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Foreword

A consideration of public services in 2020 which ignored welfare spending would be like weeding the garden while the house was burning down. Welfare was the driving force behind the whole edifice of public services and is key to their reform. Welfare spending is the biggest single element in public spending, standing at nearly a quarter of the budget.¹

It has grown piecemeal, with the best of intentions, policymakers have sought both to relieve social problems and to constrain costs and prevent unintended consequences. The result is an expensive mishmash where ordinary people believe that their National Insurance covers the costs of their pension, where a multitude of agencies can cluster round an individual family and never ask its members what they actually need, where families and communities are disempowered in the name of fairness and where ignorance of costs and benefits is overwhelming.

As a result, getting the fire under control is no mean task. It is tempting to search for a major fire hose and soak everything. However, this search for a universal solution is in fact part of the problem. If we are to save the building, we need to tread carefully through the charred timbers and create individual answers one room at a time.

To this end, this paper sets out some particular ideas which can help create a framework – maybe a scaffolding to stretch the metaphor further – in which deeper change can be delivered. To make such changes stick and be effective, it is absolutely essential that they be transparent, engage citizens in their own lives, and give back

responsibility to them. These are the principles enunciated by the Commission's Interim Report and we seek here to give them teeth.

The three ideas are to develop citizen social accounting, to create genuinely local welfare budgets, and integrate local welfare services within the broader economic context (including by a Living Wage). None of these is a universal panacea, and none will be straightforward to implement. They will take time and commitment and represent a direction of travel rather than an outcome. Such a direction can create informed citizens who understand where their taxes go and where their pensions will come from, who are able to engage in local decision making on welfare policy, and for whom work pays directly rather than from a plethora of different benefits. These will be real citizens of a real democracy.

For too long, models of public service have been based on assumptions about economic behaviour that ignore our limited cognitive ability, our commitments to others and our lack of information. This applies as much to the policy makers as to the ordinary public. In reality people operate in families and communities using rules of thumb and imperfectly aware of the incentives we face. Greater transparency and engagement can help make wider and better use of what we do and embed welfare more effectively with those who must pay for it and those who use it.

Bridget Rosewell

2020 Commissioner and Chair 2020 Welfare Working Group

Introduction

Public services matter to us all, and help to define our country as a fair, decent and enviable place to live. But while our society is changing, our public services settlement – the ‘deal’ between the citizen and the state – is largely still based on the model set out by William Beveridge in the 1940s.

The Commission on 2020 Public Services was set up to consider how to meet the needs of this changing society. In March 2010 it published its interim conclusions, ‘Beyond Beveridge: Principles for 2020 Public Services’.

In ‘Beyond Beveridge’ the Commission advocates three systemic shifts to re-conceptualise public services and the relationships between citizens, and between citizen and State:

1. A shift in culture:

- **Away** from the passive, service focused, static system of “social security”;
- **Towards** “social productivity”: the active involvement of citizens in identifying, understanding and solving public problems dynamically using all appropriate means, thinking long term and investing in the capabilities of citizens to ensure fair outcomes.

2. A shift in power:

- **Away** from a system in which decision making power and money flow down from Ministers at the centre and through vertical departmental silos;
- **Towards** an approach where decision making and commissioning authority is devolved to the lowest appropriate levels and where services are designed around the lives of citizens and the needs of communities of need, interest and place.

3. A shift in finance:

- **Away** from a system where how money is raised and spent is disconnected from what it is spent on;
- **Towards** one where these three factors reinforce the purposes of public services in a transparent way.

The Commission’s proposal for three fundamental shifts – in culture, power and finance – allows policy makers to view many of the enduring problems of welfare in new ways. In particular, it allows for a truly holistic analysis and opens up possibilities to create solutions that are locally intelligent and life-course responsive. 2020 Welfare proposes three distinct policy directions. While each needs further work, they suggest how we might start to take a dynamic, integrated and more transparent approach to welfare.

The Context for Reform

Public services are used by everyone in society, but the welfare system lays out their redistributive nature most starkly. At any point in time, some households will be net contributors into the national 'pot', whilst others are net beneficiaries. Previous work for 2020 Public Services Trust (Volterra, 2009) shows that cash benefits are, at any point in time, disproportionately directed to the poorest households, so debates on welfare must inevitably grapple with the legitimacy of redistribution (both vertical – between households – and horizontal – within households over time).

As one of the biggest lines in the Government's central budget, the size of the welfare bill has been under considerable scrutiny. On 22nd April 2010 Chancellor George Osborne made clear that cuts of up to 25 per cent earmarked for non-protected departments could be eased "if we can find any additional savings to social security and welfare"² beyond the £11 billion outlined in his Emergency Budget.³ The welfare bill is one of the largest budget lines in public spending, with the Department for Work and Pensions running a net operating cost of £143 billion (2008-09), 96 per cent of which is redistributed through the tax and benefits system (see Figure 1).⁴

In considering how an efficient, effective and legitimate welfare system should be designed, we might ask:

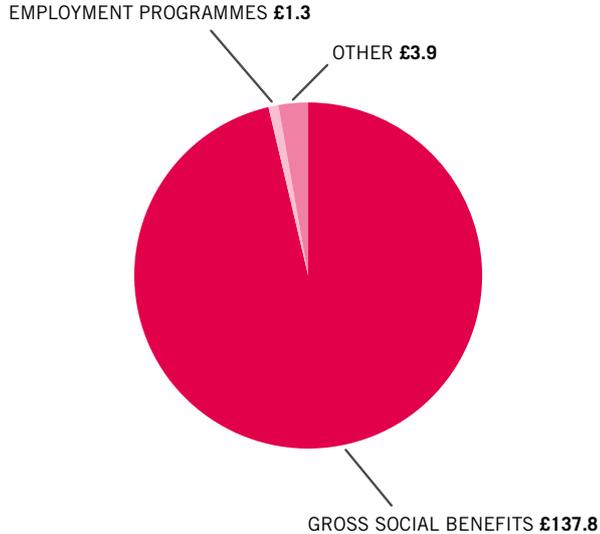
- On what grounds should people receive transfer payments from wealthier households?

- How can we identify and monitor whether people fulfil eligibility criteria (especially, for instance, where mental health conditions are increasingly reported)?
- Will the very availability of a state safety net change people's behaviour and make it more likely that they will claim benefits?
- Is it a legitimate function of the state to tax away people's income at one point in time and give it back to them in another?
- What are the efficiency gains/losses associated with redistribution, and are there any alternatives?

Society has been grappling with these questions at least since the first Poor Law in the sixteenth century. Each generation has been faced with its own social and economic backdrop – whether industrialisation during the nineteenth and early twentieth century, reconstruction after the Second World War or the changing pattern of risks arising from post-industrialisation. Each generation has left behind its own economic legacy, entrenching old, and creating new, social risks.

Such a massive and redistributive portion of state spending is an obvious target for controversy, analysis and reform. Yet as we will show, the last thirty years have seen perpetual reform on the surface, but relatively little change to the way we conceive of the system's underlying assumptions. New fiscal, demand and behavioural challenges make it essential that we change our focus.

Figure 1: Benefit vs. employment programme spend (DWP, 2008-09, £billion)



Source: 2020 Public Services Trust, based on DWP data

New Crises, Future Risks

The impact of the financial and fiscal crises has rocked the global economy, with the UK being particularly affected. The scale of the global recession serves to highlight a longstanding trend towards

increased **globalisation** and economic and political interdependency; “Structural shifts in the global economic and political centre of gravity from West to East, growing competition for natural resources . . . and pressure to reform structures of global governance will all affect the UK’s long-term security and prosperity.”⁵ The Maastricht Treaty (1993) also heralded the free movement of labour within the European Union and migration flows (especially from the eastern European accession countries after 2004) have exposed the UK labour market to more intense international competition. From our approach in dealing with the highest paid UK financiers to the effects of the National Minimum Wage, we are now firmly part of a global labour market that exposes all to heightened opportunities but also increased risks.

Since the 1980s income inequality has increased markedly and reflects a dual labour market in which those with **low skills** are increasingly unable to find work. The increasing rate of income inequality has slowed since the early 1990s, but the effects of the previous decade left a deep scar in many communities – embedding a culture of worklessness that has persisted down the generations.⁶

With the growth of global competition and the UK’s increasing reliance on service sector industries, the demand for unskilled labour has diminished. Low and/or unskilled labour often experience insecure employment in low-paid, wholesale retail and the hotel/catering trade. These jobs are frequently of poor quality, characterised by temporary, rather than permanent, employment contracts, very limited benefits (e.g. pensions, sick pay) and often have little or no

prospect of training and progression. The risk of cycling in and out of work (the so called 'low-pay-no-pay' cycle) brings with it an increased likelihood of experiencing **recurrent spells of poverty**, both in and out of work.⁷

Unemployment is not necessarily a one-off, temporary episode against which individuals can be insured by short-term benefits. People with few skills (or highly specialised, non-transferable skills which may become obsolete in the face of international competition) are most at risk of unemployment and poverty. A focus on upskilling is important, but even then there is evidence to show that the highly skilled are better able to capitalise upon training than the least skilled⁸ – enhancing the degree of inequality all the more. Where there is **limited progression** within 'poor quality' jobs and there are limited opportunities for semi-skilled labour (the 'missing middle' of the labour market), then there may be few incentives to upskill. While some people may consciously decide to trade off additional income from progression for the time spent doing other things important to them (such as family, other caring responsibilities or leisure time), for others the risks involved in "disrupting the stability of their lives" are too great given the "uncertain rewards of work progression."⁹

Apart from low skills, there is considerable evidence to suggest that poverty can be closely correlated with an array of factors, including gender, marital status, household structure, housing tenure, ethnicity and geographical region.¹⁰ Regional patterns in demand for labour, unemployment, poverty and income inequality are often

spatially concentrated. Whole neighbourhoods – from the old mining towns to central London, the industrial north to seaside towns – have felt the effects of post-industrialisation and globalisation particularly acutely since the 1980s. Far from the 'rising tide' of economic prosperity 'lifting all boats' during the period of continued growth (until recently) after 1992, hundreds of thousands of people have been dislocated from the labour market. Such '**discouraged workers**' are likely to have moved onto incapacity benefits. Getting this section of the UK's workless back into employment has been a primary focus of successive governments – most recently by narrowing the eligibility criteria and more stringent assessments of what claimants can, rather than cannot, do. Nevertheless, long term worklessness remains one of the biggest, most entrenched problems in welfare. There is a danger that – unless emerging policy can correct this fundamental gap – the situation will only worsen as a result of the current rise in unemployment.

Another way of thinking about long term worklessness is also to think about **pensions**. In the 1960s, around 90 per cent of men between the ages of 60 and 64 worked. Now only 50 per cent do. Moreover, if the retirement age were to have moved in line with longevity, the retirement age would now be around 80 years.¹¹ This huge increase in pension entitlements has not gone alongside any recognition that such benefits have to be paid for, whether from savings or from taxes.

Dilemmas for 2020 Welfare

It would be easy to see the challenges listed above as reasons to increase welfare spending. At the same time they are all reasons why we cannot afford to. Welfare policy is the key arena to expose differences in our views about the rights and obligations of social citizenship, the nature of the social order and the role of the market, and even our conceptions of human nature itself. These differences run deep, and so many of the central dilemmas of welfare are enduring even if the specific formulations change from time to time. This section considers three of the central dilemmas with which 2020 welfare must contend:

1. What should be the rights and obligations of citizenship?
2. What are the most effective means of meeting welfare goals?
3. How should responsibilities for achieving welfare goals be shared?

1. What should be the rights and obligations of social citizenship?

The first set of dilemmas relate to the purposes of 2020 welfare:

- When should individuals be able to call on collective support and on what terms?
- How should entitlement be policed?

When, and on what terms?

The most fundamental role of welfare policy has been to help people manage economic risks. Some of these risks relate to the individual and – like childhood or old age – are frequently linked to the lifecycle. Other threats to market incomes – such as unemployment – arise from the vagaries of the labour market and the economic cycle.

Today risks of labour market exclusion are increasingly stratified by skill level, health status and gender, concentrated at the household level and often geographically as well. Many of these risks clump together to entrench disadvantage and, for those affected, the risks of labour market exclusion are perpetual, not episodic. Risk across the lifecycle translates to a more general dilemma between welfare support that meets objectives today (such as poverty alleviation), versus those that focus on meeting welfare goals tomorrow (such as developing human capital or creating incentives to move into work).

Demands for collective support are not only related to patterns of lifecycle and labour market risk, but also to lifestyle choices, social obligations, and opportunities for human capital development. These might include decisions about studying, parenting, caring, retiring, or simply taking a break from working. When – using Esping-Andersen's terminology – is it legitimate to be 'decommodified' and expect support from the welfare state? On what terms should collective support be made available? What types of contribution are acceptable in return for welfare support? Trends from JSA to lone parent benefits are towards greater conditionality, with entitlements earned through effort. But is

there a need to broaden the idea of legitimate 'effort' from work to include social contributions also? How might this social contribution be encouraged, measured and rewarded?

Box 1: Decommodification

In Esping-Andersen's seminal work *The Three Worlds of Welfare Capitalism* (1990), the development of modern welfare states is viewed as a process by which workers' exposure to labour market risks have been steadily reduced as entitlements to alternative sources of income at points of need have developed. This process – the systematic reduction of dependence on labour market incomes – he termed 'decommodification'.

Policing entitlements – political legitimacy and the problem of moral hazard

The political legitimacy of the welfare settlement is critical for its sustainability. Attitudinal and behavioural studies have shown that reciprocity is one of the main pillars supporting legitimate redistribution of money from the better off to those in genuine need (See Halpern, 2010 and van Oorshot, 2002). This is one of the reasons why conditionality features so highly as an instrument for generating political legitimacy.

Another key issue is how the legitimacy of need is determined. Is an individual's demand for collective assistance a consequence of

circumstances outside their control, or a failure of motivation? Survey evidence shows that the former is considered to be much more legitimate grounds for collective support than the latter. Legitimacy of the system is also undermined by scope for individuals to 'cheat' the system by free-riding (without reciprocating) or making a fraudulent claim (Taylor-Gooby and Hastie 2003). It is a classic problem as old as welfare policy itself. It can be seen in Victorian distinctions between the deserving and undeserving poor, and in present day demands to review the eligibility of everyone on Incapacity Benefit.

The problem of identifying whether need is legitimate (i.e. genuine and, where possible, accompanied by reciprocal effort) can be viewed as an example of moral hazard due to asymmetric information. The welfare state can draw inferences based on an individual's behaviour, but only the individual can really know the legitimacy of their demand on others. A common response has been to try to get the individual to reveal their 'true' state by raising the costs of making a claim through administrative rules or practice, or reducing the benefits.

The question for 2020 welfare is whether this is the most effective approach? Academics and writers from Charles Murray (2000) to Frank Field (2000) have emphasised how powerfully welfare systems can shape the behavioural responses of individuals. Developments in behavioural science and economics suggest that the process of getting individuals to reveal information about their 'true' state, might itself affect that 'true' state.

2. Means: what are the most effective means of meeting welfare goals?

In relation to increasing labour market participation, policy responses are typically a mixture of sticks (administrative requirements), (financial and other) incentives, and support services. This framework is stylised in Figure 2.

Figure 2: Increasing participation: policy mix (stylised)

STICKS	SUPPORT	CARROTS
Administrative requirements Penalties e.g. benefits withdrawal	Welfare to work services	Financial incentives: pay and top ups Suitability and quality of work Support services e.g. childcare

Each of these policy approaches brings its own challenges, but a first question relates to the appropriate mix of these approaches and how they can be made to work together most effectively. Sticks might be necessary as a back-stop to ensure minimum compliance and preserve the integrity of the system. However, a system dominated by sticks might undermine the effectiveness of support services and other ‘carrots’

if they act to undermine individual motivation. Similarly, carrots might not be sufficient if potential job seekers don’t understand them, or they appear risky. And in the middle is the grey area of support services which, by tapping into and increasing the motivation of individuals can reduce the importance of sticks, and by providing accurate information and assisting with search/matching, can amplify the impact of carrots.

In relation to services two further questions emerge. First, to what extent should they be ‘broad’ (integrated with other services such as health and social care) or ‘narrow’ (where employment outcomes are commissioned from prime-contractors operating at a regional (or sub-regional) scale? Second, to what extent should services be ‘administrative’ (subject to standardised eligibility and conditionality criteria) or ‘relational’ (based upon the unique needs, preferences and aspirations of citizens)? This second question links closely to the issue of motivation or moral hazard, where the former requires a more relational approach and the latter a more administrative approach.

Finally, using financial incentives (both as ‘stick’ and ‘carrot’) as a tool for incentivising work poses a raft of simultaneous problems. These problems (especially the unemployment and poverty traps) are well known. The unemployment trap arises when transfers which raise the incomes of households not in work weaken incentives to work. The poverty trap arises when in-work earnings-related benefit payments are reduced as income rises (alongside income tax and other deductions) with the effect of discouraging progression into higher paid work (whether through working longer hours or upskilling).

In 2009 a report by the Centre for Social Justice argued that the unemployment trap could be mitigated by means testing benefits or tax credits less aggressively. However, as Mike Brewer (Institute for Fiscal Studies) notes, this leads to higher welfare spending and increases the number of families in reach of means-testing. At a time when welfare spending has been explicitly targeted as a source for budget cuts, this is not a route the current Government is likely to follow. Mike Brewer suggests an alternative approach to incentivise labour market participation by more generous benefits for low earners. Nevertheless, while “this reform can strengthen incentives to work for some, and be made revenue neutral,” it “makes many people worse off” by the need for higher taxes along the rest of the income distribution.¹²

The other downside of financial incentives is that they can overcomplicate tax and benefits. Successive governments have sought to simplify the welfare system, but as Mike Brewer also observes, “simplifying benefits is usually difficult, and often costly unless there are to be many people made worse off: the current system targets money in precise ways.”¹³

Moral hazard vs. motivation

The response of citizens and individual agency is a very important part of our approach to reform. Policy makers often overlook the fact that public value is created not in the supply of certain services or transfer of cash benefits, but in the quality of their interaction with citizens.

Box 2: Tax credits since Speenhamland

There are many historical and contemporary examples of policy attempts to increase work incentives, both in the UK and internationally. In the late 18th century, the ‘Speenhamland’ system was an early attempt to top up agricultural wages from local rates to meet the costs of raising a family. Although the system spread rapidly from the Berkshire town where it was first introduced, by the 1820s the downward pressure on wages that it had created had made the system completely unaffordable. More recently, Family Income Supplement was introduced in Britain in the 1970s as an addition to wages, superseded by Family Credit in the 1980s. This, in turn,

was replaced by Working Families Tax Credit in the 1990s, with the current regime of in-work support, built around the Working Tax Credit, introduced in 2003.

Internationally, Milton Friedman’s advocacy of a Negative Income Tax was the inspiration behind President Nixon’s introduction of the Earned Income Tax Credit in the US in the 1970s, a policy that President Clinton expanded substantially in its reach and impact in the 1990s. Similar examples of in-work support can be found in other Anglo-Saxon economies, such as Australia and Canada.

See Wilkinson, F. ‘The Theory And Practice Of Wage Subsidisation: Some Historical Reflections’ (2001)

The way that citizens engage with, and respond to, services is critical to the overall outcome. It matters, for example, that children are willing to learn at school, or that patients take their medication as prescribed. It matters whether people want to work or whether they see value in volunteering their time. Similarly, it matters whether the state views all jobseekers with suspicion and assumes they are not motivated to work unless the strictest conditions on benefits are applied.

Recently, much attention in policy making has been placed upon the lessons drawn from behavioural economics (see Box 3: Stoker and Moseley (2010) for a summary). Attempts to ‘nudge’ individuals represent one way of trying to structure systems and service design around the behaviours of citizens. Automatic enrolment into pension savings schemes, is one example of this. The Commission believes that structures and opportunities must be designed so that they ‘go with the grain’ of citizens’ lives – their behavioural tendencies, preferences, aspirations and concerns. Services that are designed around the needs and aspirations of citizens enable them to bring their own resources to the table and work with public services to create social value.

To do this requires a holistic view of individuals as *people* with an understanding of:

- a. Individuals’ pasts and futures at any point in time throughout the life-cycle
- b. The places and communities in which they live

a. Individuals’ pasts and futures

By taking a life-cycle perspective, problems and their solutions can be ‘internalised’ by individuals. One of the problems of moral hazard is that monitoring the behaviour of individuals imposes external costs on the collective. A more radical response would be to consider how those costs could be internalised. The majority of redistribution within the system is horizontal redistribution – across an individual’s lifecycle. Where this is the case, there are opportunities to internalise costs, allowing greater freedom of choice for individuals. While many of the economic risks that individuals face are not evenly distributed, vertical redistribution (from richer to poorer) will continue to be a feature of any effective welfare system. However, with the appropriate information, technology and support, people would be better able to take responsibility for themselves and others.

Thinking creatively in terms of lifecycle redistribution could minimise the risks of moral hazard (although it cannot eliminate them). This would mean that problems which otherwise seem intractable at a single point in time can be mitigated, if not solved, when we are mindful of:

- Short term decisions informed by a clear sense of longer term destination
- Actions taken that are consistent with that longer term destination

b. The places and communities in which they live

To support people to take greater responsibility for managing the risks they face throughout their lives, we need to understand that individuals live, work and socialise in family households, neighbourhoods, communities, towns, cities and regions. Their behaviours are influenced by cultures, social norms and networks. Evidence shows that “we derive material and emotional sustenance from our personal relationships” and reported life satisfaction is generally higher the more people feel they can trust people in their local community.¹⁴

Effective strategies for changing behaviour have to be based on locating the key drivers of social behaviour and understanding how social networks operate in neighbourhoods

3. How should responsibilities for meeting welfare goals be shared?

The centralised nature of our welfare state has undermined ties between families and communities and replaced informal ‘contracts’ created through moral/social norms with more formal contracts with the state. A new balance of responsibility must be found between families, communities, employers and local/central government.

This balance is not just about financial flows. In addition to government regulation (such as the National Minimum Wage), other types of labour-market legislation can help to improve the quality of employment. Data shows that the Flexible Working Act (2002), which included the ‘right to request’ flexible working hours, has “thus far

helped in opening pathways for parents to balance work and caregiving responsibilities”.¹⁵ In addition to the ‘right to request’, other statutory provisions of the Act include improvements to maternity rights, paternity leave, adoption leave, emergency leave to care for dependents, and parental leave entitlements.¹⁶

In starting to think about the share of welfare responsibilities between individuals, families, communities, employers and government, three key questions include:

- **How do we define the family?** What is a workable policy-relevant definition of the ‘family’? Should it be based on a residential definition alone, or a wider notion of kin?
- **What is it reasonable to expect from a family unit?** What input (‘in cash’ and ‘in kind’) should we demand from families? Should we take inter-generational flows within families for granted?
- **What are the implications of a rebalancing of welfare responsibilities?** For example, given current patterns of intra-household distribution of responsibilities (e.g. women are much more likely to take time out of the labour market to look after the home), what are the gender implications of families taking on greater responsibility?

The first two of these questions underpin much of the confusion surrounding our existing welfare settlement. Social care in England gives a good example of where unclear boundaries between the role

of central/local government and individual/family responsibility lead to a fragmented and cost-inefficient system; “. . . a sense of disjoint, between services, across age groups, and between types of treatment – is accentuated by the often unclear boundaries between state and voluntary responsibility, and arbitrary breaks in responsibility for individuals during key ‘transition’ phases of their lives” (Kippin, 2010: 7).

Lack of clarity regarding individual and collective entitlement and obligation also undermines the capacity to create social value cost-effectively. This is heightened further since individuals tend not to think about their long term future social care needs and many are unprepared to meet these when they arise. Without the foresight to take preventative measures (ideally in line with other services or organisations such as healthcare or employers), social care costs are all the greater in the long term.

Participle, social enterprise, shows how social care can be built around a combination of public, private and voluntary resources, rather than a narrow configuration that ignores the ‘social connections’ that can ameliorate social breakdown. Partner, Charlie Leadbeater (2009) describes this emphasis on social resources as moving from ‘care to wellbeing, income to participation, consumption to relationships’ (quoted in Kippin, 2010: 14).

In his recent book David Halpern examines the concept of broader social resource as the hidden ‘economy of regard’ – i.e. “the myriad of ways in which people help, show affection, care for and support each other in everyday life” (2010: 98). Unlike other countries (including

Sweden or Finland, for example), ‘informal’ family and community based welfare in the UK is largely separate from formal, state-based provision. The challenge, argues Halpern, is how to link the two more closely so to stimulate co-production and work with, rather than crowd out (Frey, 2007), intrinsic motivation of citizens.

As a first move towards greater sharing of responsibilities for meeting welfare goals between citizens, communities and the state, Halpern suggests that adults might be expected to contribute a minimum number of hours in local service to the community, for example. He also suggests a more comprehensive framework for linking informal and formal welfare provision through “complementary currencies . . . like the Japanese system of Fueai kippu, or the US Elderplan system” (2010: 119). This policy ‘credits’ citizens for caring for elderly people in their community, and – unlike monetary transactions – taps into a primary motivation of care for others and sense of connection to the community. Halpern argues that this approach would go further than simple ‘rights and responsibilities’ by enhancing community trust and mutual respect among citizens. Previous research (Halpern, 2005) has shown that social trust not only acts as a “catalyst of economic growth” but is also “. . . strongly predicative of your subjective well-being, both individually and cross-nationally” (2010: 24). An approach to welfare policy that brought individuals in communities together and called upon their broader set of resources (e.g. time, energy, good will and cultural incentive to exhibit reciprocity) would create a virtuous circle of fiscal and well-being benefits.

Box 3: Stoker and Moseley (2010)

Gerry Stoker (2010) and Christopher Hood (2008) have shown how recent policies of targets, league tables and 'naming and shaming' are based on an assumption of individual instrumental rationality.¹⁷

Public service markets based on principles of choice and personalisation assume their consumers know their best interests. Voice and exit-based mechanisms also rely on consumers' ability to assert their needs and preferences in holding (self-interested) providers to account.

Social, moral and cognitive factors also drive our behaviour

The assumption of individual rationality has long been challenged (see Simon 1945), but the evidence is mounting that we are highly influenced by a complex mix of cognitive, social and moral factors. For example:

- We are more averse to loss than motivated by the prospect of gain ('prospect theory' – Kahneman and Tversky, 1979);
- Limited by time, intellectual energy and resources, the majority of us, most of the time, prefer not to change our habits unless we really have to (Samuelson and Zeckhauser, 1988);
- People are influenced by their immediate social networks and corresponding norms of reciprocity and mutuality (House, 1981). When confronted with an ambiguous situation, we also

look to other people for cues on how to behave (Cialdini, 2007) especially those within groups with which we identify (Tajfel et al., 1986); and,

- We place too great a value on short term consumption while discounting the greater long term gains that could be made from delaying consumption ('hyperbolic discounting' – Laibson, 1997).

Policies are already being designed to incorporate some of these behavioural tendencies. One example can be seen in recent policy research experiments attempting to encourage whole streets to form group identifications vis-à-vis other streets in the neighbourhood. Building on the inter-group biases and loyalties identified by Tajfel et al. (1986), projects in Manchester and Southampton are trying to harness the spirit of competition and friendly neighbourhood rivalry to increase food waste composting.¹⁸

Policies that speak to our intrinsic motivation might encourage co-production

Drawing on a range of social psychological research Frey (2007) argues for a different approach to changing behaviour which recognizes that the incentives and constraints favoured by instrumental rationality can crowd out intrinsic motivation. People do not like to be controlled (especially through intensive oversight/regulation) and they do not like it when their perceived

intrinsic motivation is overlooked – they feel a loss of self-esteem.

Frey's argument suggests that the costs of top-down policies based on monitoring and targets can be heavy. Stoker and Moseley recommend that "Rather than using the traditional tools of government to punish or incentivise, the State may be better off working on the development of the institutional apparatus which will permit citizens to cooperate." Applying the logic of House (1981), also suggests that building trust and space for reciprocal acts will be important for citizen cooperation.

By giving the space for intrinsic motivation there is evidence that citizen cooperation and co-production can flourish; "contrary to purely rational models, individuals systematically engage in collective action to provide local public goods or to manage common pool resources without external authority" (Ostrom, 1998). Group norms and repeat face-to-face interactions within communities act an

equivalent moral code, which can be powerful drivers of individual behaviour.

The legitimacy of 'nudge'

Policymakers' early attempts to 'nudge' citizens (see Thaler and Sunstein, 2008) have been criticised by some as attempts at social engineering. Thaler and Sunstein (2008) acknowledge this point and defend their position on the grounds of 'libertarian paternalism' (that is, individuals still have the opportunity to choose how they respond to automatic opt-ins, for example). However, the question of democratic legitimacy remains. Community engagement at the policy design stage is one way of securing such legitimacy (and greater effectiveness), particularly – argues Taylor (2002) – in rural or economically deprived areas where people are most reliant on public services or less able to opt out of those available.

In light of the increasing cross-disciplinary work between economists, psychologists and sociologists, what are the relevant lessons of human behaviour for policy makers? Individuals sometimes operate as (or as if) boundedly rational agents, maximising their self-interest. Often (if not always), we are influenced by other social, cultural and cognitive factors. This does not necessarily mean we behave in ways which are consistently 'other-regarding', but the point

remains that individual citizens live within a broader social context. Citizenship *is* social.¹⁹

In looking for a blanket 'one size fits all' approach to policy (and perhaps welfare policy in particular), such apparent lack of predictive power regarding individual responses to incentives and programmes (e.g. tax credits or the promise of return to investment in skills and training) might be problematic. This is one reason why, despite recent

attempts to incorporate behavioural insights, there is still a tendency to start with the individual rationality framework; the individual has remained the primary unit of analysis for policy makers.

Recent attempts to 'think family' (e.g. Every Child Matters, DCSF 2009) or take a 'whole area approach' (e.g. Total Place) represent a first shift in our thinking about state intervention. But more fundamental questions remain:

- What should the 'base unit' of policy making be? The individual and/or 'family' (however defined) and/or community (however defined)?
- Can policy makers design incentives and encourage appropriate behaviours/outcomes that meet the needs of whole families and communities?
 - > If so, how?
 - > If not, what does this mean for who makes 'policy' and at what level?
- To what extent (and how) can individuals, families and communities be engaged in policy making? Hartley Dean (2020 PST, 2010) suggests applying a model of 'social rights councils' based on Brazil's network of social policy management councils designed to engage citizens in the design of education, health and welfare policy with a mix of government representatives, community representatives and service providers around the table.

New Directions for Policy

The ‘dilemmas for welfare’ outlined in the previous section highlight the complexity involved when thinking about welfare policy. A subject that speaks to the heart of many contentious and value-laden issues, welfare reform must navigate through the minefields of competing incentives, public attitudes and behaviours, the concept of citizenship, system legitimacy and political strategy.

The Commission on 2020 Public Services sets out three shifts – in culture, power and finance – which offer a way to view the design and implementation of reform. The Commission’s starting point is a broad view of public services – the things we do together to achieve for ourselves and each other things that we value and cannot achieve on our own (see Box 4). Our desires for autonomy and independence are tempered by the recognition of our interdependency. But doing things together is tough. We have different ideas about priorities, and there are always risks that some will free ride on the collective.

As a result we have tended to focus on what is thought fair rather than what is effective. We have been more concerned with how people will use any autonomy they are given to cheat the system, rather than on the positive possibilities of citizen agency. This agency – the motivation and energy of citizens in pursuing the life that they value – is the greatest untapped resource of our public services, and especially of our welfare system. The Commission on 2020 Public Services calls for much greater use of this untapped resource; we call

it a ‘shift from social security to social productivity’. While our two other shifts are important, the questions of citizen agency – perhaps the glue that keeps the system together – are particularly intense in relation to welfare.

Looking ahead to 2020 allows us to take a more considered view about the longer term goals for public services and the policies and pathways necessary to get there. The alternative is to muddle through, navigating by landmarks only as they come into view, with this kind of incrementalism entrenching, rather than challenging, old models of public services. The Commission’s vision for 2020 public services suggests an approach to welfare policy that shifts the emphasis from individual contribution, entitlement and sanction towards:

- *Motivation*: using individual and community agency and building social capacity
- *Responsibility*: of individuals, but also of employers, with government playing an active shaping role
- *Information*: using information that is currently underutilised (or missed altogether) by the system – especially local information about individual needs/preferences and about labour markets
- *Sustainability*: economically, socially and politically.

Box 4: Commission on 2020 Public Services – Our Vision

The Commission's overall vision is that:

2020 public services help us to achieve – for ourselves and each other – things that we value and cannot achieve on our own.

They help us to become the people we want to be, living within a society we want to be part of.

2020 public services put us in control of our own lives. They make us more secure today and more confident about tomorrow, encouraging us to take responsibility for ourselves and for others.

Its starting point is a critique of the system, which the Commission holds to be out of tune with the lives of citizens today and increasingly defined by the immediate fiscal challenges rather than the opportunities that are emerging. The current settlement is also unsatisfactory because:

- The ability to achieve fairer outcomes is undermined by concentration on fairness of input entitlements
- A static view of current needs inhibits our ability to consider problems and solutions dynamically so as to reduce future demands
- Organisation by service function means that the integrated responses that would meet the needs of individuals in the places they live are hard to supply

- Concentration on fiscal resources means that many social, private, informal and virtual resources – including the agency of citizens and the perspectives they bring – are being missed
- Upwards accountability leads to services that have only weak accountability to citizens, and limits the impetus for dynamic changes.

A more effective system would encourage people to do rather than do to people. It would:

- Focus less on the allocation of fair service entitlements, and more on the creation and fair distribution of valuable outcomes;
- Be less focused on mandating the means and more on creating the conditions in which effective solutions are nurtured and propagated;
- Focus on upside possibilities (aspiration and freedom) rather than on downside risks (penalties and sanctions).
- View problems and solutions through a dynamic lens (over time, not just a point in time); and
- Mobilize all types of relevant resources in the search for solutions.

The Commission advocates three systemic shifts (in culture, power and finance) to create space for the scale of change needed.

Our three examples for welfare policy are:

1. **Social welfare accounts** – clearer visibility of individual contributions (both financial and social) to, and benefits from the welfare system and broader public services. This policy is designed to enhance transparency, bolster the legitimacy of the new settlement and ‘reconnect finance to purpose’. It also has the potential to support citizens to take greater responsibility for managing risks across their lifecycle and to encourage, measure and reward greater engagement and social participation.
2. **Localised welfare** – a ‘whole person’ and ‘whole place’ approach to welfare based on local control of integrated employment services. This policy seeks to make better use of information about underlying, interrelated drivers of worklessness at a neighbourhood level.
3. **Integrated welfare with the local economy and labour market** – neighbourhood interventions are aligned with the wider local/sub-regional economic context and strategy for development. Ultimately, a regional Living Wage would enable places to lift more people out of Welfare support.

1. Social welfare accounts

In helping individuals to manage economic risks, welfare policy is redistributive. Some of this redistribution is from rich to poor, known

as *interpersonal* or *vertical* redistribution. Redistribution of this kind is essential in achieving a fair society; individuals have very different starting points in life, and economic risks are not evenly distributed.

But a large part of redistribution is *intrapersonal*, or *horizontal*; the system takes money from an individual at one point in their life and returns it to them at another. This income smoothing over the life cycle helps individuals in three ways:

- **Insurance** against economic shocks;
- **Enforced saving** (in effect) obliging individuals to ‘save’ for retirement; and,
- **Liquidity** for individuals at points in life when savings are low and markets are reluctant to lend.

Despite these distinct policy goals, there is little distinction in the means of achieving them. The revenues from taxes and National Insurance contributions are paid into the ‘national pot’, and then paid out again according to needs and entitlements. For any individual, there is currently little link between the money that they have paid in, and the benefits that they receive.²⁰

This single, ‘national pot’ approach reflects the core purpose of Beveridge’s welfare state to use collective means to help individuals manage economic risks. But it also reflects the technological realities of those post-war times. If we view the opportunities for a new settlement from the perspective of our lives today – including the developments

in technology (especially the internet) – we open up the possibility of alternative solutions:

- **Transparency:** the lack of a clear link between contributions and benefits makes it difficult to be clear about how much emphasis is being placed upon which policy goal (via both horizontal and vertical redistribution). Lack of transparency also prevents understanding about whether each of these goals is being achieved in the most effective and efficient ways. In the short term, a lack of transparency might help to preserve a coalition of support. As Pierson (1994) suggests, ‘obfuscation’ can be a useful political lever. However, in the longer term, and particularly in times of fiscal constraint when distributional claims become more contested, lack of transparency is not a sustainable basis for maintaining social solidarity.
- **Risks for the collective:** The lack of explicit connection between contributions and benefits increases the risk that individuals will try to cheat – in the contributions they make, the benefits they claim, or in both. This imposes additional costs on everyone else in three ways:
 - › **Costs of policing compliance:** In 2008-09, DWP spent £3bn (2.2 per cent total expenditure) on dealing with fraud/error. Initial research has shown that the burden of compliance on citizens is greatest in welfare (see IFS, 2009).
 - › **Foregone revenue and increased expenditure:** According to

the Guardian (February 2009) HMRC estimates that between £3.7bn and £13bn tax revenue is lost by tax avoidance.²¹

- › **Efficiency losses from effects on work incentives:**
 - **For claimants:** because the costs of an individual claiming benefits are externalised (they fall on everyone else) this acts to weaken incentives to stop claiming and, where appropriate, move back into work.
 - **Higher tax rates:** adding all these costs together (compliance, foregone revenue and other efficiency losses) increases the overall contributions required to fund the system. Higher tax rates will then reduce marginal incentives to work.
- **Limitations for the individual:** the contributions that citizens have made cannot be used to support any and all of the contingencies they face in life or the choices that they make – only those for which collective support has been explicitly sanctioned and the criteria for support has been met. This limits the flexibility that individuals have to make life choices (e.g. to develop their skills or to travel/move to another place to look for work). Standardised efforts to police risks of moral hazard (ensuring legitimate entitlement to a benefit or active job search, for example) also operate against the flexibility that individuals are increasingly likely to want and need.²²
- **Social contributions:** social networks and cultural norms frame many aspects of the way people live their lives within their

communities and neighbourhoods. Policy makers should not only be mindful of this wider social context and influence, but should seek to harness the positive contribution it has to offer. Better mobilisation of non-state resources (the time, energy and dynamism that citizens can bring to their interaction with public services) is not only socially beneficial, but can also save money in the long term.

The idea of making more explicit links between the contributions that individuals make to welfare systems and the benefits that they receive is gathering increasing interest around the world. This interest is not limited to taxes and transfer payments, but to other areas of public services. Examples of individual account models can be found in Singapore, Chile and the USA.²³

Danish Economic Council (2005) model

The specific features of the model vary from country to country, but one fairly typical example is a 2005 proposal by the Danish Economic Council, analysed by Bovenberg et al (2007). Under this proposal, each citizen would be required to pay a share of their income into an individual account, with their income tax liabilities reduced accordingly. When an individual claims one of a range of benefits (early retirement benefits, student grants, short term unemployment and sickness benefits, child benefits and parental leave benefits), their account is debited by the amount received. There are adjustments for couples to ensure some degree of gender equity.

A key feature is that individuals can claim these entitlements even if their individual account is in deficit. If, on retirement, an individual has a positive balance this is used to supplement their basic state pension (either converted into an annuity or paid as a lump sum). If an individual has a negative balance the account is set to zero and they receive only the basic state pension.

This proposal overcomes many of the incentive problems with traditional welfare systems (and associated efficiency losses), while ensuring a similar degree of equity overall. The efficiency gains come from the linking of intrapersonal welfare contributions and benefits so that the relevant costs fall on the individual, not on the collective. By internalising costs in this way it preserves flexibility for the individual while minimising risks of moral hazard.

At the same time key features of the model mean that equity concerns are largely assuaged. Allowing an individual to claim benefits when their account balance is negative overcomes the liquidity constraints that would be faced by many in the private market or a pure savings model. Similarly, important elements of vertical redistribution remain; writing off negative balances at retirement and ensuring a minimum state pension means reduces lifetime inequalities in income. The system also includes short-term (but not long-term) unemployment insurance.

Modelling the impact of this proposal, Bovenberg et al. (2007: 24) conclude that,

“... individual accounts can play a useful role in financing social benefits that have only little redistributive power in a life cycle perspective and give rise to serious moral hazard. For such benefits, saving accounts can enhance labour-market incentives at a relatively low cost in terms of a more unequal distribution of lifetime incomes.”

While emphasising that individual accounts would strengthen work incentives for most, Bovenberg et al. also recognise that for the lifetime poor (who would benefit most from the vertically redistributive features of the proposal) the incentive effects are weaker and other labour market activation policies will continue to be needed.

Other life-cycle account models

Considering the merits of a similar idea to integrate unemployment insurance with retirement insurance, Stiglitz and Yun (2002) suggest going further than the Danish model.

Stiglitz and Yun (2002) argue for a greater degree of self-funded insurance, even for longer-term spells of unemployment. They also argue that there are greater welfare gains to be made by extending the types of social risks that are insured against in this way. Unless those risks are perfectly correlated with one another, they find that limiting the application of the model to a narrow set of ‘shocks’ “unambiguously lowers welfare” [p38].

Stiglitz and Yun (2002) also advocate additional design features to balance natural myopic tendencies, such as requiring higher rates

of contributions after periods of unemployment to rebuild account balances.

Finally, Stiglitz and Yun (2002) respond to equity concerns related to individual social welfare accounts:

1. First, by allowing individuals at points of need to, in effect, ‘borrow’ against their future incomes, the policy would overcome opportunity limiting liquidity constraints that young and low-wage workers frequently face. Income inequalities at any point in time are typically far greater compared to the distribution of lifetime incomes.
2. Second, governments could make explicit subsidies to those with low incomes without weakening incentives. This could be achieved, as Orszag and Snower (2002) argue, by topping up the contributions of those on lower incomes and could be made even more progressive if the contributions of those on higher incomes were taxed.

As these examples indicate, there are many ways to flex the idea of social welfare accounts to meet a range of circumstances and policy goals. The design could be narrow to cover financial transfers, or broad to include a range of public services. Similarly, it could be limited to the more efficient management of horizontal (intrapersonal) transfers, or include vertical (interpersonal) transfers. All advocates emphasise the dynamic gains in efficiency (estimated by Bovenberg et al (2007) to dominate any static revenue losses) from strengthening incentives

to work, weakening incentives to claim unnecessary support, and lowering tax rates overall. At the same time, they increase the flexibility that individuals have to pursue the life they choose.

Orszag and Snower (2002) also emphasise the consistency of individual accounts with other dominant trends in public services – towards greater individual commissioning of services and a greater plurality of service solutions and providers. They see the approach as a way of overcoming one of the chief dilemmas for modern welfare states, namely how to create a economically, politically and socially sustainable system of welfare support and public services that can meet increasing future demand.

In summary, the literature suggests that compared with traditional welfare systems there are clear advantages to individual social accounts, especially in managing intrapersonal redistribution. They benefit individual citizens by enhancing the flexibility and control to adapt support to their particular circumstance and life goals. They benefit the collective by reducing risks of moral hazard, strengthening incentives to work and lowering tax rates overall. Finally, as fiscal constraints intensify distribution questions all the more, greater transparency of individual accounts could offer a more secure basis for continued social solidarity.

Applying a model for social welfare accounts

Variations of the model can incorporate explicit interpersonal redistribution and, properly designed, can satisfy most equity concerns without compromising the gains in efficiency. However, it is the efficiency

benefits of intrapersonal social accounts that seem to be driving interest in the approach. This can be observed by considering the countries where the idea has been implemented, or is being most actively considered:

- Scandinavian countries where lifetime income inequality is relatively low. These welfare systems are therefore orientated towards income smoothing (horizontal) intrapersonal transfers to deal with fluctuations in incomes year to year; and
- Countries such as Singapore or the US, where there is less political support for vertical redistribution and this is therefore less important as a policy goal.

In the UK, academic studies have repeatedly shown public opinion to be in favour of increased public spending on health, education and social benefits (see Hills and Lelkes, 1999; van Oorshot, 2002; Taylor-Gooby and Hastie, 2003). Even since the debate has been framed in terms of cuts to reduce the fiscal deficit, four in five (82 per cent) people feel that NHS spending should be protected.²⁴ Yet the lack of transparency has obscured the degree to which people are able to determine the impact of public spending on policy outcomes such as the effect of redistribution on child/pensioner poverty rates or overall income inequality.²⁵

In reference to the attempts of the New Labour Government to reduce poverty, Sefton (2005:114) concludes that lack of transparency, or “redistribution by stealth,” has “led to a lack of public recognition of the government’s progress . . .” Individual social accounts would

be one way of shedding light on the effectiveness of the system. It would also enhance its legitimacy, not least because there seems to be a relatively poor understanding of how taxes and benefits are currently distributed; “Most people favour a progressive tax system, but most people also believe the current system is already progressive, though it is in fact broadly neutral (or even slightly regressive) once indirect taxes, such as VAT, are taken into account . . .” (Sefton 2005: 114). There is a strong argument in favour of individual social welfare accounts on the grounds of improving transparency alone. Transparency is a valuable instrument for legitimacy – the bedrock for a truly sustainable welfare settlement.

It is clear that individual social welfare accounts would support the Commission on 2020 Public Services’ shift in finance to create better lines of sight between citizen contributions to, and benefits from, public services. There is also a case for social accounts capturing our shift in culture, from social security to social productivity.

Earlier we referred to David Halpern’s suggestion of mandatory social contributions towards public services. The UK’s social account model could incorporate this wider social contribution towards public services, encouraging greater citizen engagement and participation in the delivery of social outcomes. In this way, an individual social account would enable citizens to take on greater responsibility for managing risks across the lifecycle, support the creation of a ‘Big Society’ (or localised ‘Big Societies’) and reinforce other emerging trends within public services (e.g. individual commissioning via personal budgets).

Conclusion: Social welfare accounts

Our single ‘national pot’ approach to public revenue and spending reflects the core purpose of Beveridge’s welfare state to use collective means to help individuals manage economic risks. But it also reflects the technological realities of those post-war times.

A citizen social welfare account (easily accessible online²⁶) would allow greater transparency of individual contributions to, and benefits from, public services and welfare. Previous work for 2020 PST has shown that while cash benefits are targeted mainly at the poorest households, more than half of the income distribution receives a net benefit from public services.²⁷ A transparent social account would help to support a more sustainable, legitimate system of vertical (between household) and horizontal (within household) redistribution of public expenditure.

This policy proposal **helps citizens to take on greater responsibility** for managing risks throughout their lives by providing them with real time information as to the taxes they have paid, the savings they have collated and the benefits/ services to which they are entitled. In extending the time horizon of individuals in their decision-making, social accounts **internalise the costs of moral hazard** and/or benefit dependency. This creates a more efficient welfare system.

Finally, this example for 2020 Welfare policy allows for the encouragement, measurement and **reward of social contributions**

towards the delivery of public services. In doing so, it could help to support the creation of a 'Big Society' (or localised 'Big Societies') and reinforce other emerging trends within public services (e.g. individual commissioning via personal budgets).

2. Localised welfare

“At a time of emerging national policy on ‘Big Society’ and decentralisation and localism, integration of services at neighbourhood level combines the well-rehearsed policy of spatial targeting to areas of greatest need with bold local leadership to drive value from existing resources.”

Thanet District Council, Kent

The Commission on 2020 Public Services takes as a starting point that, in redesigning our public services settlement, we should begin with citizens – the lives they lead, their pasts and futures, and the places they live. This is relevant to strategic policy design, decision making and commissioning (i.e. how funding is channelled through the system). To start at the lowest level does not mean that you end there, but in finding the right level for decision making and commissioning, the journey is from the citizen up, not the centre down. With this balance of scale in mind, the case studies below suggest a significant dividend from a shift away from the centre.

However, recognising that it is not a single central/local binary scale, they also indicate that localised welfare is an issue of variable geometry. As argued in ‘Delivering a Localist Future (2020 PST, 2010), the pace and shape of devolved power to local authorities and communities must be allowed to vary in response to local capacity, needs and preferences. Engaged and empowered communities should also be at the heart of new forms of delivery; “. . . local authorities and their partners should agree how they can best engage and energise local communities to help deliver those outcomes. There should be no template for this approach to devolution beyond the town and county hall.”²⁸

This variable geometry is illustrated by three case studies:

1. Neighbourhood – the two wards of Margate Central and Cliftonville West
2. Sub-region – Greater Manchester
3. Region²⁹ – London Development Agency

Our cases studies reveal both the strengths of localism and the constraints and challenges of the transition and implementation of localised welfare within the current system. As we argued in ‘Delivering a Localist Future’, integrated single place budgets do not mean locally provided services at every turn – economies of scale might make it more cost efficient to deliver at a national level, perhaps online. Appropriately scaled integration is important.

However, the balance of current government structures and policy making is too far skewed towards the national level. Nationally run welfare benefits and welfare-to-work services suffer from:

- **Poor local labour market knowledge** – even when a narrow policy approach is taken, national level employment services and benefits suffer from severe information constraints. Without detailed local knowledge of the context and drivers of a given labour market, it is difficult for central government to define a priori ‘good’ performance upon which to benchmark outcomes – although once in contract regionally contested prime providers do have a strong incentive to understand their client’s needs.
- **Neighbourhood focus** – localised services targeted at the long term unemployed can work with families, households and local communities to understand their motivations, strengths, weaknesses and social networks in order to develop more tailored and effective approaches to capability development.
- **Lack of integration with other services** – worklessness is often not just an employment services problem, but one which cuts across many policy areas (including health, education and skills, housing and welfare). When national programmes speak to these areas in isolation, the complex needs of individuals may not be met – protracting the demands on employment services and imposing costs elsewhere in the system.
- **Lack of integration within system incentives** – an isolated,

national level employment services model also misses out on potential virtuous circles from closing DEL/AME investment loops, aligning incentives with other services (e.g. skills, productivity and regeneration). These virtuous circles would improve decision making on how much to spend on local employment services, at the margin, and other related service budgets.

“The multiplicity of programmes is too much for Jobcentre Plus, other intermediaries and Local Authorities who often have to take pot luck about which programme will work for the individual. So many different brands of agency and service must also be confusing for the customer.”

Welfare-to-work provider

A localised approach to welfare and employment addresses many of these problems. It enables multiple agencies to integrate their services for more effective solutions to local and/or regional problems:

- **More detailed labour market knowledge** – detailed information about the locality (for example, the complex interrelationships between service areas, underlying causes of worklessness and local labour market dynamics) allows for more sophisticated targeting of relevant policies and resources. Where a nationalised model finds it difficult to assess and monitor individual motivation and

action, a localised approach is able to build personal knowledge and tailor its response accordingly. For example, instead of a blanket system of sanctions and conditionality based on the assumption that benefit claimants are free riders until proven otherwise, localised services can work with individuals to understand their personal motivations, strengths, weaknesses and access to local sources of social capital.

- **Better integration with other services** – using individual/local level information, employment and welfare services can be integrated much more closely with other locally relevant service areas (such as housing and healthcare). This supports a broader, more comprehensive ‘whole person’ approach to welfare.
- **Better integration within system incentives** – an integrated system of welfare which is based on local information is more comprehensive and responsive to its citizens’ complex needs. Where the benefits of this localised approach can be largely retained within the geographical area, the scope for a ‘virtuous circle’ between complementary systems (at a local, regional and national level). The NLGN paper, ‘The Local Journey to Work: Localism, welfare and worklessness’ (2008) argues that Councils should be able to keep 50 per cent of any benefit savings made as a result of getting someone back into work.³⁰

Case study: Margate Task Force, Kent

Even in the prosperous South East England region, there are pockets of worklessness and deprivation. Across Kent £1.7 billion is spent on welfare benefits each year – greater than the budget for schools, social care, highways and community facilities combined.

Margate Central and Cliftonville West are the two most deprived wards in Kent and have a combined worklessness rate of 38 per cent – almost four times the national average. The majority of the workless population are economically inactive with 50 per cent in receipt of Incapacity Benefit.

The ‘Margate Task Force’ is being established to tackle a range of ingrained social, economic and physical problems. One of these is its high concentration of worklessness, which is driven largely by poor housing and closely related to low skills and health inequalities in the community. By bringing together multiple agencies within one team, Margate Task Force will be able to pool existing resources (including information, staff and finance) to transform public services in the area.

Margate Task Force – A Vision

“The Vision is to transform and regenerate Margate Central and Cliftonville West – an area of high deprivation and dependency with totally disproportionate public costs on a small number

of people in disadvantaged communities - into a flourishing coastal town with a strong identity, sense of community and independence. The proposition challenges public policy of both local and central government and fundamentally alters the way in which public services will be targeted within the proposed Special Intervention Area. It also creates a strategic housing vehicle to drive forward the radical changes necessary. Community engagement is central to the vision and approach.”

Local knowledge is the bedrock of personalised, effective services

Through detailed analysis of their area, local partners know that poor housing has resulted in a high proportion of single-person, benefits dependent households moving into the area. With limited economic opportunities and few incentives to enable them find work, worklessness has become a deeply entrenched problem in the area. When national programmes are not designed effectively to deal with small pockets of long term inactivity, the challenge for Margate is to find sustainable, local solutions for its citizens.

Local initiative paves the way for targeted action

Through the 'Total Place' pilot phase, Margate Task Force partners have had direct and regular discussions with central government on a series of propositions. In particular:

- Designating the two wards, Margate Central and Cliftonville West, a Special Intervention Area (SIA). This will enable the **pooling of existing local resources** (finance streams and management/delivery staff) under a single, integrated 'Margate Agreement'. Staff will be based together in the community.
- **Enabling the Margate Task Force to apply penalties** to private landlords for low standards and raise a levy to help support additional enforcement work. It is hoped this will reduce the supply of cheap, poor quality private rented accommodation and limit the pull of the two wards as destinations for vulnerable, benefit-dependent people. In parallel with this, research is being conducted as to how to reduce the number of families, looked after children and vulnerable people placed here from out of the area (e.g. London).

Having identified three main priorities for action in the two wards – housing, employment and health – the Margate Task Force team includes representatives from Jobcentre Plus, Kent Fire and Rescue Service, Kent Police, the local PCT, a local NHS provider, Kent County Council, Thanet District Council, Kent Adult Social Services Directorate, Kent Local Children's Services Partnership and environmental/housing enforcement. The Task Force will also work with residents, Ward Councillors and other stakeholders (in adult and further education, universities, libraries, GPs and youth offending, for

example). The breadth of services involved illustrates the degree to which this integrated neighbourhood approach seeks to draw on local knowledge and target intervention efficiently and effectively.

The employment strand has been founded on some key research and partnership documents, including worklessness assessments for the area and Thanet, a Thanet Work and Skills Plan and early modelling of a Work and Skills Hub (as part of the Thanet Gateway Plus). Driven forward by a multi-agency team, this has been formed into 'A prospectus for change'. As part of this initiative, local partners are keen to explore the possibility for a new **community-based 'provider of last resort'**. Long term worklessness is so high and the demand for labour so low in this specific area that private employment service contractors cannot profitably support many of Margate's inactive citizens into work. A community-led social enterprise would provide alternative 'intermediate' employment to those suffering long term worklessness.

"The Margate Task Force model has the potential to achieve what short-life programmes have never done, namely be a persistent and immovable force for real transformation and change. With a laser focus on individuals and families – backed up by an in-depth appreciation of the public purse – resources can be shifted so they tackle long term barriers into work."

Colin Maclean, Interim Director, Margate Task Force

The experience of Margate Central and Cliftonville West shows that even with in-depth knowledge and strong local leadership, structural barriers can make it difficult to take concerted action. The new Local Enterprise Partnerships (LEP) could provide an important means of ensuring that economic development actions meet local needs. But at the same time, the example of Margate shows that circumstances and solutions might be very different between neighbourhoods.

Local areas need the flexibility to deal with problems and priorities in a cost effective way that calls upon local information and resources. They may also need support from 'higher' tiers of government working across a number of neighbourhoods. In Kent, for instance, there may be scope in designing a county level approach to enhance local intervention, building on the Margate example and developed in other key target areas. The question of scale is critical: how can decisions be made so that they respond effectively and efficiently to the needs and preferences of neighbourhoods?

In addition to the question of scale, other questions emerge about how to enable a more localised approach to welfare. For example:

- In devolving decision making power and budgetary responsibility, to what extent are **formal institutional arrangements** (e.g. possibly a 'Special Intervention Area') necessary and/or desirable?
- How can welfare-to-work contractors be otherwise **incentivised to provide services for people furthest from the labour market?** (Especially where there are **concentrated pockets of**

worklessness within more prosperous regions for which contracts are negotiated based on average likely success rates)?

- What – if any – are the **cultural barriers** to integrated working across multiple agencies?
- What – if any – are the **tensions** between the private, public and voluntary sectors (e.g. in bearing risk burdens in the short/ long term)?

“DWP contracts are high risk even for us as a multimillion company, because they are short term and can be obscure in the retendering process. Skills funding comes with more certainty as the contracts are longer and renewed on the basis of actual performance, rather than a ‘DWP paper exercise’.”

Welfare-to-work provider

“Local joint working can sometimes be polite but not challenging. Collaborating partners often lack the honesty to say that another service or way of working is not good enough.”

Welfare-to-work provider

Case study: Greater Manchester

The Manchester Independent Economic Review (2009) highlighted the potential for Greater Manchester to grow to become the largest regional economy, second only to London. However, it also warned that the main risk to Greater Manchester achieving its potential was low skills and low labour market productivity. The priorities for the city are therefore to address its high levels of worklessness and benefit dependency, and to create jobs for growth. Manchester aims to achieve its twin goals by increasing private sector growth and reducing demand for public spending (especially welfare).

Integrated commissioning

The key question is how to streamline funding and services to meet the aspirations and needs of individuals, families and neighbourhoods. Manchester’s Neighbourhood Pilots are a first attempt at ‘integrated commissioning’ so that services are joined-up across multiple agencies to achieve locally targeted outcomes. Within this standardised approach, the emphasis should be on creating the flexibility to commission services at the most appropriate level, where ‘appropriateness’ is not solely a function of scale or legal authority, but of competence. A commissioner might be the Local Authority, a GP or a head teacher – so long as the interests of the whole community are taken into account.

Real choice and personal responsibility

Complementing this personalised, 'whole person' approach to welfare is a greater emphasis on individual, family and community responsibility. Manchester's 'Resident Wages' project has shown that interventions need to understand better the links between people's existing aspirations and job opportunities, and create the space for citizens to exercise real choice and personal responsibility. This more 'assertive' approach to reducing welfare dependency requires that recipients of benefits have certain obligations to their community. Manchester's experience of long term, intergenerational poverty and worklessness is that public services alone cannot bring about change. There needs to be an aspect of self-realisation and aspiration created within families and neighbourhoods. This process of self-realisation can be inspired through public services, as the Whitworth Gallery programme shows.³¹

Influence not control

Although Manchester is piloting new ways of integrating services and transferring responsibility from the state towards individuals and communities, centralised welfare funding and programme design still predominate. For example, the new Single Programme welfare-to-work policy is likely to keep tight DWP's control over local employment services (and in isolation from other services such as health, social care). Manchester has shown that even if they lack

direct control over commissioning 'invest-to-save' welfare, the locality can influence the shape of this provision on the ground.

Where neighbourhoods might otherwise be overlooked as 'unfeasible' by the market, the local authority is sometimes able to incentivise service delivery if they can find a way to reduce/eliminate the additional cost to providers. For example, a local council could:

- Offer the provider premises in an existing council building and/or the costs of renting a building with the council – helping the local authority to work within its reduced budget;
- Arrange co-location in health or leisure facilities (e.g. employment services are delivered through some GP surgeries in Salford);
- Create a 'one stop shop' for employment and information, advice and guidance services (e.g. in the community centre); or,
- Strike a deal with the provider(s) to guarantee Apprenticeship places if they achieve certain sustained employment outcomes amongst disadvantaged groups.

One point that emerges from the Manchester example refers to the responsibilities of, and relationships between, citizens, neighbourhoods, providers, commissioners, local authorities and higher tiers of government (sub-regional, regional and national):

- How should these relationships be developed so that they help create efficient, effective services for neighbourhoods within the social, economic and political context of the area?
- Which services should not be integrated in their commissioning and/or delivery at a local level?
- Does the definition of 'local' vary according to the nature of the problem involved?

Effective decentralisation demands localised welfare

Ideas of integrated place-based commissioning are expected to continue to be developed under the Coalition Government. However, it appears that employment service welfare-to-work contracts will continue to be set in Whitehall. The new Single Work Programme is also likely to lead to greater centralisation (and the extension of the ineffective overly 'administrative' current approach to welfare services). Many of the arguments driving this centralisation process are compelling. For example:

- **Economic efficiency** – government sets up an efficient market for employment services (which might then be tailored to deliver

outcomes at the local level) based on standardised quality criteria. Rather than multiple programmes and funding streams, a single work programme also allows for administrative simplicity for providers and a clearer understanding of entitlement and process for service users.

- **Judicial and substantive fairness** – an administrative, centralised approach means all citizens are treated the same, in how their welfare claims are processed and in what they receive. Public opinion in the UK frequently refers to ideas of universalism (i.e. limited local variation) in its conception of fairness. Grounding welfare policy in broad conceptions of fairness is critical for the legitimacy of the system.

However – as we argued earlier – a localised welfare system allows for:

- **More detailed labour market knowledge** – detailed information about the locality allows for more sophisticated targeting of relevant policies and resources.
- **Neighbourhood focus** – localised services targeted at the long term unemployed can work with families, households and local communities to understand their motivations, strengths, weaknesses and social networks in order to develop more tailored and effective approaches to capability development.
- **Better integration with other services** – using individual/local level information, employment and welfare services can be

integrated much more closely with other locally relevant service areas (such as housing and healthcare). This supports a broader, more comprehensive 'whole person' approach to welfare.

- **Better integration within system incentives** – where the benefits of this localised approach can be largely retained within the geographical area, there is scope for a 'virtuous circle' between complementary systems (at a local, regional and national level).

Finally, and most importantly, the centrality of worklessness in driving many of the interrelated demands upon public services and welfare means that there is a strong case for welfare to be devolved as much as possible.

Conclusion: Localised Welfare

The case studies above show that places are already starting to think about integrating welfare services. Initial results show that, while collaboration between partners can sometimes be difficult (for cultural, political and other reasons), integrated commissioning can deliver cost-efficient, effective and innovative solutions for disadvantaged neighbourhoods.

The emerging lessons of these case studies suggest that a policy of localised welfare must be based on:

- **High quality local information**, shared securely between the relevant public service professionals and organisations;

- **Clear sets of responsibilities** for individuals, families, communities, employers and all tiers of government;
- **Integrated welfare services**, which reach out to disadvantaged communities and neighbourhoods to meet their cross-cutting public service needs by:

1. Reaching out to disadvantaged groups in their communities e.g. by co-locating employment services with health/social care/training facilities;
2. Harnessing greater social participation to drive a shift in culture, from one of passive dependency to active 'social productivity'; and,
3. Complementing the wider economic development and skills strategy, so that the opportunities for employment are aligned and growing (see below).

The dynamics of the welfare system are key to many of the demand drivers for other public services (particularly health, social care, housing and skills). So while all three main parties speak of decentralisation and devolved decision-making³² – especially for the delivery and management of public services – the real test of this will be in whether welfare and particularly worklessness services are localised.

3. Integrating welfare with the local economy and labour market

In line with the integrated approach to employment services outlined in 'localised welfare' above, this policy proposal calls for further integration of welfare with local (and/or sub-regional or regional level) economic regeneration and skills strategies.

In many cases people might be willing to work and are actively seeking a job, but there may not be suitable local opportunities to match their existing skills. Local labour market dynamics are very important and can be closely tied to other public services (such as

transport) and patterns of disadvantage within the area. A localised approach to welfare and employment services must be firmly based within the wider economic context.

In Kent, for example, their approach to welfare hinges on three aspects; economic growth and job creation, tackling disadvantage, and community engagement. Economic growth and a broadening of the available resource pool (what the Commission on 2020 Public Services calls 'social productivity') form the backbone of their welfare reform policy:

Box 5: The Norwich Partnership, Economy Round Table

The Norwich Economy Round Table is part of the City's Local Strategic Partnership. It is made up of local businesses, and economic stakeholders including, local authorities, education, training and employment providers:

- Representatives from 23 local businesses
- Norwich City Council
- Broadland District Council
- South Norfolk District Council
- Norfolk County Council
- Federation of Small Businesses
- Norfolk Chamber of Commerce

- Learning and Skills Council Norfolk
- University of East Anglia
- City College Norwich
- Voluntary Norfolk
- Norfolk Connexions Service
- Jobcentre Plus
- The Forum Trust
- Norwich University College of the Arts
- East of England Development Agency

Norwich is also a partner in 'Shaping Norfolk's Future', the county's Local Economic Partnership to help build and implement its strategy for growth.³⁴

“Kent is the place where innovation and entrepreneurialism really thrives. ‘Bold Steps for Kent’ [is] going to have three major ambitions that are absolutely sound for our future: growing our economy and making sure the new jobs are here; tackling the disadvantage that affects a number of our communities, and we – the state – stepping back to let the citizen move in and do things in a very different way that will deliver better services. It’s not all about the budget, it’s actually about the Big Society and how we create that in Kent.”

Katherine Kerswell, Group Managing Director for Kent County Council

Operating at a local or sub-regional level (depending on the dynamics of the labour market in question) allows for services to be integrated at the appropriate level of scale. Based on a clear understanding of the economic opportunities and barriers to satisfying, secure employment (with the prospect of progression), an integrated approach allows places to tailor their interventions. The idea of Local Economic Partnerships (LEPs) is a positive move in this direction.

Local Economic Partnerships are designed to consider the overall needs of the local economy, and – working with business and public/voluntary sector organisations in the area – take action to address unmet needs or add value to existing economic development activity. In some areas they will effectively replace RDAs.

Despite current uncertainty, many places are already working together to meet the needs of their local labour markets and economies. For example, where some national schemes have proven ineffective in

the face of the capital’s unique labour market problems, the London Development Agency (LDA)³³ has been developing a new, long-term solution. The case study below shows how the LDA is focussing on people furthest from the labour market by extending back-to-work support for all (including those on incapacity benefits), pioneering the DEL/AME switch and committing to an integrated budget model for sustainable employment outcomes.

Case study: London Development Agency

This case study will explain the unique problems of long-term worklessness in London and how the LDA (currently the Regional Development Agency) is driving new ways to address these.

London is a key driver of the UK economy and the tenth largest economy in the EU. However, many Londoners do not share in this economic success, with one in three working age residents out of work. London’s challenges stem largely from its demographics (with more people from groups disadvantaged in the labour market), a higher incidence of multiple disadvantage and higher costs of living.

The annual cost of worklessness in London is £5.1bn³⁵ and not effectively tackling the instances of worklessness brings significant social and economic costs. The Mayor of London has made tackling worklessness a key priority of his mayoralty and has developed an Employment Action Plan for the Capital which includes:

1. Extension of back-to-work support for all those out of work (including those on incapacity benefits) funded using future benefits savings; the LDA is pioneering the DEL/AME switch
2. A drive to streamline and integrate the work of multiple agencies and working towards a greater devolution of employment and skills funding for London.
3. A focus on progression and 12-months sustained employment outcomes, as pioneered by the LDA, built into future central programmes in London.

Over the past 18 months the LDA has developed ways to help the economically inactive off benefits and into work. In particular, the LDA is focussing its efforts on the 800,000 'long-term workless' who are not typically picked up by existing employment services. Importantly, the LDA's back to work programmes focus on a 12-month measure of sustained employment.

12-months matters

In 2007 Lord Freud argued that the fiscal gain of a year-long move into employment by an IB claimant would save the State £5,900 on direct benefit expenditure, with wider exchequer gains of a further £3,000 a year.³⁶ If employment is sustained for longer than a year additional savings continue to accrue over time and far outweigh the upfront investment.

The LDA is the first to drive a measure of sustained employment over 12-months. Employment outcomes measured at 12-month contract:

- Incentivises contractors to maintain continued contact/provide ongoing support for clients;
- Encourages focus on better job matching and 'reemployability' so that clients remain in work for 12-months, if not just a single greater emphasis on job progression; and,
- Generates a non-negative return on investment – according to the Social Market Foundation (2009), welfare-to-work interventions do not break even unless 12-months is achieved.

The Jobs Plus project

LDA analysis has shown that mainstream support has not effectively tackled the interlinked challenges facing people furthest from the labour market. For example, Jobcentre Plus has focused largely on job entry and shorter term job retention (13 weeks or six months, rather than the 12-months the evidence shows is critical), instead of long-term retention and progression. The Skills Funding Agency is focused largely on qualification attainment, rather than job entry, retention or progression. Qualifications can sometimes aid progression, but only as part of a wider package of support. Too often, the skills and employment service systems do not work together to support progress at work.

Progression within sustained employment is an important part of the LDA's and the Mayor of London's employment and skills strategy. The objective of 'Jobs Plus' is to help workless individuals into sustained employment for 12-months, and for approximately one third of those individuals that sustain work to progress in their careers.³⁷ The LDA currently plans to invest £9.8m over five years to demonstrate this approach and believes that the inclusion of progression within mainstream welfare to work services is the obvious next step in improving the quality of employment outcomes for individuals and an improved return on investment for the Exchequer.

“London's employment rate has lagged the national average by between three and five percentage points for the past decade. If London were to close the gap with the rest of the UK's average employment rate 240,000 extra Londoners would need to be in work. Evidence in London also indicates a large group of people trapped in 'fragile' employment that includes those cycling in and out of work (150,000) and Londoners in low paid work often with limited prospects (470,000). Enabling these groups to enter sustained employment and to progress in work is a key challenge for the mainstream employment and skills systems; too often they incentivise short term jobs and skills that do not result in improved labour market outcomes.”

Stephen Evans, Director of Employment and Skills, London Development Agency

Several questions emerge from the London Development Agency example as to how commissioning should be designed to support those furthest from the labour market back into work:

- How can welfare-to-work contracts be designed to support integration with other local private, public and voluntary sector partners such as health, social care, education and skills? How do these contracts sit alongside regional/sub-regional strategies for economic regeneration?
- How can external factors such as macroeconomic conditions be taken into account in a long-term invest-to-save model where the local authority or sub-region is allowed to keep and reinvest the returns from preventative DEL (as opposed to AME) spend?
- What are the implications of a 12-month welfare-to-work contract?
 - › How might the 12-month contract shape the welfare-to-work market in terms of prime and sub-contractors able to compete?
 - › How can risk be managed effectively over the 12-month contract (e.g. without a prohibitive effect upon providers' cash flow or outcomes)?

The LDA example highlights again that simply getting people into work is not enough. Sustained employment, scope for progression and the prospect of higher earnings are important for tackling long-term

worklessness and entrenched patterns of disadvantage. The role of employers (and government in shaping the labour market) should not be underestimated as a lever of welfare policy.

Another example from London is the campaign for employers to pay a Living Wage. In June 2010, London Mayor Boris Johnson reiterated his commitment to the ‘unofficial minimum wage’ needed for Londoners to live above the poverty level. At present, the Mayor can only encourage employers to pay the suggested rate of £7.85 per hour (17 per cent higher than the National Minimum Wage rate at £5.80). In designing a fully localised welfare system we might envisage

a model in which regions could *enforce* their own Living Wage, guided by an independent regional body similar to the current Low Pay Commission.

A Living Wage means that employers do the ‘heavy lifting’ of welfare for the lowest earners without recourse to the benefits system. Applying the same logic, and in the absence of a regional Living Wage, an increase in the National Minimum Wage would encourage people into the labour market and finally make ‘work pay’. Box 6 on the following page sets out the rationale for greater emphasis on such pre-tax ‘welfare’ and one example of how this might work in practice.

Conclusion: Integrating welfare with the local economy and labour market

This policy proposal calls for further integration of welfare services with local and/or sub-regional or regional level economic regeneration and skills strategies. Local labour market dynamics are very important and can be closely tied to other public services (such as transport) and patterns of disadvantage within the area. A localised approach to welfare and employment services must be firmly based within the wider economic context.

New Local Economic Partnerships are a step in this direction. They are designed to consider the overall needs of the local economy, and – working with business and public/voluntary sector organisations in

the area – take action to address unmet needs or add value to existing economic development activity. Places must also consider how they can support local employment services to work in a sufficiently challenging and effective way with other local private, public and voluntary sector partners such as health, social care, education and skills.

Simply getting people into work is not enough. Sustained employment, scope for progression and the prospect of higher earnings are important for tackling long-term worklessness and entrenched patterns of disadvantage. The role of employers (and government in shaping the labour market) should not be underestimated as a lever of welfare. This report suggests that a Living Wage would be a flagship policy of such an approach.

Box 6: Why a Living Wage

In meeting the social and economic goals of welfare, there should be a balance between the work done by the welfare system and the work done by the labour market. At present, too much of the heavy lifting is being done by the welfare system. The value of shifting the focus towards boosting pre-tax wages is threefold:

1. **Economic efficiency** – without the deadweight loss created by tax credits or benefits, there is a standard economic efficiency argument in favour of minimising redistribution post tax.
2. **Incentive effect** – if work really does ‘pay’, then there might be an incentive for individuals to seek employment as the first source of insurance against financial risk and disadvantage.³⁸
3. **Value creation** – in the face of an increasingly competitive global market, the UK cannot rely on cheap labour to attract foreign direct investment. Instead of competing in low skilled, low wage tradable product markets, it could be argued that the UK should be seeking to move further up the ‘value chain’ into higher skilled, higher wage tradable product markets.

A Living Wage seeks to lift more people earning the lowest incomes out of the benefit and transfer system.

There is a long history of transfers being used to give additional support of low-income households with children (e.g. Family

Allowance Act, 1945). But there is perhaps an unsustainable imbalance when transfers are needed to meet the basic needs of taxpaying *households without children*.

A system where the lowest earning (taxpaying) households without children are able to meet their basic needs without recourse to tax credits or benefits might:

1. Increase the personal allowance (and reduce the 40p threshold to limit the gain to lower earners) to take the lowest income households in receipt of tax credits out of the system.
2. Over the longer term, raise the minimum wage (ultimately set at a regional ‘Living Wage’ level) to the point where a full-time worker with no children does not need to claim tax credits to achieve a basic standard of living.

Although there is an argument against high minimum wages (namely that it increases the cost of employment and therefore reduces jobs), there is now a rich evidence base on the impacts of introducing and increasing the National Minimum Wage since 1999 (see Low Pay Commission, 2009). This evidence suggests that policy makers should be bolder and use the minimum wage proactively as a tool of efficient and targeted welfare policy.

- a. At a minimum (and/or in the short term) **raise the level of the**

- National Minimum Wage** so that it removes the need for welfare benefits and incentivises more people into work;
- b. At the same time, encourage places to **advocate employers to pay a suitable Living Wage**.
 - c. Ultimately, grant places probably at regional level – or equivalent the capacity to **enforce a suitable Living Wage** in accordance with independent advice provided by a body similar to the Low Pay Commission.

Conclusion

This report considers how we might apply the principles of ‘Beyond Beveridge’ to welfare policy. In doing so, we reveal how the Commission’s proposal for three fundamental shifts – in culture, power and finance – allows policy makers to view many of the enduring problems of welfare in new ways.

These three shifts emphasise an increase in citizen responsibility set within the social context of people’s pasts and future aspirations, and the places in which they live. In turn, they point towards a model of welfare based on:

- *Motivation*: using individual and community agency and building social capacity;
- *Responsibility*: of individuals, but also of employers, with government playing an active shaping role;
- *Information*: using information that is currently underutilised (or missed altogether) by the system – especially local information about individual needs/preferences and about labour markets; and,
- *Sustainability*: economically, socially and politically – across an increasingly diverse society, within the lifetimes of individuals and down the generations.

2020 Welfare sets out three policy proposals:

1. Social welfare accounts – clearer visibility of individual contributions (both financial and social) to, and benefits from the welfare system and broader public services.
2. Localised welfare – a ‘whole person’ and ‘whole place’ approach to welfare based on local control of integrated services.
3. Integrated welfare with the local economy and labour market – neighbourhood interventions are aligned with the wider local/sub-regional economic context and strategy for development. Ultimately, a regional Living Wage would enable places to lift more people out of welfare support.

Social welfare accounts are designed to enhance transparency, bolster the legitimacy of the new settlement and ‘reconnect finance to purpose’. They have the potential to support citizens to take greater responsibility for managing risks across their lifecycle and to encourage, measure and reward greater engagement and social participation.

Localised welfare seeks to make better use of information, co-locate services and integrate commissioning at a neighbourhood level. Given the centrality of worklessness in driving many of the interrelated demands upon public services, we argue that – if anything – welfare services should be devolved as much as possible.

Integrated welfare emphasises working across the dynamics of the local labour market and the wider economic development strategy.

In the short term, this might also see the increase of the National Minimum Wage to enable the labour market to do more of the ‘heavy lifting’ of welfare, rather than post-tax benefit transfers. In the longer term, places might have the power to enforce a suitable Living Wage.

In setting out our three directions for welfare policy, we are being illustrative, not prescriptive. There are other policies ideas that could serve the Commission’s goals. The point is to demonstrate how looking through the Commission’s lens can open up new space for policy solutions that the current system cannot see. While each needs further work, they suggest how we might start to take a dynamic, integrated and more transparent approach to welfare. This approach increases personal responsibility and makes greater use of broader social capacity. In fiscally constrained times it is important that public services harness this capacity for ‘social productivity’, but the argument for greater social participation of citizens stands regardless of the economic case.

Public service outcomes are shaped at the points of interaction between providers and users. While administrative approaches must be in place to protect the legitimacy of the system and demand an appropriate degree of citizen responsibility, a more ‘relational’ focus can harness the agency of citizens to create 2020 public services that *“help us to achieve – for ourselves and each other – things that we value and cannot achieve on our own”* making *“us more secure today and more confident about tomorrow”*.³⁹

Endnotes

- 1 See Volterra, 'The Fiscal Landscape: Understanding contributions and benefits' (2020 PST: 2009)
- 2 http://www.conservatives.com/News/Speeches/2010/06/George_Osborne_The_foundations_for_a_more_prosperous_future.aspx
- 3 http://www.hm-treasury.gov.uk/2010_june_budget.htm
- 4 Based on DWP Resource Accounts 2008-09 (<http://www.dwp.gov.uk/docs/resource-acs-2008-09.pdf>) and Departmental Report (<http://www.dwp.gov.uk/docs/dept-report-09-annexes-b-to-e.pdf>) data. 'Other' refers to: Child Maintenance and Enforcement Commission, Job Grant, Housing and Council Tax Benefit Capital Charge, Employment and Support Allowance, Non-contributory Statutory Benefits (SSP and SMP), Administration, Pension Benefits, Financial Assistance Scheme, Other Adjustments.
- 5 Robin Niblett, 'Playing to its Strengths: Rethinking the UK's Role in a Changing World' (Chatham House, 2010: 1)
- 6 "The scale of [the 1980s] rise in inequality has been shown elsewhere to be unparalleled both historically and compared with the changes taking place at the same time in most other developed countries." IFS, 'Poverty and Inequality in the UK: 2010' (London, 2010: 29) <http://www.ifs.org.uk/comms/comm116.pdf>
- 7 Kathryn Ray et al, 'Work, poverty and benefit cycling' (Joseph Rowntree Foundation, 2010)
- 8 Dickerson and Lindley, (Joseph Rowntree Foundation, 2008)
- 9 Kathryn Ray et al, 'Work, poverty and benefit cycling' (Joseph Rowntree Foundation, 2010)
- 10 See, for example, Hills et al, 'An anatomy of economic inequality in the UK: Report of the National Equality Panel' (Government Equalities Office, 2010) – although note that patterns of income and asset inequality are still greater within (as opposed to between) groups.
- 11 See reports from the Turner Pension Commission (2004, 2005).
- 12 Brewer, M. 'What can be done to simplify benefits and strengthen work incentives?' (Institute for Fiscal Studies: May 2010):<http://www.ifs.org.uk/publications/4945>
- 13 Ibid.
- 14 Halpern, D. 'The Hidden Wealth of Nations' (2010) p26
- 15 Urban Institute, 'Memo On The Impact Of The United Kingdom's Flexible Working Act' (Georgetown Law/Workplace Flexibility, 2010: 3)
- 16 Ibid.
- 17 These assumptions date back to the introduction (and subsequent development) of New

Public Management theory in the 1980s, supported by the New Right and associated monetarist economists.

- 18 For more information, see <http://www.civicbehaviour.org.uk/>.
- 19 For more on the debates surrounding citizenship and social citizenship, see (for example) Marshall (1950), King and Waldron (1988), Peter Taylor-Gooby (2009) and Hartley Dean (2010).
- 20 Some contribution-based benefits require a record of NI contributions, but entitlement is based on the length of the contribution record, not on the amount contributed.
- 21 Guardian, 'Firms' secret tax avoidance schemes cost UK billions' (Monday 2 February 2009) <http://www.guardian.co.uk/business/2009/feb/02/tax-gap-avoidance>
- 22 Bovenberg et al (2007) have argued that the limitations of existing welfare models are particularly problematic in the context of service sector dominated, knowledge intensive economies operating in a globalised world. More 'fluidity' in the labour market strengthens the importance of welfare systems that support worker flexibility. At the same time, they argue that verification of work disabling conditions becomes more difficult in the context of the greater prominence of mental health conditions.
- 23 Singapore's Central Provident Fund' was originally designed to increase savings and to provide retirement security. It has since been extended with a number of schemes, e.g. saving for medical needs, financing of higher education, insurance of dependents and a variety of other social needs. See Asher (1994) and McCarthy, Mitchell, and Piggott (2002). In 2002, Chile introduced an unemployment savings fund. Medical savings accounts (MSAs) for the self-employed and employees of small firms were introduced under the Clinton Administration. MSAs combine retirement- type savings with high-deductible health insurance policies. See Fölster et al. "Health Accounts And Other Welfare Accounts" (CESifo DICE Report 3/2003) for more information.
- 24 Ipsos Mori, 'June 2010 Political Monitor' <http://www.ipsos-mori.com/researchpublications/researcharchive/poll.aspx?oltemId=2628>
- 25 Initial work by Hetling and McDermott (2008) shows that citizens' perception of the effectiveness of government action affects their spending preferences and that this feeds back into government policy formation. This suggests that transparency regarding effectiveness should be a critical feature of democratic policy making.
- 26 With support in accessing/navigating an online account where applicable.
- 27 Volterra Consulting, 'The Fiscal Landscape: Understanding contributions and benefits' (2020 PST: 2010)
- 28 Shared Intelligence, 'Delivering a Localist Future: A route-map for change' (2020 Public Services Trust, 2010: 54)
- 29 Note that the language surrounding the various 'levels of localism' is evolving. Here the term 'sub-region' and 'region' are used to refer to potential levels of non-national political geography.
- 30 Brand, A. 'The Local Journey to Work: Localism, welfare and worklessness' (NLGN, 2008)

- 31 The Whitworth Gallery takes long term unemployed and asks them to consider art/abstract concepts to develop self-learning. See <http://www.whitworth.manchester.ac.uk/>.
- 32 See the Decentralisation and Localism Bill (Queen's Speech, 25th May 2010)
- 33 With the restructuring of Regional Development Agencies, the LDA is expected to be soon incorporated into the Greater London Authority (GLA).
- 34 For more information, see http://www.norwich.gov.uk/webapps/atoz/service_page.asp?id=1398&pid=1014.
- 35 London Councils and CESI, 'Counting the Cost – a worklessness cost audit for London' (2010)
- 36 Freud, David, 'Reducing dependency, increasing opportunity: options for the future of welfare to work' An independent report for DWP (2007)
- 37 Sustained employment is measured as employment that last for a minimum of 52 weeks out of 64 weeks (with the additional 12 week period to capture movement between jobs). Progression is measured by either an increase in working hours (8hrs or more); a move from Temporary employment to Permanent employment with either the same or an alternate employer; or a proportional gross annual salary increase of at least 4% with either the same or an alternate employer.
- 38 Although note the caveats outlined earlier about policy designed upon presumptions of individual incentive effects.
- 39 Commission on 2020 Public Services, 'Beyond Beveridge, Principles for 2020 Public Services' (2020 PST, 2010)

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