that the proposed new system could have both on the independence of advocacy organizations and on the accountability of welfare services. Claimants - particularly those from harder to reach groups that are furthest from the labour market - need access to independent advice and support to keep them informed about their benefit entitlement, to provide the advice and support they need to deal with complex and protracted administrative processes, and to advocate on their behalf when they are subjected to poor decision making and/or need to attend tribunals and appeals. The independence of such advocacy is crucial to building trust and confidence between claimant and advisor. We fear there is a risk that contracting agencies from a variety of different sectors may undermine that relationship. Claimants may fear that support agencies are answerable to the DWP not to their clients.

Increased conditionality and benefit sanctions

55. The Freud report encourages a move towards greater conditionality. It reports that 'In return for more support in obtaining employment, it would seem appropriate for the state to expect more work-related activity for those on benefit' and recommends that the Government should 'be looking to converge the various systems of conditionality for different client groups within the first year of their claim'.
56. It accepts that claimants may be confused about the link 'between not attending interview and the amount of money that appears in their bank account' and proposes a more formal process for people who 'wilfully ignore their workplan' in

which 'a sanction may be deemed appropriate'. It reports that 'the conditionality applied by the provider would depend on the individual's personal circumstances' and that the provider 'must deliver a level of mandatory participation commensurate with the current responsibilities placed on certain groups.' Providers will refer claimants back to Jobcentre Plus where they 'fail to comply with a reasonable request'.

57. CPAG has a number of reservations about increasing conditionality within the current system, which we outline below.

Greater conditionality for lone parents

58. For lone parents, the Freud report recommends that 'from 2008, to broadly coincide with the creation of the Employment and Support Allowance [for Incapacity Benefit claimants], the government reduces the point beyond which a lone parent can claim income support from when their youngest child is 16 to 12. In addition, the government should consider, as wrap around childcare becomes available from 2010, whether further reductions would be desirable.'^{xxiii} It proposes that from 2008, 'the Government reduces the point which a lone parent can claim income support' with the possible further reduction from 2010 'as childcare improves' at which stage it argues 'the rationale for lone parents having fewer obligations than other people who are not working may be re-examined'.
59. The report suggests that 'Jobcentre Plus would work with the individual to find work which suited their child's schooling and childcare arrangements and would offer support and training if appropriate.' If they don't find a job within a year of being on JSA, lone parents will be referred to the private and voluntary sector who may 'refer the person back to Jobcentre Plus for a sanction if they failed to take action to prepare themselves for work.'
60. The main proposal contained within the Freud report, however, is to reduce the eligibility criteria for Income Support from the current system where it can be claimed by lone parents whose youngest child is aged 16, to those whose youngest child is aged 12. Lone parents with a youngest child aged between 12 and 16 would be subject to the Jobseeker's Allowance regime. Given the very considerable risks of poverty for those children with parents on unemployment benefits. It is a source of considerable concern therefore that the Department for Work and Pensions' child poverty strategy believes that 'this is the right strategic direction'^{xxiv}.
61. The Government argues – quite rightly – that the majority of disabled and lone parents would like to work and we see little reason to increase compulsion. Overall lone parent employment is around 56.5%,^{xxv} for those with older children (aged 11 years and over), the employment rate (66%) is already close to the 70% target.^{xxvi} Those lone parents with older children remaining out of the labour market often have good reasons for being so, caring for teenage children (perhaps experiencing difficulties through adolescence or at school) or coping with disabilities (the rates of which are proportionately higher in lone parent families). CPAG is very concerned that extending conditions on lone parents with older children risks undermining the position of those who cannot work, not those who do not want to work.
62. Seeking to toughen conditionality is a simplistic and misplaced reaction to problems which would be better resolved by addressing the provision of effective, preventative health services, improving childcare and support services and

addressing structural problems such as poor transport, housing and a paucity of local job opportunities. We summarise the reasons why CPAG objects to extending conditionality from a child poverty perspective:

- *Social justice.* Despite a lack of evidence-based research in the UK on conditionality, US evidence on benefit sanctions and lone parents indicates that they were disproportionately applied to those on lower incomes, with less education, work experience, worse health and facing multiple barriers to work.^{xxvii} This worrying tendency may be replicated in the UK. Although some parents whose children are already at risk of poverty may be unable to engage in work-related activities and/or move into work because of additional caring or parenting responsibilities and/or health problems there is nothing – other than the goodwill of their personal advisor - to protect them from the imposition of benefit sanctions.
 - *Effectiveness.* Paradoxically, the Government argues that although large numbers of ‘workless’ lone parents and disabled claimants want to work, more conditionality is needed. This is illogical and unjust. Low rates of employment among lone parents and disabled people are generated by barriers to participation in the labour market rather than a reluctance to work.
 - *Deterrents:* We believe that the imposition of sanctions could have a negative impact on people’s desire or willingness to engage in welfare to work programmes. Apart from the fact that living in poverty has a negative impact on health, sapping both confidence and aspiration, the imposition of sanctions may undermine trust in a system apparently in place to provide support. Advisers and claimants view trust as a vital factor in the success of many employment support programmes. Claimants’ attitudes to such programmes and to their personal advisors may be compromised if conditionality is increased, and personal advisors take on a policing role.
 - *Impact on children.* The imposition of benefits sanctions on parents inevitably places children at risk. In the US evidence comparing two groups of families on welfare (one sanctioned and one not sanctioned) showed that the children in families who had been sanctioned^{xxviii} experienced: a 30 per cent higher incidence of past hospitalisation; a 60 per cent higher risk of food insecurity (eg. being under weight); and a 90 per cent greater risk of being admitted to hospital following an emergency visit. CPAG believes sanctioning families reduces their incomes and makes children more vulnerable.
63. The Government recognises that an infrastructure of coherent and joined-up support services is essential if it is to increase employment rates among disadvantaged groups. The ability to engage in work-focused activities and access employment is directly linked with the availability of appropriate and accessible transport and childcare. However, fragmented, costly and often poor services provision generates problems for disadvantaged families, consolidates financial difficulties on a daily basis and acts as a major barrier to employment. Although progress has been made in childcare provision, access and affordability remain a serious problem for many families – particularly for those with disabled children. It currently seems very unlikely that adequate ‘wraparound’ childcare will be available by 2010. We are concerned that further increases in conditionality might happen before these service improvements. It is unjust to increase conditionality for disadvantaged groups that are reliant on support that may not be available or accessible to them.

Support into employment

Lone parents

64. CPAG supports the Government's measures to help lone parents return to paid employment and we support the 70% employment rate target –the majority of workless lone parents want to be in paid work and policy should address the barriers for why so many are not. However, while lone parent employment rates have increased, and this has helped reduce child poverty, research indicates that increasing the employment rate further will become more difficult because lone parents who remain outside employment are 'increasingly less well skilled and concentrated in rented housing, and are a group for whom work incentives remain weak.'^{xxix} This should be borne in mind when trying to achieve 70% employment rate for lone parents, an extremely ambitious target which requires lone parent employment to rise over the next five years 'three times as fast as it did in the last five'.^{xxx} We agree that more support is needed to increase the employment rate but, given the willingness of lone parents to work, we do not see additional compulsion as warranted or just.
65. Research indicates that the ongoing impact of current policies combined with changes in the demographic characteristics of lone parents and the roll out of additional Work Focused Interviews being from April 2007 could raise the employment rate to around 65 per cent - this is five percentage points short of the target.^{xxxi} Moreover, while lone parents' job entry rate is now comparable to that of other groups, they remain more likely to exit employment than partnered mothers^{xxxii} – reducing the effectiveness of policies focusing on work entry alone. More recently research undertaken by Gregg, Harkness and Macmillan suggest that to reach the 70 per cent target for 2010 the Government needs to roll out of the New Deal Plus for Lone Parents^{xxxiii} across the country, focus on low employment rates within London, and measure improvements to job retention.
66. In their report on lone parents cycling between work and benefits undertaken for the DWP, Evans, Harkness and Ortiz^{xxxiv} reveal that, while the employment rate for lone parents has increased, and the number of lone parents leaving jobs has fallen, the rate of job exit is considerably higher for lone parents than for other groups even after personal and job characteristics are controlled for. Lone parents who leave employment are less qualified overall, fewer have degrees and A-levels, and more are unqualified. The authors predict that, 'if lone parents had the same job exit rates as the rest of the population, then the target of 70 per cent employment of lone parents could be met without raising job entry rates further.' This would indicate that supporting lone parents to access sustainable, well paid jobs is more important than compelling lone parents who are furthest from the labour market to attend work focused interviews. Moving in and out of employment, and on and off benefits renders lone parents and their children vulnerable to severe and persistent poverty.^{xxxv}
67. **The 70% employment rate target is extremely challenging, but many workless lone parents want the opportunity to work. Achieving this target requires more robust policies that address pay, job sustainability, training opportunities and childcare. We see no need for additional conditionality.**

Support for parents?

68. Harker argues that 'parental employment rates are unlikely to increase significantly unless there are more opportunities for parents to work hours that are compatible with their caring responsibilities' and that 'Jobcentre Plus could play a major role in negotiating working patterns that meet both employers' and employees' needs.
69. The Government has focused on the provision of support for parents as an integral the strategy to reduce child poverty. The 2004 *Child Poverty Review*, reports that 'Parenting support is especially important for poor parents in vulnerable groups such as disabled parents, who face a particular risk of being in poverty. Over two million children live in families with one or more disabled adults. These children have an above average risk of living in low income households.'^{xxxvi}
70. Freud cites Harker's concerns that the government's work first approach must be more closely aligned with support for couples and lone parents, but it is not clear how providers will be incentivised to take note of parental responsibilities. While the report highlights the need to adopt a more personalised approach, the only people who are viewed as having parental responsibilities are lone parents.
71. Harker^{xxxvii} indicates that 'one in three children in poverty – between 700,000 and 850,000 – has a parent with a self-reported disability or long-standing health condition' but 'only around 200,000 children in poverty whose parent has a disability or long-standing health condition will have a parent eligible for Pathways to Work' and recommends that the DWP 'widen access to help for parents with health conditions and disabilities', the needs of disabled parents are not specifically addressed by Freud.

The role of employers

72. On the subject of employers, the Freud report argues that there is a need to bridge the gap between 'work first' strategies and a shortfall in skills, and highlights 'the key role for employers in the design and delivery of support for disadvantaged groups.' However, unlike benefit claimants – who may face benefit sanctions if they fail to engage in prescribed work-related activities– the Freud report asserts that the Government 'cannot compel employers to offer opportunities to the most disadvantaged' (p.53). Freud expresses the hope that employers will be persuaded to adopt 'strategies of self interest with regard to social programmes designed to help disadvantaged groups into the labour market' and argues that 'with appropriate political support, it should be possible for the community as a whole to take up the target'.
73. However, as was discussed earlier in this submission, employers remain resistant to employing people from disadvantaged backgrounds either due to active discrimination or because they are disinclined to employ people who may not have appropriate education or skills. Attempts to increase employment rates among disadvantaged groups require much more robust implementation of anti-discrimination legislation as well as activities to engage with employers to help overcome resistance to employing certain groups. We welcome recent moves to increase employment rights to support parenting but much more needs to be done to facilitate flexible working opportunities for the most deprived groups.

74. CPAG believes that the proposals outlined in the Freud review expect far too little of employers, and far too much of claimants. Barriers to employment cannot be addressed until entrenched discrimination within the workplace is addressed. Much more pressure should be put on employers to ensure that they do not discriminate against disadvantaged groups and provide well paid, sustainable job opportunities.

Benefit simplification

75. The Freud report suggests that there is a strong case for moving towards a 'single system of working age benefits' – ideally a 'single benefit' because international evidence indicates that complexity is a 'disincentive to entering work'. It accepts that any reform will create winners and losers, and suggests that future debate should be 'modelling on the impacts on work incentives, costs and benefits (for Exchequer and individuals) and take into account the interactions between out-of work and in-work support' (p.10)
76. Benefits, tax credit and employment interactions are certainly complex, and we welcome debate on how the system could be rationalised, simplified and improved. We hope the Department will pay particular attention to current the Work and Pensions Committee inquiry into simplification. CPAG agrees that there is plenty of scope to improve the design and delivery of some benefits, and we recognise the many of the attractions of a single working age benefit discussed by Freud (though getting there is extremely challenging). However, we are concerned that such a system may not be sensitive to different needs and capabilities and fear that moves to simplify may be unjust. It would be unacceptable for children to be losers in any benefit simplification. Though we do not rule out radical change, we believe that more attention should be given to ways of simplifying the experience and administration of the existing benefits and tax credit systems

Conclusions

77. There are aspects of the Freud review we welcome, for example the emphasis on job sustainability and the need to provide greater support to those furthest from the labour market. At the same time we have serious concerns about the workability of many of the proposals, which we fear may generate perverse motivations and outcomes. We fear that the proposed regime will not necessarily generate the intended higher employment rate unless it also stimulates improved employment opportunities. Reducing in work poverty requires better paid jobs.
78. We support the Government's aspiration to move towards an 80% employment rate, but do not think that increased compulsion is either appropriate or effective particularly when educational inequalities – and in-work poverty levels - remain high by international standards. Although Freud views job sustainability as an issue, and suggests ways to encourage providers to ensure that people move into sustainable employment, it is hard to see how this can be achieved until more is required of employers and skill and educational inequalities are reduced.
79. The failure to engage with benefit adequacy is a major oversight. It ignores the fact that some people cannot, and may never be able to work (possibly because of health problems, additional caring/parenting responsibilities, or both), and that access to adequate benefits that safeguard these families from poverty is

essential. It ignores the economic consequences of poverty, which is associated with significant health and educational inequalities. Keeping out of work benefits below the poverty line condemns workless families to poverty and consolidates intergenerational disadvantage.

80. CPAG continues to argue that children in poverty experience multiple disadvantages and span many groups at risk of poverty. It is essential that welfare reform recognises and addresses the complex needs of disadvantaged groups. Access to disability benefits safeguard families from poverty, reduce stress and improve health, all of which render employment a more viable option. The failure of Freud to highlight the importance of welfare advice is a serious omission.
81. Finally, though we have major concerns about the Freud proposals, we do see positive ways forward for welfare to work policy, some of which Freud picks up on. To conclude in particular CPAG believes that the following issues must be addressed:
- *Job sustainability:* the emphasis should not simply be on moving more people into work, but on supporting people into sustainable, well paid jobs.
 - *Identify parental needs:* more support must be provided to help parents to balance working and caring. For example Harker - who identifies lack of adequate childcare as the key barrier to employment, not a lack of willingness to work - suggests a 'New Deal for Parents'.
 - *Improve skills development and reduce educational inequalities:* welfare to work programmes must link up with the Leitch review proposals and initiatives to reduce educational inequalities. More personalised support and advice is needed to ensure that training reaches the lowest skilled.
 - *Much more should be expected of employers:* barriers to employment and in-work poverty need to be addressed. Employers must generate flexible job opportunities that match parenting responsibilities. Discrimination must be addressed more robustly.
 - *Improve the adequacy of out of work benefits:* Keeping these low not only reinforces deep poverty but saps people's aspirations, health and ability to look for employment. It drives them away from the employment market not closer to it.
 - *Provide better support:* the ability to access work is closely associated with the provision of accessible and appropriate childcare, excellent support services, efficient transport systems, adequate housing, and the availability of flexible and well remunerated jobs – better addressing the context in which people live their lives, is vital to ensuring people are supported to take the opportunities they may be seeking.

About CPAG

CPAG is the leading charity campaigning for the abolition of poverty among children and young people in the UK and for the improvement of the lives of low income families. CPAG aims to: raise awareness of the causes, extent, nature and impact of poverty and strategies for its eradication and prevention; bring about positive policy changes for families with children in poverty; and enable those eligible for income maintenance to have access to their full entitlement. CPAG is a founder member of the campaign to End Child Poverty.

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