
Delivering Differently



How to deliver change

Damian Hind

Policy Exchange is an independent think tank whose mission is to develop and promote new policy ideas which will foster a free society based on strong communities, personal freedom, limited government, national self-confidence and an enterprise culture. Registered charity no: 1096300.

Policy Exchange is committed to an evidence-based approach to policy development. We work in partnership with academics and other experts and commission major studies involving thorough empirical research of alternative policy outcomes. We believe that the policy experience of other countries offers important lessons for government in the UK. We also believe that government has much to learn from business and the voluntary sector.

Trustees

David Frum (Chairman of the Board), Diana Berry, Candida Gertler, Greta Jones, Edward Lee, Charlotte Metcalf, Krishna Rao, Andrew Roberts, George Robinson, Robert Rosenkranz, Peter Wall, Simon Wolfson.

About the Author

Damian Hind is a Research Fellow in the Economics and Social Policy Unit. Before joining Policy Exchange, he worked as a Strategy Adviser in the Minister for the Cabinet Office's Policy Unit, overseeing the implementation of priority projects, and helping to set direction for the efficiency and reform agenda. While in Government he also worked on an innovative, multi-million pound, energy procurement project. Prior to this he worked as a parliamentary researcher for Andrew Tyrie MP, Chairman of the Treasury Select Committee. Damian read Politics at the University of Nottingham, and has an MA in Legal and Political Theory from University College London.

© Policy Exchange 2016

Published by

Policy Exchange, Clutha House, 10 Storey's Gate, London SW1P 3AY

www.policyexchange.org.uk

ISBN: 978-1-910812-13-6

Printed by Heron, Dawson and Sawyer

Designed and typeset by Soapbox, www.soapbox.co.uk

Contents

	About the Author	2
	Policy Exchange's Economics and Social Policy Unit	4
	Why We Need To Think Differently About Change	5
	Scope of this Paper	13
1	Part 1: The Barriers to Change	16
2	Part 2: Decentralised, Experimental and Bottom-up Problem-solving	27
3	Part 3: Six Service Reform Principles	35
	Annex A: Delivering Differently in the Welfare System	42

Policy Exchange's Economics and Social Policy Unit

Policy Exchange wants to see a high growth, enterprise led economy in the UK with freer markets driving growth and opportunity. Where individuals, families and communities are encouraged to take responsibility and are able to flourish. We are optimistic about the country's future and the power of freedom and responsibility to improve people's lives.

For more information about our work visit:

www.policyexchange.org.uk/economics-and-social-policy
or contact one of the team:

Warwick Lightfoot, Head of Unit
warwick.lightfoot@policyexchange.org.uk

Jonathan Dupont, Research Fellow
[@jondupont](mailto:jonathan.dupont@policyexchange.org.uk)

Damian Hind, Research Fellow
[@Damian_AH](mailto:damian.hind@policyexchange.org.uk)

Why We Need To Think Differently About Change

This paper offers a look at the practical challenges and constraints of reform, explaining where we are still going wrong, and how we can do it better in future. The objective is to explain how change happens rather than go into specifics about what that change should look like. Many of the arguments presented here have been informed by the author's own personal experience of trying to reform the public sector from within Whitehall.

Government and the law of diminishing returns

Modern Government is not easy. There are no perfect solutions to deep-rooted social problems like entrenched poverty, inequality, limited social mobility or poor public health. There are also practical limits on the capacity of the state to act on them given the high resource costs of funding new public sector activity, the crowding out effect, and the fact that Government spending is so often subject to discretionary cuts. What is pretty clear however is that our top-down and centralised system of Government makes it difficult for any political party to deliver the types of radical public service reforms that can get a grip on all these issues.

Our current system of Government has reached the point of diminishing returns. Compared to the pace of change in business, technology and community life, Government appears dysfunctional and slow. Standard policymaking will simply not deliver the required level of performance improvements without much wider changes to the system. In short, we need to adopt a radically different mind-set when instigating change and use a different set of management tools when implementing new reforms.

Leaving the European Union (EU) will clearly have far reaching consequences for many areas of Government policy. Outside of EU regulations, there may be advantageous alternatives to pursue, particularly around public sector procurement. But if the new Government is not to be defined exclusively by the process of withdrawing from the EU then serious domestic reform, including change in our public services, needs to be at the forefront of their agenda. This new political landscape is a once in a generation period in Britain's history to go further and faster than ever before with domestic reform.

The problem with top-down bureaucracy

Many of the issues with the current system are non-ideological. The root of the problem is scale and centralisation – it has a tendency to depress productivity, snuff out innovation and has created a system in which even the most successful public sector reforms rarely live up to their original expectations. There are a

number of standout features of the current system that block reform. Some of these are a question of mind-set but the majority are a by-product of scale.

The top-down budgeting process, for instance, means that we often measure the value of public services by the amount of money spent on them. Numbers tend to dominate our interpretation of value – the budgets for education, health and foreign aid have all been ringfenced by the current Government as a signal of their commitment to these causes. The downside however is that the positive social returns we get from each line of expenditure are not properly scrutinised. Before the Spending Review even began around £189 billion of public money (around 60% of departmental resource expenditure) was off the negotiating table. And by focusing on cost rather than value officials end up asking the wrong starting questions. Too often the question asked is ‘how do we manage the costs of an existing service?’ rather than ‘how do we reduce demand for this service over the long-term?’

Centralisation also encourages politicians to implement one-size fits all solutions to complex problems like unemployment, housing, healthcare reform, and low wages. However many of these problems have multiple causes, interdependencies and a range of possible solutions – human dynamics that are difficult to manage and control. Government, however, tends to treat these problems like engineering projects, imposing simplified solutions that struggle to get a grip on the root causes. Consider siloed, single-need services. All of these reflect the now outdated mind-set that you solve a problem like poverty by running separate services for people to ‘receive benefits’, ‘find a job’, ‘find a social home’ or ‘solve a mental illness’ when they only target a small subset of the underlying issues.

Scale also makes Government more vulnerable to error. Removed from the frontline, policymakers rely heavily on large amounts of ‘cold data’, jumping from statistics to policy, despite the fact that doing so can often lead to ineffective or even counterproductive reforms. Of course, the use of statistics might be helpful to identify potential issues but it cannot explain why something is happening. It is through direct observation, seeing what people want, need, like or dislike in their lives – the small pieces of data – that are the best source of new ideas for improving or changing a service. However centralisation makes it is very difficult for policymakers to generate policy in this bottom-up way. Similar problems are also evident in centralised commissioning. Officials are not close enough to the coalface to determine the quality of potential suppliers and so become heavily reliant on price when making decisions. A race to the bottom ensues as providers try to outbid each other.

There are also huge institutional barriers to experimentation in the public sector. The focus in the Treasury’s Green Book for instance is entirely on ex-ante appraisal (trying to predict the impacts of a policy in the abstract) rather than ex-post evaluation (trying something small scale and then evaluating what the actual impact has been). It is not surprising given the systematic lack of experimentation that Government can go from good ideas to bad projects very quickly. And once a new programme has been approved it is difficult to stop. So much depends on getting the pre-determined solution to work given the amount of political capital and resources invested.

All of these problems reflect just how difficult it is to manage and deliver change in a bureaucracy. Big organisations tend to have a life of their own: costs

regularly balloon as managers try to create their own fiefdoms; employees think work is done as soon as a note leaves their inbox; people become blinded by their own siloed thinking; and ultimately everyone ends up becoming detached from the original mission and the people they are there to serve, which in turn lowers performance and productivity.

Meeting the efficacy challenge

If we want to create a more effective public sector then we need a significant rethink in the way we approach Government. Responding to complex social problems by imposing the same hard structural fixes (new guidelines, new technology, new managerial positions, new funding pots or new departments) from the centre will not be sufficient. Central Government has already tried to integrate local services no less than 59 times over the last 19 years but failed to deliver substantial improvements in services. So rather than thinking about making change from the top-down, there are strong arguments in favour of starting from the bottom-up.

These arguments are not new. The economist Frederick Hayek observed long ago that centralised planning has severe limitations because the knowledge of people, local conditions, and special circumstances can be more socially useful than the theoretical or technical knowledge of a central planner. And as Steve Hilton an advisor to the former Prime Minister David Cameron argues, many of the services that Government provides no longer require centralised bureaucratic systems to run them.

The Government's devolution agenda and in particular the City Deals process is a very good opportunity to experiment with new ways of delivering service reform. In a large bureaucracy with legacy systems and short-term political priorities it can be difficult to step back and think differently. Devolution changes this by encouraging conversations between central and local government about reform. The idea of combining the health and social care system with a single budget and joint commissioning, for instance, has long been advocated but it was the Greater Manchester City Deal that was the vehicle for implementing it. There are also good reasons to believe that local-led reforms stand a higher chance of success as local authorities are not burdened with the same level of national expectation, media scrutiny and unionisation. Managing change locally also promotes practical problem-solving rather than politics as the pros and cons of a particular reform are brought into much sharper focus for service providers, employees and users, all of which makes horse-trading and negotiation easier.

Bottom-up, experimental, and decentralised problem-solving

Delivering effective public service reform will also require a new set of management tools. There are a number of methods used consistently by innovators in the private, public and third sectors that demonstrate the practical benefits of taking a bottom-up, experimental and decentralised approach to problem solving.

Design-thinking, for instance, is regularly used by innovators to develop new products and services. This approach relies heavily on empathy – innovations are gleaned by understanding and directly observing what people want, need, like or dislike in their lives, which can then reveal hidden issues that might otherwise be

overlooked. Many local authorities and third sector organisations have used these techniques to develop effective small scale innovations at minimal cost.

Experimentation is also crucial part of the innovation process. Prototyping radical solutions on a small scale to find out whether or not something will work as intended is a good way of avoiding failure and minimising waste. The Finnish Government, for instance, has adopted a system of experimental policy-making which is enabling them to test radical ideas like a Universal Basic Income with an open mind to see what impact it can have in reducing poverty. This experimental approach policy making is very different from the Government's Universal Credit programme which was assumed to be the right solution and was never prototyped small-scale using different methods.

The public sector could also make significant productivity gains by cutting out middle-management and bureaucracy. There are a large number of organisations in the private and third sector that demonstrate the practical benefits of running an organisation on the basis of peer relationships, using a self-management approach that does away with formal hierarchies for decision-making. Buurtzorg, for instance, the Dutch neighbourhood nursing organisation, operates with no management hierarchy and devolves decision-making to frontline nurses. It has since achieved outstanding improvements in social care, dramatically reducing hospital admissions and reducing demand for the core service by building self-reliance in people.

Accelerating change in the public sector

While it is obvious that we would not choose the system we have now, the ability to start with a clean slate is not a luxury afforded to Government. But if the vision of a more productive and innovative state is to be realised then the agenda needs to be fleshed out with some practical reforms to the public sector's governance structures, budgeting processes, HR rules, and the overall policy-making process. Only by making these types of systemic reforms can we move away from incremental service improvements and start to implement more radical changes in the way public services are delivered.

The six service reform principles

Policy Exchange has developed six new service-reform principles. These principles aim to do two things. First, change the way policy-makers think about how to approach problem-solving and secondly, promote the use of different methods for delivering change. For each of these principles we have listed some high-level financial, organisational and institutional changes that could help to unlock new innovations and reforms more systematically across the public sector. The Government should explore each of these in more detail.

Policy Exchange will use these as part of an ongoing conversation about how to improve performance in the public sector. Annexed to this document are some case studies that apply the reform principles to the existing welfare system, looking at two areas in particular – the Jobcentre Plus and Employment Support Allowance – to examine what potential benefits there might be to taking a Delivering Differently approach.

1. Value

The public sector would be more receptive to change if greater emphasis was placed on the value derived from the money we spend on services rather than its costs. Our Government-by-accountant system has created a short-term and pessimistic view of public investment, particularly in human-facing services, and despite the fact that sometimes spending a little more now can deliver much bigger savings further down the line. This does not mean giving the greenlight to departments' spending money on new programmes that have a questionable rate of return. It is also worth remembering that conditions of scarcity, rather than abundance, are better for innovation. However, value does mean focusing on the long-term returns from investment, encouraging innovations that address problems at source rather than treating problems much later on when they are harder to manage. In mixed economy services that involve private providers, for example, longer-term budgets can encourage suppliers to build capability and underwrite the short-term entry costs of innovation.

In policy terms, the value principle could spur a number of practical changes. Continuing past reforms to HM Treasury, the Government should examine the case for separating its budgeting function from its economic and financial briefs. The Cabinet Office could research how failures in one service drive cost in another, helping departments and local authorities build a stronger case for new prevention schemes. This might then allow for the introduction of cross charging mechanisms that strengthen cost accountability between different services and reduce the incentives for cost-shunting. Longer-term budgets could pave the way for experimenting with 'invest to save' financing models that hypothecate future expenditure to fund present day prevention programmes on the assumption that they deliver future savings in that budget. This would encourage the public sector to more forensically measure the positive financial returns from new policy programmes, including the introduction of real-time financial accounting, particularly if there is an opportunity to extract real costs from the system further down the line. Consolidated, multi-year and place-based budgeting could create the spare capacity to fund prevention schemes, allowing for the transfer of expenditure from one service to another or encourage the pooling of different service budgets to address specific problems like addiction, unemployment or poor health.

2. Local First

In human-facing public services, there should be a presumption in favour of designing, delivering and administering service reform at the local level. Successful change will only start from the bottom-up; there are too many institutional and cultural impediments to driving reform from the centre. Managing reform small-scale puts greater emphasis on practical planning rather than politics or ideology. Moreover local officials are best placed to utilise the network of local providers that can deal with the multiple problems people have when they interact with the state. They are also more likely to identify common-sensical solutions to local social problems compared to an official in Whitehall.

In the short-term, the Government should use the City Deals process to start multiple conversations between with combined or local authorities about public service reform, experimenting with the use of new service models or technology.

However, local first should not mean local government monopolising service provision. It might mean devolving power to front-line professionals, community organisations or the individual. The focus should be on removing the constraints on these actors to self-organise and develop their own solutions, which includes changes to the fundamental statutory structure so that local places can re-allocate resources according to need.

The Government should look to build on the decentralising idea behind the school academies model in other parts of the public sector as it is already doing so with the trial of new ‘reform prisons’ in the justice system. This would see more public sector organisations being able to set their own budgets, pay staff based on local conditions, opt out of national guidelines or contracts and devise their own delivery methods.

3. The Mission

Giving people much greater autonomy over the methods they use for problem solving is one of the best ways to unlock new innovations. And given the more decentralised model of Government we are moving towards, it will be the responsibility of the centre to start setting big objectives or defining ‘the mission’ of each public service but then allowing local actors to determine how best to achieve them. At present, there is a deficiency of purpose in the public sector as central Government has tended to focus on the means rather than the end. Mission-orders, often used in the military, are a great tool for decentralising decision-making power while maintaining some level of central control – leaders set the purpose of an activity but leave it to subordinates to determine how they achieve it. Some of the most successful companies set a clear and aspirational mission for their employees to work towards, and in science the scientific method gives researchers an incentive to search for new knowledge.

Defining a mission will be crucial in the transition from universal public services to a more differentiated style of service provision. Central government might set missions like ‘every young person being job ready at 18’, ‘full employment’, ‘lower crime’, or ‘community cohesion’. A Bristol, London, or Manchester would then be able to use their own budget and operational independence to determine the best way of delivering public services in a way that meets all these goals. They might decide to continue to provide services in-house, outsource to private providers or launch new joint ventures.

4. Capability

In simple terms, capability means placing much greater emphasis on human resources. It does not make sense to devolve new powers and budgets to local authorities that do not have the right levels of capability to make full use of them. There are currently significant concerns about the capability of local authorities to manage additional powers and budgets. Making effective change will mean giving local places the financial resources to attract good local talent or being able to procure this capability from the private and third sectors. In some areas like Teach-First in education and Frontline in social care this has been recognised but it is overlooked in others, like employment support.

In policy terms, local places should be given full autonomy over the paybill for public sector workers so they can alter national terms and conditions. And as

part of the ongoing City Deal agreements, Central Government should devolve Civil Servants (or at least their headcount allocation) alongside new powers and budgets. Despite the ongoing transfer of new powers and budgets to local areas, the Civil Service is still a London-dominated institution. Policy Exchange believes the goal for this Parliament and the next should be to devolve one third of London Civil Servants, around 25,000 employees, outside of London and into the regions. This would very quickly give local places the capability they need to experiment with new service reform.

For front-line and human facing services like employment support, housing, criminal justice and social services capability will mean delivering reforms that help people to help themselves. We need to move beyond the traditional provider-user dichotomy and help people with those personal issues that inhibit more sustainable solutions, for example addressing the drink problem, loneliness or emotional self-management.

5. Networks

Effective services need to better utilise social networks and human relationships. Peers have a big influence on our individual behaviour and the design of our public services should reflect that. Involving families, friends and neighbours in the design and delivery of public services should become more routine. Networks of peer support are better at solving social problems than any state-provided public service. New technologies could make it easier to build low-cost and voluntary social networks that can replace services traditionally offered by the state. In social care, for example, it is easy to see how a smartphone might be able to bring together a network of on-demand practical support made up of volunteers and professionals.

Devolution can also nurture the growth of existing networks between the public, private and third sectors by breaking down siloes and putting more power in the hands of people who know the local area. Collective Impact programmes, as used in the United States, can enable local government to directly co-ordinate the actions of these groups by setting shared social goals to work towards, providing a financial backbone for collaboration, and encouraging co-location between different providers. Local government should use the devolution agenda to think about the potential benefits of using Collective Impact approaches to improve outcomes in local public services.

6. Experimentation

Creating a public sector that is more experimental will require a big cultural change in the way we think about delivering change. Whitehall's obsession with static evidence-based policy means that we often spend too much time predicting the impacts of a policy in the abstract. A good start would be to change the language we use when talking about reform to better reflect the realities on the ground. For instance, rather than talking about 'what works' we should be talking about 'what worked there' and rather than 'best practice' we should be highlighting 'better practice'.

More radically, the Government could create a new legal basis for experimentation, creating an operational environment that is more accommodating to testing, learning and subsequent changes in direction if something does not work as

originally planned. Other institutional barriers, like the Green Book, will need to be reformed in a way that makes experimentation easier, requiring for example evidence of prototyping and ethnography as part of any business case submission and asking departments to set out plans for how projects might be wound down and dismantled. The Government could also provide match-funding for local authorities that want to test new service reforms.

Scope of this Paper

There is an urgent need to accelerate reform in our public services. If the state is to tackle the big social problems of 21st Century Britain then the public sector needs to get smarter, more localised and be much more open to innovation. There are a number of reasons why we should care about public service reform.

- **The pace of change in other walks of life:** society has changed immeasurably over recent decades. With a computer or smartphone you can now access the sum of the world's knowledge online, secure a new job or partner through a social network, self-diagnose minor health problems,¹ or complete a MBA for under £30. The speed of change has been impressive but it has also brought an element of instability to our lives. The cognitive skills and knowledge needed to find gainful employment have increased dramatically. Moreover, many businesses are now venturing into sectors which have traditionally been monopolised by the public sector like health and education. Over the coming years, the public sector will need to reform itself so that it can deliver a standard of service that is comparable to what people have come to expect from the private sector and also be flexible enough to step-back in areas where the market economy has started to provide.
- **The need to reduce dependency on the state:** a further £37 billion of spending cuts are expected during the course of this parliament.² But the problem with many public services, particularly in the welfare system, is that rather than promoting independence, they tend to reinforce dependency. And rather than tackling social problems early and encouraging people to learn how to serve themselves, they are designed for managing life-emergencies like poverty, unemployment, poor health or addiction, which is more expensive.
- **The bureaucratic and top-down approach to Governing:** more or better policy-making will not be able to deliver the changes we need. Sufficient progress will only be made by reforming the top-down and heavily centralised bureaucracy that acts as a significant constraint on reform. Many budget processes, for instance, favour short-term cost management rather than radical service change; managing projects at scale increases the risk of error and waste; siloes preserve outdated service models that cater to institutional rather than people's needs; and public sector employees are treated as a cost to be managed, rather than a strategic asset.

¹ Janan Ganesh, Plodding Desires that keep public sector reform in check.

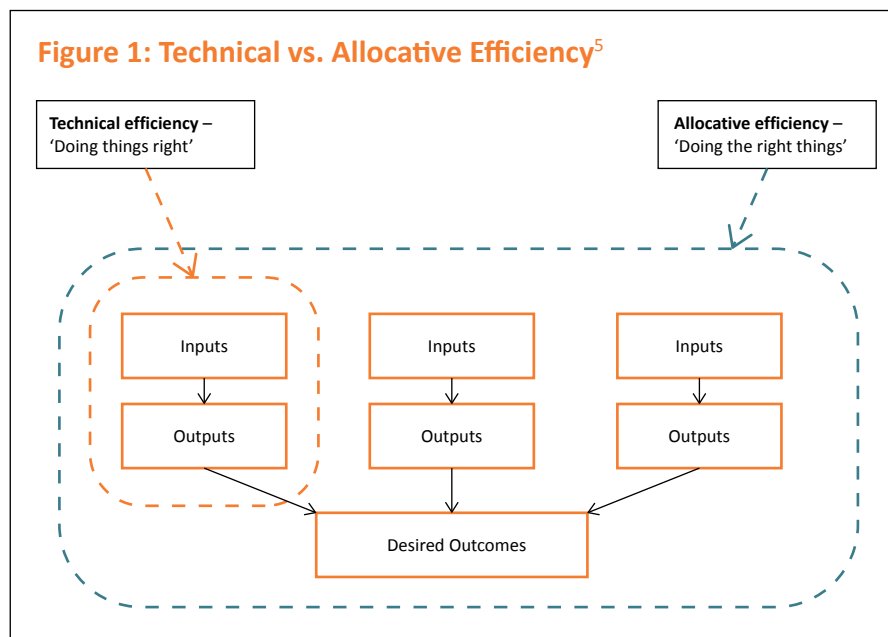
² HM Treasury, Summer Budget 2015, 8 July 2015

Making the leap from technical to allocative efficiency

The Coalition Government did a good job at maintaining existing service levels during a period of contraction in the size of departmental budgets. Around half of total fiscal consolidation so far has come from departmental spending but public opinion surveys suggest that the quality of public services has remained the same or improved.³

Over the last Parliament, the Government successfully pursued a strategy of ‘technical efficiency’ – a combination of doing the things it always has done either at a lower cost or getting more out of the existing system. The Work Programme, for example, delivered the same level of performance as previous welfare-to-work programmes but with a smaller budget.⁴ More fundamental reform was however notably absent: many services continue to operate in traditional departmental silos and continue to treat the symptoms of social problems rather than seeing these interventions as an opportunity to make a lasting change to people’s lives. The danger then with technical efficiency is that you can just end up doing the wrong things but better, meaning that bigger costs are shunted elsewhere in the public sector or else being stored up for the future.

Figure 1: Technical vs. Allocative Efficiency⁵



Over this Parliament, the Government will therefore need to make a leap from pursuing ‘technical efficiency’ (doing things right) to ‘allocative efficiency’ (doing the right things). This will mean finding wholly different ways of achieving the big social outcomes we want and with substantially fewer resources. In short, the state will need to innovate, either by significantly improving public service delivery or opening up new ways to approach the process of delivering it. In the private sector, innovating is a crucial determinant of competitiveness: the adoption of new ideas can help a business to keep up or pull ahead from competitors. In the public sector, cost pressures have traditionally been the major catalyst for innovation as, generally speaking, it is conditions of scarcity rather than abundance that are most conducive to new thinking.

³ See earlier Policy Exchange paper “Budgeting for Balance”. The surveys show that the majority of the public believe that the quality of public services has either stayed the same or improved. It is worth noting however that there is some concern these surveys fail to pick up the experience of vulnerable groups, like in social care.

⁴ National Audit Office, The Work Programme, July 2014

⁵ Taken from the Government’s Public Sector Efficiency Report, produced by the Department for Communities and Local Government’s Strategic Analysis Team.

Scope of this paper: how to turn good ideas into good outcomes

There are a wide number of areas in which more radical and long-term improvements in public services can be made: the introduction of markets or competition into public services; the use of new technologies; the recruitment of new or highly-skilled staff; or service redesign. This paper is fundamentally agnostic on what the future reforms or innovations in our public services should look like. There are already a great many clever people in and outside of Government who can think of new policies or new innovations. This paper deals with the practical question of how to turn these good ideas into good outcomes for the people who use our public services. This is important because while there might be considerable scope for reform, there are major institutional and cultural impediments within Government which continue to prevent them from being implemented effectively. Indeed it seems that the public sector has a unique ability to smother good ideas or else very quickly turn them into bad or ineffective projects.

The primary focus of this paper is to explain where we are still going wrong with reform and how we can go about doing it better in the future. The point is to stimulate new thinking rather than get into the specific about which reforms should happen. The rest of the paper is divided up as follows:

- Part one explains how the current ecosystem of the public sector constrains innovation and reform.
- Part two looks at alternative approaches to problem solving and examines how bottom-up, experimental, and self-management methods can unlock new innovations and improve performance.
- Part three puts forward six new service reform principles as well as some high-level recommendations that can help to accelerate change and improve its implementation.
- Annex A presents two case studies from the welfare system – the Jobcentre Plus and Employment Support Allowance – which shows the potential advantages of taking a delivering differently approach to reform.

Finally, the arguments in this paper are primarily on reforming human-facing public services, like welfare, health, criminal justice and education. Some of the arguments and recommendations however might equally apply to other parts of the public sector.

Part 1

The Barriers to Change

Years of centralised Government has made policymakers more error prone and unable to design and deliver services at the human level where they can have maximum impact. There are six standout features of the centralised political system that act as barriers to more fundamental public service reform.

1. Top-down budgeting

Baseline budgeting

At every Spending Review the default assumption is that the current baseline of expenditure (what has been spent before on a public service) is broadly right.⁶ Officials do not start from a zero-base, systematically reviewing existing services, why they exist, what public demand they are servicing, and the public value they offer. Budgets are set through an arbitrary negotiating process, with changes dependent on a combination of political priorities and immediate budget pressures. Health, Education and the Foreign Aid budget were all protected at the most recent Spending Review while the remaining departments were asked to estimate how they could make savings of either 25% or 40%.⁷

The benefit of top-down budgeting is that it helps the Government to make significant consolidations or increases in expenditure over a short period. And the messy reality of day-to-day politics means that hard-nosed bargaining over budgets for certain services will always be a key feature. Extracting costs from the public sector is also very difficult. The downside however is that it creates a system in which money spent is equated with value gained: commitment to a service or cause is closely associated with the amount of money that the Government decides to spend on it. Both main political parties made big spending pledges on the NHS during the 2015 General Election for example. And before negotiations for the 2015 Spending Review even started, around £189 billion worth of public money was already protected.⁸ The overall effect on the system is that we tend to focus on the cost of a service (how much is spent) rather than looking in more detail about the value for money it offers (the positive social returns from spending).

Short-termism

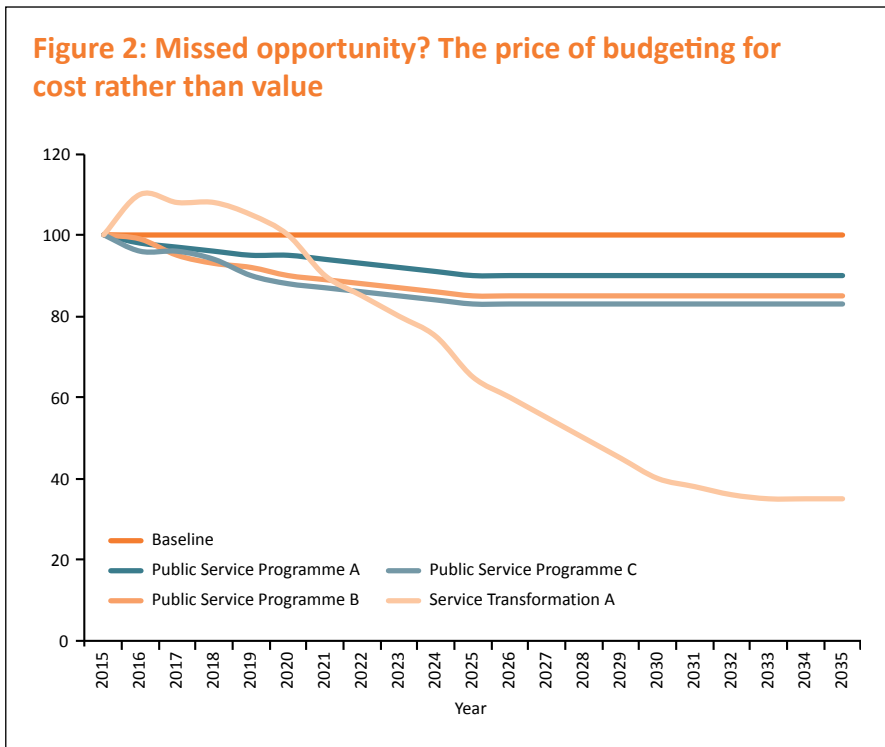
The focus on cost engenders short-term decision-making and this is reinforced by the electoral cycle. It is very difficult for a department to make the case for spending more on a policy programme now if it takes longer than five years to start delivering results. By contrast, salami-slicing budgets and relying on

⁶ Nick Timothy, Detailed Analysis? Strategic Planning? Not a bit of it. Let me tell you how a Spending Review really works, Conservative Home, November 2015

⁷ HMG, Spending Review Launched by the Chancellor, 21 July 2015

⁸ Resolution Foundation, The Spending Review's big choice: will there be five 'big losers' or a toning down of the cuts?, November 2015

improved efficiencies to maintain service standards, do guarantee financial savings to the Exchequer, at least in the short-term. But as Figure 2 shows below, the discretionary top-slicing of programme budgets is not the most effective way of lowering the cost base. Sustainable cost reductions will only be made through radical service transformation. For example by diverting and deflecting demand for a service, co-locating certain functions, passing responsibility to users or reducing failure demand by getting things right the first-time round.



Top-down, cost cutting ignores both the factors that drive demand for a service and the strategic reforms that could dramatically lower it. Running a hospital more efficiently will probably not save any money over the long-term if the factors that influence the demand for hospital care continue to be ignored. They also have long-term cost consequences. The Work Capability Assessment (WCA), for example, started with the reasonable aim of trying to reduce the welfare bill by reassessing claimants' eligibility for disability benefits given the significant increase in people claiming incapacity benefits over the last 40 years.⁹ However, the assessment itself is an inspection exercise that classifies claimant's fitness to work using standardised metrics rather than taking a more personalised approach. Research has since shown that there is no significant association between the WCA process and the chances of people getting work.¹⁰ It was assumed that the inspection process would result in a substantial reduction (worth around 0.18% of GDP) in caseloads.¹¹ However, the reality is that the assessments did not save any money during the last Spending Review period.¹²

“Top-down, cost cutting ignores both the factors that drive demand for a service and the strategic reforms that could dramatically lower it”

9 Employment and Support Allowance: the case for change

10 Barr B, Taylor-Robinson D, Stuckler D, et al. J Epidemiol, Community Health, Published Online First: [8 December 2015]

11 Office for Budget Responsibility, Welfare Trends Report, June 2015

12 National Audit Office, Contracted Out Health and Disability Assessments, January 2016.

If we were able to start from a zero-base, looking at what the state should deliver and how, then it would be easier to consolidate overlapping areas of Government expenditure (for example, mental health, policing and the criminal justice system) and invest more money upfront in existing services or new reforms that will reduce the cost pressures on others. Under the current system, however, the incentive is to just manage the size existing budgets, increasing or decreasing them by X%.

2. The diseconomies of scale

Managing complexity

Conventional wisdom in Government is that the size of a programme can make a significant difference to the quality and cost of a service. Managing higher volumes of work from the centre can lower the cost per unit in each service, while aggregating and sharing the inputs for back office services (functions like HR and Finance) can save money through rationalisation. Scale also allows Central Government to standardise services in a way that ensures fairness and equality in provision across the country, for example the national rates for Jobseeker's allowance.

But while scale might be beneficial in some parts of the public sector, in others the benefits are outweighed by the disadvantages. One of the biggest issues with operating at scale is the bureaucracy it creates. In big organisations or projects (and a Government bureaucracy is perhaps the best example of this) people

“Politicians tend to oversimplify the issue at hand, consulting experts, compiling plans and then imposing definitive solutions in order to be seen to be doing something”

collectively have a tendency to behave in counterproductive ways. More often than not, big bureaucracies tend to: resist changes in direction; find unnecessary work to do to fill time; soak up all available funds by thinking of new initiatives; diligently support the ideas, however flawed, of managers

with detailed strategic studies; and mindlessly imitate the behaviour of their peer organisations.¹³ It is easy to see how scale can create problems. Ben Horowitz, the technology entrepreneur, explains how managers try and game the system when an organisation starts to grow, attempting to enlarge their span of control by dramatically increasing the scope of their goals or claiming dire circumstances if they are not given sufficient resources.¹⁴ Or consider how Technology and IT employees build complex systems or processes into a project to justify their existence ('Nerd Disease'), meaning that even simple, technical projects can balloon in size very quickly.¹⁵

Government is particularly vulnerable to the types of error and waste brought about by scale. For a start, the UK public sector often lacks the in-house skills and expertise to manage projects efficiently, having lost much of its internal capability after years of outsourcing. It also doesn't have the same financial clout as the private sector to compete for the best talent.¹⁶ Moreover, it has to deal with lots of legacy systems (large IT contracts, people, building leases) that are a by-product of previous changes in policy.

13 All of these traits are what Warren Buffet calls the "Institutional Imperative".

14 Ben Horowitz, How to Ruin Your Company with One Bad Process, June 2014

15 Nico Mele, the End of Big: How the Internet Makes David Goliath.

16 For more on this see Policy Exchange's previous paper "Whitehall Rules: Improving Pay and Performance in the Civil Service."

Complex and complicated problems

But at a more fundamental level many of the problems Government tries to solve are of a very complex nature. Intergenerational poverty, income inequality, or low educational attainment, for instance, are all very complex problems – they are subject to changeable human behaviour and have many interdependencies (health, housing, employment, family life etc.) that make them difficult to manage. Poor health, for instance, has a mixture of known and unknown causes, there are a number of known and unknown cures, and the actions of any one single actor (doctors, nurses, families, neighbours and ourselves) will not necessarily solve the problem. And as Mark Foden the management thinker has explained these problems are different to the ‘complicated’ problems typically found in engineering or construction projects.¹⁷ Putting a passenger plane in the sky, for instance, is a complicated problem. It is not easy but it can be solved through command and control structures and carefully designed blueprints. Here, there can be a relatively high degree of certainty in outcome repetition – we know, for example, that if the right instructions are followed, a plane will take off and land safely.

Despite the fact that much of Government activity is focused on solving complex problems, policymakers have a tendency to try and solve them using management methods more suitable for complicated ones. Politicians tend to oversimplify the issue at hand, consulting experts, compiling plans and then imposing definitive solutions in order to be seen to be doing something. The pretension is that the intervention being offered has the potential to solve the problem when in reality it only acts on a very small part of it. Moreover, the whole management process follows a rigid waterfall process of analysis, research, up-front design, planning, testing, and then an expensive roll-out. This makes it very hard for projects to adapt in response to changing circumstances and also much harder to abolish the project entirely in the face of evidence that it is not working.

Seen in this way, it is unsurprising that so many big Government projects fail to live up to their original expectations. Universal Credit (UC), the new welfare benefit that aims to replace six means-tested benefits has been plagued by issues of scale and complexity. At a basic level, it was not clear that the initial solution offered (moving six benefits into one streamlined payment) was the optimal way of improving the financial incentive for claimants to work or indeed the best way to improve the overall efficacy of the system. The benefits payments system is also enormous, spanning several departments, affecting 19 million individual claims, and covering around £75 billion in working age benefits and tax credits.¹⁸ So even if the optimal solution was simplification, practical realities should have dictated a more pragmatic approach. And even assuming that the hypothesis was right, the execution of the programme was still poor. The solution itself depends heavily on the introduction of new technology. The aim was to imitate smart automation systems used in the private sector but their replicability in a Government context was not fully understood. Moreover, because it was a top-down led reform programme, it did not build on any of the strengths within the existing system – the project was managed by the DWP, rather than HMRC which processes the majority of benefit payments. There was still a mission control that allocated resources according to the official

¹⁷ See Mark Foden for a more detailed explanation about why Government does not understand complexity.

¹⁸ DWP, Universal Credit: Welfare that works, November 2010

plans set out in the 2012 business case, which inevitably made adaptation and improvisation much harder. The 2012 business case, for instance, earmarked some £637 million for IT and £2.4 billion for total lifetime implementation costs.¹⁹ And given the amount of political capital invested, a fortress culture was created within the DWP, where only good news was reported and problems were not openly acknowledged.²⁰ Five years later, the scheme is currently only in operation for the easiest to process claimants.

3. Siloed public services

Catering for different needs

Siloes reflect how Government approaches complex problems – an issue is broken down into separate pieces in the belief that if you provide a solution for each individual piece then you can deliver a solution for the whole.²¹ Every Government department, for example, delivers separate policy programmes in response to a particular social problem: we have programmes that help people ‘find a job’, ‘determine suitability for work’, ‘find a social home’, or ‘cure a mental illness’. However many of these issues are heavily interconnected and so solving on part can have costs or benefits for another.

There is now a huge number of ‘front doors’ for public services – local authorities, social housing landlords, police stations, GP surgeries, A&E hospital departments or through those third-sector organisations that fill in the gaps.²² But given both the variety of underlying issues people might have and the large amounts of choice over which ‘front door’ to take them to, there is no guarantee that the service they receive will get to the root causes of the problems people have. For example, a person entering a Jobcentre might have a large number of additional problems to just unemployment like finance, debt, housing and relationships, but the demand presented to an advisor will be ‘I want to claim benefits’ and the response will be ‘I will process this if you can prove your eligibility’.²³

Siloes also prevent officials from thinking up new ways to tackle a problem. They are incentivised to deliver the single-need service and not to think outside their narrow policy domain. In some circumstances the needs of the institution override the needs of the individual. The Jobcentre for example can help someone find a job and lower the claimant count, but if that person is battling high levels of stress and anxiety, and the job has irregular hours then their mental health could deteriorate further.²⁴ The state would then pay a higher price further down the line, covering both the costs in benefits of an extended period out of work and more extensive support in the National Health Service (NHS).

Entrenches dependency

Public services are not designed with a life-time view. They ignore the common links people make between different stages of their lives and the importance of having some sense of control over its future direction. People can often only deny short-term pleasures if they see a realistic path between self-control now and something better down the road.²⁵ Young women, for example, who have a reasonable prospect of attending university, are less likely to become teen mothers.²⁶

19 National Audit Office, Universal Credit: Early Progress, September 2013

20 National Audit Office, Universal Credit: Early Progress, September 2013

21 Complexity and the art of public policy: solving society's problems from the bottom up.

22 Locality, Saving money by doing the right thing: why local by default must replace diseconomies of scale, March 2014

23 Ibid.

24 The University of Cambridge Zero2Zero workshops, From Zero Joy to Zero Stress: making flexible scheduling work, February 2016

25 David Brooks, The Character Factory, The New York Times, July 31 2014

26 Ibid.

Siloed services can undermine this sense of control, engendering the view that people should use a public service to get a ‘fix’ for a specific problem. This narrative is then often internalised by users – rely on the professionals, the formal channels and don’t take any risks – and rather than empowering people, the system ends up entrenching dependency.²⁷

4. Agency problems

Governing by numbers

Big Government reduces many complex social issues to numbers, meaning that important qualitative differences between individual units or people are often missed. For example, we often talk about police numbers rather than the contribution each one is likely to make when deployed in different roles or in different parts of the country. In welfare as well, the number of people not in work is treated as a problem in all circumstances, ignoring the potential upsides like a parent staying at home to raise their children. Of course, the use of statistics can be very helpful for decision-makers in highlighting problems but it is silent on causes – it cannot tell us what issues are producing those numbers.

In Government, an overreliance on numbers can be counterproductive. Consider, for instance, the Government’s proposals for a 7-day National Health Service (NHS). The rationale for this plan has been the publication of lots of studies that show a ‘weekend effect’ in the NHS, with a higher number of excess deaths from hospital care on weekends compared to weekdays.²⁸ There are many different reasons why there might be a ‘weekend effect’ in the NHS. The Government’s argument is that it is an issue of resourcing. This explanation seems plausible. Consultants, for instance, are able to opt out of weekend work and other resources, such as diagnostic tests, are not always available at the weekend either, which can have significant knock on effects. But there are other possible explanations. For instance, people being referred to hospital on the weekends may actually be more seriously ill as less urgent cases are only referred to hospitals during the weekday.²⁹ Or perhaps if a patient is likely to die and the palliative care system is not fully running on the weekend then they will be admitted to hospital instead, which might explain the figures.³⁰ Some of the studies into the weekend effect have controlled for these variables but it is impossible to do so fully. So while the response being offered by the Government to increase staff resourcing at the weekend may solve the problem, equally it might be that it is only specific service extensions (say for example strokes) that need to be reconfigured, and this could prove to be a more cost-effective alternative.

The problem then is not necessarily with the idea of having a 7 day NHS but the one-size-fits-all approach to reform. While negotiations with the national doctors union – the British Medical Association (BMA) – has delayed the Government’s attempt at reform, one NHS Trust in Northumbria already has a 7-day NHS service and has since 2004. Northumbria was able to negotiate a 7-day rota agreement with consultants within the existing contract precisely because it was managed small-scale. No vested interests, media coverage or unionisation. In this case, the doctors saw for themselves that there was a need to change resourcing requirements to even-out the service on the weekends.³¹ The Trust’s senior management team did not impose the changes from on high – consultants who worked in some specialities were able to continue the

27 Participle, *Employability > Backr*, accessed April 2016

28 Gov.UK, *Research into ‘the weekend effect on patient outcomes and mortality’*, 30 October 2015

29 Tim Harford, *How Politicians Poisoned Statistics*, *Financial Times Magazine*, April 2014

30 *Ibid.*

31 Northumbria Healthcare NHS Foundation Trust, *Making seven days work in emergency care: the Northumbria way*, September 2015

old arrangements if it was felt a 7-day presence was not needed, and for the majority who moved to extended working at the weekend, they were not asked to work further hours and are less frequently on call when not in the hospital.³² As David Evans the Medical Director of Northumbria NHS Trust explains “it was our plan, it was bottom up.”³³ All of this was simple, even mundane, practical planning driven entirely from the bottom-up. Not as political but much more effective in delivering change.

Ineffective interventions

Bureaucracies frequently overplay incentives in policy-making (because they can be managed remotely from the centre) but significantly underestimate the institutions, context and people through which they are delivered (intangibles

“Bureaucracies frequently overplay incentives in policy-making but significantly underestimate the institutions, context and people through which they are delivered”

that are more difficult to control). Instead of setting broad goals and then allowing people on the frontline to decide how to achieve them, bureaucracies tend to focus excessively on methods. In some social services, for example, it has been shown that up to 86% of frontline workers’ time is

spent filling in forms and discussing them with colleagues, and even the 14% of face-to-face activity is dictated by pre-determined forms needed to collect data and information.³⁴

In the welfare system as well, policy-makers create artificial incentives to try and get the right outcome. Claimants are segmented into defined categories, required to attend the jobcentre a certain number of times a month, asked to complete standardised questionnaires, and record the number of jobs they have applied for. What is much rarely discussed however is the person who delivers that service: how well can they listen, empathise and build a relationship with claimants, and what personal qualities they have to motivate and inspire.

Contextual factors might be harder to measure but they are a critical determinant of success – many people cannot separate a service from the context in which it is delivered.³⁵ The independent review of the Work Capability Assessment, for example, found that simple measures like the layout of the room, better listening skills and avoiding interference were all elements that could build greater trust in the process.³⁶ Youth employment policy suffers from similar problems. Policy-makers tend to overemphasise academic knowledge (how many GCSE’s people have to put on their CV) because it is measurable but frequently underplay the role of individual character (a young person’s ability to speak to an adult, turn up on time, and stay motivated at work) which is much more difficult to affect from afar, and actually what employers tend to be more concerned about.

Social networks are another crucial determinant of successful outcomes. Many people find work through word of mouth but the long-term unemployed typically do not have access to a social network³⁷ and lack the financial resources to take part in the sort of social activities that can help them build one. Rarely however do we hear Government talk about loneliness as a contributing factor to long-term unemployment, never mind policies that might help address this.

32 Northumbria Healthcare NHS Foundation Trust, Making seven days work in emergency care: the Northumbria way, September 2015

33 The Times, “7 Day Work is no big deal, our staff have done it for years”, July 25 2015

34 Hilary Cottom, Relational Welfare, Participle

35 Rory Sutherland, Perspective is everything, TED Talk, December 2011

36 Dr Paul Litchfield, An Independent Review of the Work Capability Assessment, November 2014

37 Hilary Cottom, Social Services are Broken. How We can Fix them, Ted Talk, September 2015

The main lesson from all of this is that if we want to make interventions more effective, then policy design needs to start from the bottom up, at the human level, rather than relying on economic incentives that on their own are unlikely to be effective.³⁸

5. Commissioning

Commissioning at scale

The rationale for creating a market for public services was based on the idea that independent providers, incentivised to make a profit, would be able to unlock new innovations and efficiencies in terms of delivery methods. While there is nothing wrong with this assumption, the centralised management of outsourcing has significantly increased the size and value of contracts that go out to tender. And big contracts naturally favour larger providers that are big enough to take on the financial risk, and who can offer an attractive price due to economies of scale. The major downside of contracting from the centre therefore is that it shuts out those smaller private or third sector providers who may have higher levels of experience and capability to deliver more innovative services.

Again this problem was evident in the contracting of the Work Programme, where a number of experienced organisations could not compete to be Prime Providers, as they were needed a turnover in excess of £20 million.³⁹ Of the large providers who did compete, many adopted a loss-leader strategy because the decision to consolidate previous employment support programmes into one scheme significantly heightened the risks of not winning a contract.⁴⁰ Some smaller providers did become part of the prime providers supply chains but in many cases they were never even used.

Commissioning for cost

Centralised commissioning also makes it harder to properly balance both price and quality when deciding between bids – Whitehall officials are simply not close enough to the coalface to thoroughly determine the quality aspect and so become heavily reliant on price. But commissioning on the basis of cost often creates a race to the bottom – providers end up cutting costs, perhaps hiring less qualified staff or using lower quality materials, in order to win the contract. A number of people involved in the Work Programme, for example, have noted that the decision to run the commissioning process from the centre meant that any consideration of quality became a tick box exercise, both to the detriment of quality and diversity in provision.⁴¹

Focusing on cost also means that we underestimate where the real value in a service might lie. In the outsourcing of Meals on Wheels services, for example, two Local Authorities contracted out provision to an external provider as they can make the meals at a lower unit cost and have faster turnaround times. But while this might have saved the authorities' money, many people have since stopped using the service, as what they appreciated most was the chat they had with the person who delivered the meals; something of value that has since disappeared from the new more efficient service.⁴²

In some respects it is understandable that commissioners have placed more weight on cost over the last few years given the immediate need to bring public

38 Steve Hilton, *More Human*

39 C Damm, *the Third Sector Delivering Employment Support Programmes*

40 Institute for Government, *Public Service Markets*

41 *Ibid.*

42 Hilary Cottom, *Relational Welfare, Participle*

spending under control. The Work Programme has in fact done a good job of delivering the same outcomes as previous employment support schemes with a smaller budget.⁴³ However if the procurement exercise was run locally, and provided they had the right levels of capability, then commissioners would at least have been in a better position to judge bids based on their quality and also involve those smaller charitable providers who have considerable experience in dealing with the underlying issues that affect people who are out of work.

Commissioning in siloes

Commissioning in siloes creates public services that reflect the institutions narrow policy objectives rather than the needs of the people who use them. Buying anything in the public sector means going through an extremely bureaucratic procurement process: officials have to define the service they are after, send out a request for service to potential providers, who in turn have to complete a questionnaire, ask questions about the specifications, compile and submit a bid, before a panel scores these against some arbitrary criteria, and the bidder with the highest score wins the contract.⁴⁴ All of this acts as a constraint on innovation. From the very start officials have to define the service, specifying in detail what their service requirements are, and so external providers are not given sufficient flexibility to fundamentally redefine how the service might work.⁴⁵ The Work Programme was meant to join up a wide range of specialist services around individual needs but it still largely remains a relatively narrow job-focused programme.⁴⁶ And across all Government departments, there are examples of providers who offer cost-effective services for people with multiple needs that are being overlooked as the officials continue to focus on their narrow set of departmental objectives.⁴⁷

Transactional customer relationships

Relationships are important when buying a product or service from another organisation. An open, collaborative and preferably long-term relationship between buyer and supplier is clearly conducive to better outcomes. Presented with the opportunity for a long-term deal, with a steady income flow, providers are incentivised to scale up, build capability, and invest in their clients because if they do well they have a good chance of being in business in future. Strong collaborative relationships are particularly important in those types of complex environments where there might not be an obvious solution to a problem, and iteration, trial and error is important.

However, the size of many Government contracts means that close collaborative relationships are practically difficult. Officials have to deal with a large number of suppliers, and their lobbyists, for extended periods.⁴⁸ Service contracts can end up being poorly designed as the providers are not sufficiently involved during the development phase, creating problems further down the line. The lack of incumbency advantage in the commissioning process also makes it harder for providers to build capability and innovate. In the Work Programme, for example, a number of providers who had a presence in one area because of their previous involvement in employment support schemes did not win the new Work Programme contract for that area, which ended the good working relationships that were already in place.⁴⁹

43 DWP Select Committee, *The Work Programme*

44 John Seddon, *The Whitehall Effect*, 2014

45 *Ibid.*

46 Institute for Government, *Public Service Markets*

47 *Ibid.*

48 *Ibid.*

49 *Ibid.*

6. The overloaded state

Doing the wrong thing righter

Centralisation has, over many years, created a vicious cycle of expectation. As Dominic Cummings, a former advisor in the Department for Education explains, “most of our politics is still conducted with the morality and the language of the simple primitive hunter-gatherer tribe:

‘which chief shall we shout for to solve our problems?’”⁵⁰ This level of over-expectation prevents new and innovative thinking. Whenever something goes wrong, the Government’s answer tends to be to do the same thing but with more diligence and efficiency, rather than looking at the system and how that has contributed to the problems.⁵¹

Bodies like the National Audit Office (NAO) and the Public Accounts Committee (PAC) might be good at explaining how poor governance or below par project management contributed to the failure but rarely do they consider the deeper causes of whatever went wrong.⁵² For example, despite the delays and resets the NAO’s report into Universal Credit did not question from first principles whether or not UC was in fact the right thing to do be doing to reduce welfare dependency.

“Across all Government departments, there are examples of providers who offer cost-effective services for people with multiple needs that are being overlooked as the officials continue to focus on their narrow set of departmental objectives”

Piloting rather than prototyping

There is an institutional tension between being seen to get things right and the process of trial, error and experimentation which is crucial for innovation. Piloting in the public sector is usually considered the primary method for innovation. In science, however, piloting is the last stage in the innovation process. It follows an initial ‘probe’ to understand the context, followed by a ‘prototype’ which trials an approach for a limited time and is adjusted and improved upon depending on the feedback from users.⁵³ Only after extensive prototyping, when the performance of a solution has been assessed, do you then pilot it and try to make it a success. In Government, however, new ideas start with a pilot. The incentive is to prove that the earlier assumption based either on theory or other social research, works in practice as opposed to actually testing whether or not it does.⁵⁴ And because the whole system makes it less safe to fail, people are biased to manipulate the results, and it becomes difficult to establish whether or not pilot projects have been genuinely effective.

In the types of complex environments that Government has to operate in, it is clearly more sensible to start with a hypothesis and then experiment with what works rather than starting with a pre-determined answer.⁵⁵ The popularity of the Behavioural Insights Team (BIT), a new Government policy team that used insights from psychology and carried out proper pilots to test new policies, speaks volumes about both the dearth of experimentation in Government and the lack of understanding about the importance of social interactions and emotions in decision-making. The Nudge Unit has not necessarily employed ‘new theory’ but simply shown how small and cost-effective experiments, that draw on the

⁵⁰ Dominic Cummings, The Hollow Men, What’s Wrong with Westminster, October 2014

⁵¹ Mark Foden, the Government Doesn’t Get Complexity, Computer Weekly

⁵² Anthony King and Ivor Crewe, The Blunders of our Governments, 2014

⁵³ Chris Corrigan, Probes, Prototypes and Pilot Projects, October 2015

⁵⁴ Steve Hilton, More Human.

⁵⁵ Mark Foden, Drop the Pilot, 23 May

emotional and social circumstances in which people live, can have a significant impact on performance.

Picking winners

Most problems take years to solve yet policymakers are incentivised to work to much shorter timescales because of the electoral cycle. So when something does show initial promise, politicians tend to overhype its impact. Disconfirming evidence is overlooked and the programme will often be expanded quickly to give the impression that positive action is being taken to address a problem despite the fact that the long-term effects of the intervention remain unknown. This is compounded by the fact that officials do not take any personal or financial risk for their opinions and are not directly exposed to the consequences of their decisions. So once it is thought that a solution has been identified, decision-makers sometimes go to great length to try and make it work rather than abandoning it entirely.

The Government's Troubled Families programme, for example, pays councils to deal with families who have multiple problems like worklessness, truancy, or anti-social behaviour, in a holistic way, rather than dealing with each issue separately through a specific agency. This is a sensible idea, given both the multiple needs that families have and the narrow remits of local support agencies. That said, the Government has ambitiously claimed that the programme has turned around 99% of the families targeted.⁵⁶ What counts as a successful turnaround has however been defined in very loose terms. For example of the 117,910 families involved only 11,921 (10%) have had an adult within the troubled household move off benefits and into sustainable work.⁵⁷ The direct impact of the programme on outcomes is also unclear with some suggestions that Local Authorities have taken credit for changes in circumstances that were entirely out of their control. One council, for example, had a sudden decrease in truancy rates because a number of the families in their area had children who turned 16 and so left school.⁵⁸ The programme has since been given an additional funding over the next five years to help tackle an additional 400,000 families.⁵⁹

Clearly a family approach to policy-making that integrates services at the local level is a positive development but the way the system is configured has incentivised Government to overhype any small improvements. What is more discouraging is the fact that the limited success of the programme has not prompted a discussion about the need for wider service transformation given that Troubled Families is all about overcoming siloed organisations who do not work together at the local level.

⁵⁶ DCLG Press Release, PM Praises Troubled Families programme success, June 2015

⁵⁷ DCLG Research and Analysis, Troubled Families Programme: progress information at December 2015 and families turned around as May 2015, June 2015

⁵⁸ Christopher Cook, More Or Less, BBC Radio 4.

⁵⁹ HM Government, the Spending Review 2015

Part 2

Decentralised, Experimental and Bottom-up Problem-solving

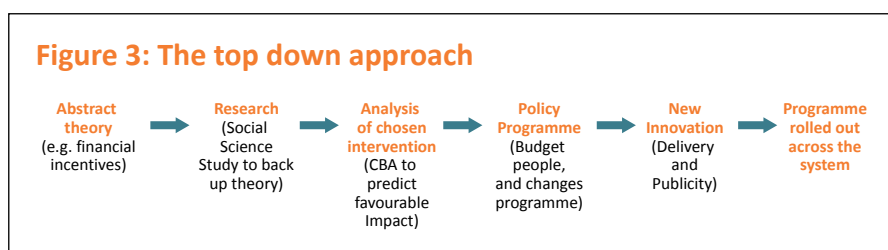
This chapter explains why a decentralised, bottom-up and experimental system of Government is likely to perform better at delivering change.

How does change happen?

Decentralised, bottom-up, and experimental problem-solving

As the examples used in the previous chapter explained, one of the biggest inhibitors of change is the methods that policymakers use to pursue reform. In simple terms, new reforms often follow a linear and hypothesis-led process: experts at the centre define what the problem is; a solution is postulated based on an assumption or international case study; a cost-benefit analysis is carried out to validate the original hypothesis; a policy programme is then developed, allocating the necessary financial and human resources to deliver it according to the original design; and following implementation an evaluation is then conducted to understand what the impact has been.

The top down approach to innovation



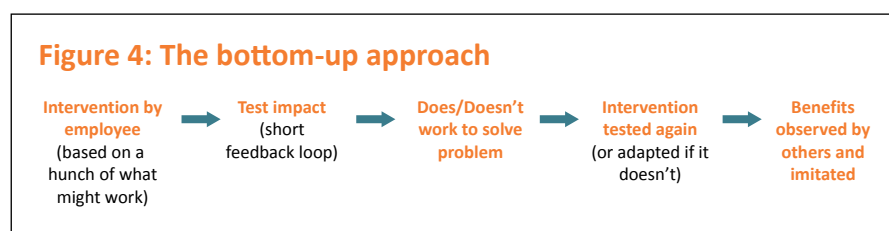
In other words, the conventional policy-making process works on the assumption that top-down directives can deliver direct improvements in outcomes. The focus tends to be on structural reform – new funding, new rules, new managers, or new technology is introduced. The Coalition Government’s approach to service transformation, for example, was to make 30 separate funding pots available for local change programmes, with different criteria and allocation methods.⁶⁰ New innovation ‘labs’ have also been created, giving public sector workers the authority to experiment with new ideas and turn them into products by working with charities and local practitioners. But while

⁶⁰ Institute for Government, *Joining up public services around local, citizen needs*, November 2015

all of these are legitimate innovations, they are very rarely institutionalised. In very few instances does the new innovation replace the original demand for a service and in the end we are left with a hotchpotch of random initiatives that struggle to find their place as a legitimate part of the policy-making infrastructure.⁶¹ Central Government has already tried to encourage local service integration no less than 59 times over the last 19 years without it delivering a substantial improvement in services.⁶²

There is a growing body of evidence which shows that social progress tends to arise from processes of decentralised trial and error rather than grand schemes put together by rational planners.⁶³ As Matt Ridley argues, when we think about progress we tend to put excessive faith in carefully designed reforms managed from the top-down while underestimating the merits of spontaneous and organic processes of innovation.⁶⁴ Nassim Taleb, the statistician, former trader and author, also argues that in complex environments, where there is little visibility on cause and effect, experimentation by practitioners will consistently outperform deliberately designed plans.⁶⁵ And empirically, there is no convincing evidence to show that centralised top-down systems are more likely to innovate than localised, bottom-up ones.⁶⁶

The bottom-up approach to innovation



What is now needed is a different set of problem-solving tools. As the rest of this chapter explains, the best way for the public sector to foster new innovations will be to create a public sector that is:

- Decentralised: providing people with the institutional space to solve problems from the bottom-up using their own methods.⁶⁷
- Experimental: embedding short feedback loops that help us to quickly learn what works rather than waiting for the conclusions of an ex-post evaluation.⁶⁸
- Human: seeing what people want, need, like or dislike in their lives and using them as a source of new ideas for delivering change, rather than relying on ‘cold’ statistical data.⁶⁹

Why a decentralised system of government is more conducive to reform

The idea that decentralisation is the best way of providing public services can be traced back to the economist Friedrich Hayek, who argued in favour of devolving responsibility for public service provision to the lowest level of government. Hayek argued decentralisation is the best way to ensure that public services reflect local need, and allows for experimentation and learning through the simultaneous delivery of different service models.⁷⁰ The best methods, Hayek argued, would

61 Stanford Social Innovation Review, Design-led innovation in Government, Spring 2013

62 Institute for Government, Public Services Timeline

63 Arnold Kling ,Cultural Intelligence, National Affairs, Spring 2016

64 Matt Ridley, the Evolution of Everything

65 Nassim Taleb, Understanding is a poor substitute for Convexity, 2012

66 Saam, J, and Kerber, W, “Policy Innovation, Decentralised Experimentation, and Laboratory Federalism”, January 2013

67 Roland Kupers, Complexity and the Art of Public Policy

68 Project Syndicate, The Problem with Evidence-Based Policies, Ricardo Haussmann, February 25, 2016

69 Steve Hilton, More Human

70 Hayek and the Modern Economy: Economic Activity and Organisation

spread as Local Authorities observed each other's successes and failures. At first glance, it is easy to see why devolved Government might be more conducive to reform:

- **Improves bottom-up flows of information:** when so many of today's new innovations stem from a better understanding of people's needs and the context in which they live, giving more responsibility to frontline workers who have the richest level of understanding will increase the number of innovations likely to occur.
- **Increases the power of frontline workers:** devolving responsibility for the design and delivery of public services will improve the likelihood that local innovations are adopted and prevent Civil Servants in the centre from crowding out the ideas of frontline workers with their own ideas of what works best.
- **Links together different services:** local places are best placed to create the links between the multiple 'front doors' that exist for public services. Closer local collaboration between the public, private and third sectors will lead to the improved sequencing of service provision ensuring more claimants get access to the service they need the most, first.
- **Makes it safer to fail:** decentralising responsibility makes it easier to experiment with policy reform. Trialling something new at the local level acts an insurance against the negative effects of a poor policy decision or when something goes wrong.⁷¹
- **Generates knowledge through doing:** devolution allows for the simultaneous experimentation of different policy solutions to a specific problem by competing Local Authorities. In a perfect world, the best policies will spread across the public sector as each Local Authority will imitate those reforms that deliver the best value for their area.

But more practically decentralisation can act as a corrective to some of the biggest institutional and cultural impediments to change in the public sector.

- **Overcomes traditional siloed thinking:** In the welfare system for example, local authorities have been able to use alternative sources of funding to design new approaches to public services that overcome the silos inherent in nationally-led programmes. Working Well in Manchester, for example, is a welfare to work scheme for people claiming disability benefits that integrates previously siloed services like physical and mental health, drug and alcohol services, skills, education and housing services.⁷² Also the MyGo centre in Ipswich which has created a separate employment support centre for young people aged 16 to 24 outside of the confines of the Jobcentre Plus, with tailored branding and targeted support.⁷³ While it is far too early to tell what the success of these schemes has been, it does show the potential capability for local players to build innovative services from the bottom-up, outside of the Whitehall model.

“There is a growing body of evidence which shows that social progress tends to arise from processes of decentralised trial and error rather than grand schemes put together by rational planners”

⁷¹ Saam, J, and Kerber, W, "Policy Innovation, Decentralised Experimentation, and Laboratory Federalism", January 2013

⁷² Manchester City Council, 'New scheme will get 5,000 working well in Greater Manchester', 15 April 2014

⁷³ See <http://www.its-mygo.co.uk/>

- **Promotes practical planning, rather than politics:** radical change is also easier to implement locally because horse-trading tends to be more effective – the pros and cons of a particular reform are brought into much sharper focus both for the providers of a service and the people who use them. Moreover, new reforms are not burdened with the same level of national expectation, intensive media scrutiny and unionisation. We have already explained how the NHS Trust in Northumbria was able to broker a 7 day contract for consultants under the existing terms of the contract because it was managed small-scale. In other areas of the public sector there are opportunities for consolidation and collaboration, for instance merging the emergency services professions, but the heavily unionised professional structures make that more difficult to implement at the national level.
- **Creates a window of opportunity to think differently about problem-solving:** in a large Government bureaucracy, with legacy systems, statutory functions, and short-term political priorities, it can be difficult to take a step back and think differently about how to tackle a problem. The Government’s devolution agenda and, in particular the City Deals process, actually prompts a conversation between local and central Government about reform. For instance, the idea of combining the health and social care system with a single budget and joint commissioning has long been advocated but it was the Greater Manchester City Deal that has been the vehicle for implementing it.

The different methods of decentralised innovation

There are a number of methods currently being used by innovators in both private and public sectors that demonstrate the practical benefits of decentralised, experimental and bottom-up ways of working. All of these different approaches to innovation significantly undermine central Government’s monopoly over the design and management of our public services.

The human-centred approach

The human-centred approach to innovation is based on the very simple idea that innovators need to understand the circumstances and context in which people live in order to understand what intervention is likely to have the biggest impact. This reflects the fact that the people who might use a service, and the reasons for them needing to do so, are likely to differ significantly on a case-by-case basis. So framing interventions on the basis of abstract data (e.g., age group, level of education, length of time unemployed) or on how demand is initially placed on the system (e.g., “I would like benefits” or “I would like a social home”) might not solve the issue that the user wants addressed. This is an approach advocated by Steve Hilton, a former advisor to the previous Prime Minister, David Cameron, who says that we should solve problems by starting with people: “what they need, how they think, how they feel.”⁷⁴

When Great Yarmouth Council, for example, was struggling with excessive demand for social housing, and realised that 50% of applicants could not be housed, officials decided to visit these people personally to understand their needs in context – 35% of people were found to have primary needs not related to housing and they were given practical help and support to solve these issues.⁷⁵ For example, one elderly lady applied for a social home because she was

⁷⁴ Steve Hilton, *More Human*

⁷⁵ Locality, *Saving money by doing the right thing: why local by default must replace diseconomies of scale*, March 2014

concerned she could no longer look after her garden so the council arranged for someone to help look after it so she could stay living there. The overall result was a significant reduction in the waiting list and an improvement in first-time problem resolution from 30% to 80% and at no additional resource. In this case, listening and observing a user's actual need, rather than responding directly to the initial demand placed on the system, fundamentally changed the nature of the response.

The design-thinking approach

Design-thinking, used by social entrepreneurs, has its roots in this human-centred approach to innovation. The design process involves a number of simple steps: empathise with the user; define the problem; generate ideas; prototype solutions; test the prototypes; and keep testing and adapting until you get it right.⁷⁶ The first stage, empathising with the user, allows innovators to leave behind preconceived ideas, and properly grasp the context and complexities in people's lives.⁷⁷ The process is not simply about asking people questions – if you ask someone why they do something or what is causing their problem, they might not be able to explain it properly. To empathise you need to actually get into a person's natural environment for a period of time to learn more about what people do and how they think about themselves and their actions.⁷⁸ New ideas are generated by looking through the lens of the user, rather than starting by looking at the existing service which has its own pre-determined solution.

Participle, a UK-based social enterprise, has used this design-thinking process to generate new approaches to unemployment. Speaking to claimants, Participle found that their social confidence was low and that many lacked the social connections necessary to develop a self-directed and sustainable outcome. Many people, for example, find work through word of mouth. So Participle co-designed a relationships-focused approach to employability through a service called Backr, which offered support through group workshops, networking events, and one-to-one and group coaching.⁷⁹ The approach helped people to understand the value of their networks for employability, and build a narrative about themselves which helped them to talk about their aspirations in a positive way, and with other people. Participle's design approach helped them to focus on the social dimensions of people's lives, and in doing so generated a new initiative that focused on developing a social structure for people, made up of friends, family and neighbours, that can flex to whatever challenges people might face.⁸⁰ Backr worked with around 1,400 people and the subsequent evaluation by PwC revealed that the programme helped 53% of these participants to move back into work.⁸¹ It also built capability in its members with 74% stating that it improved their ability to connect with others and 82% saying it contributed to their motivation to find work.

The experimental approach

Another key component of the human-centred approach to innovation is experimentation and prototyping. Innovators remove the risk of failure by quickly making something into a simple prototype, testing the merits of a concept or approach before investing in it more heavily. Making something, for example by drawing it out on a piece of paper and asking users for feedback on how they would use it, is a quicker way to tell if something won't work than a theory.⁸² And

76 Steve Hilton, *More Human*

77 IDEO, *Field Guide*

78 Charles Pearson, *Ethnography = Better Design*, December 2015

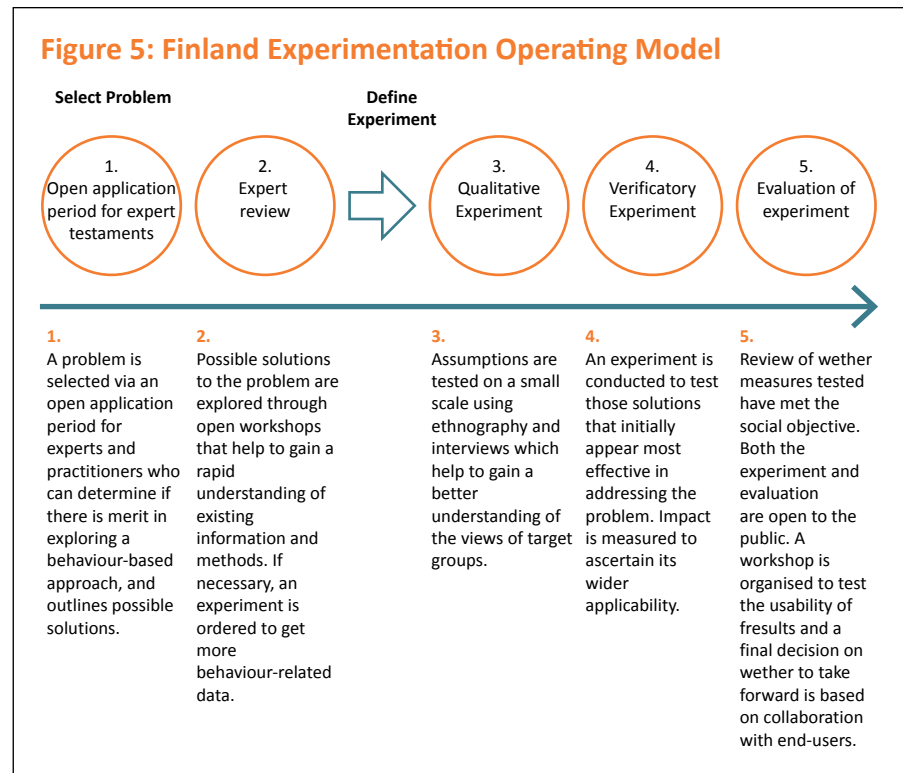
79 Participle, *Employability > Backr*, accessed April 2016

80 Participle, *Beveridge 4.0, Version 1*, September 2008

81 *Employability '03, the Bakr employability programme, Final Evaluation Report*, October 2015

82 Steve Hilton, *More Human*

actually making things on a small scale reveals opportunities and complexities that you would not otherwise have known would occur.⁸³ The Finnish Government has already recognised the importance of experimentation in trying to address intractable problems like poverty. They have created an experimental design process that relies heavily on building empathy with service users and gaining an understanding of the wider context in which they live, as shown below.⁸⁴



Finland’s emphasis on experimentation is enabling them to prototype radical policies that would otherwise be too risky to try at the national scale. Kela, for example, the Finnish department for welfare, is carrying out an experiment on the implementation of a universal basic income scheme using the innovation process outlined above. The experiment, due to be tested in 2017, will evaluate the effect of a basic income on different population groups and produce an overall cost estimate.⁸⁵ In short, Finland is obtaining knowledge about what works to alleviate poverty by trying it, and doing so with an open-mind. Compare this to the design and delivery of Universal Credit which already assumed it had the right answer, was never prototyped on a small scale using different methods, and was, from the start, assumed to be rolled out across the whole country regardless of how people responded to the service.

Decentralising power can clearly support this human-centred approach to policy-making. If new ideas are generated by a deep understanding of the people’s needs and the environments in which they live, then performance improvements will be heavily dependent on the Government’s ability to capture this information effectively.⁸⁶ Centralised bureaucrats find it difficult to tap into the real needs of people – they are too removed from the frontline. Frontline workers however benefit from proximity to the end-user, enabling them to tap into people’s

83 IDEO, Human Centred Design, 2015

84 Prime Minister’s Office for Finland, Design for Government: Human-centric governance through experiments, 2014

85 Kela, Universal Basic Income options to be weighed, November 2015

86 Kralewski, D, Bottom-up decentralised approach to innovation strategy

emotions, passions, enthusiasms and fears rather than the logic of economic incentives.⁸⁷ Devolved government also offers that safer-to-fail environment that allows policymakers to find out much more quickly what doesn't work – an essential part of the process of finding out what will.

The self-management approach

Bureaucracies lead to rigid and hierarchical management structures. It is inevitable that because all the thinking happens at the top and the doing at the bottom, decisions get handed down through successive layers of management.⁸⁸ Civil servants, for example, act on Ministerial instructions, and in turn workers on the frontline act on the guidelines and rules set down by civil servants. There is nothing exceptional about these management methods. Many large private sector organisations exercise the same sort of command and control techniques. However, several innovative companies have started to experiment with a new organisational model that has radically different management methods and can deliver impressive results. These organisations have three defining characteristics:

- Self-management: the ability to operate the organisation, even on a large scale, on peer relationships, without the need for hierarchy or consensus.⁸⁹
- Life/Work divide: While many organisations discourage people from displaying any personal traits which might compromise their professionalism, these organisations ask workers to be more relaxed about mixing the personal and the professional believing that this can improve productivity and create new insights.
- Evolutionary purpose: instead of trying to predict and control the future, these organisations have a life of their own, with members invited to listen in and understand what the organisation wants to become.

In self-managing organisations thinking and doing is one and the same thing. Complex problems are solved by devolving decision-making to those people who are closest to the action, where information is richest and by empowering people to use their judgement in the moment.⁹⁰ Employees in these organisations actually have skin in the game. The stakes of saving face are high as they are directly exposed to the consequences of their decisions, either feeling the wrath of frustrated customers or suffering a loss of reputation with peers.⁹¹ Employees are trusted to use their own judgement when making decisions, rather than simply relying on performance metrics, due to their proximity to the issues at hand. Of course, the use of facts and figures remains an important part of decision-making in these organisations. However, they believe that tapping into the emotions and experiences of their employees can help them to make better decisions.⁹² These self-managing companies, like the neighbourhood nursing organisation Buurtzorg,⁹³ look for the answers to problems in the people themselves, and the wider community in which they live, rather than offering a simple fix to their problems. For the public sector, this is particularly important. As we have seen, demand for many services can require skills that don't necessarily align with traditional professional boundaries, so getting improved outcomes will require employees to have strong interpersonal and problem-solving skills.⁹⁴

87 Hambleton, R. and Howard, J. (2012) 'Public sector innovation and local leadership in the UK and The Netherlands'

88 Frederic Laloux, *Reinventing Organisations*, 2014

89 Ibid.

90 Yves Morieux and Peter Tollman, *Six Simple Rules: How to manage complexity without getting complicated*, 2014

91 Ibid.

92 Frederic Laloux, *Reinventing Organisations*, 2014

93 See Box 1. For a full description of Buurtzorg and other self managing organisations see Frederic Laloux, *Reinventing Organisations*, 2014

94 Locality, *Saving money by doing the right thing: why local by default must replace diseconomies of scale*, March 2014

Box 1: Buurtzorg, Neighbourhood Nursing, the Netherlands⁹⁵

Perhaps the most famous self-management organisation is the neighbourhood nursing care company Buurtzorg. Buurtzorg was started by a former nurse in the Netherlands who had become disillusioned with the way the industry had relentlessly pursued economies of scale and managed employees with command and control techniques. Buurtzorg, by contrast, is comprised of lots of small self-managing teams of 10–12 nurses who each serve around 50 patients. Nurses are in charge of all tasks, being not only responsible for care but for deciding how many and which patients to serve. They have complete freedom over planning and determine themselves how best to integrate with the local doctors, the hospital and wider community. They decide when to meet, how to distribute tasks and make up their own team training plans. There is no leader so important decisions are made collectively. Nurses aim to build capability in patients, helping them to recover the ability to look after themselves, and developing their support network by talking to family, friends and neighbours. A strong emphasis is also placed on building trust. The service itself is time-rich: each nurse gets to know their patients thoroughly, paying attention to their emotional and relational needs, as well as their physical ones. Buurtzorg also completely cuts out middle management. There is one regional coach who supports around 40 to 50 teams but there is no decision-making hierarchy that has power over them; they have no targets and there are no bonuses if the team performs well. Very few employees of Buurtzorg work in traditional staff functions. 30 back-office staff cover 7,000 nurses and even then they only provide a support function, helping out when teams request their support.

Buurtzorg's results are outstanding. A study by Ernst and Young in 2009 found that the company requires, on average, close to 40% fewer hours of care per client compared to other nursing organisations. Patients stay in care for only half as long, as they heal faster and become more autonomous. Staff turnover is also 33% lower and absenteeism for sickness is down by 66%. Demand on other public services has also fallen: a third of hospital admissions are avoided. It is estimated that up to 2 billion Euros could be saved in the welfare system every year if all home care organisations in the Netherlands achieved similar results. For the UK public sector, Buurtzorg shows the potentially dramatic improvements in service outcomes and cost savings that could be achieved by radically redirecting public money away from bureaucracy and towards face-to-face services.

There are two notable advantages to self-managing organisations in terms of savings and productivity. Firstly, middle management is expensive, particularly in large bureaucracies with hundreds of staff dedicated to HR, Finance, and Planning. Self-managed organisations therefore have much lower running costs with savings from management being used to pay better salaries for everyone else. Expertise is still retained but it is generally pushed downwards. Employees might, for example, complete courses on how to negotiate with suppliers and be trained in financial analysis.⁹⁶ Secondly, in contrast with a centralised bureaucracy, workers in these organisations are more flexible, creative and motivated.⁹⁷ Roles are defined broadly, giving individuals the authority to act, and people are recognised when they help each other. Motivation and therefore productivity increases because there is a clearer link between the work they do and the end result.

⁹⁵ Frederic Laloux, *Reinventing Organisations*, 2014

⁹⁶ Gary Hamel, *First let's fire all the managers*, Harvard Business Review, December 2011

⁹⁷ Ibid.

Part 3

Six Service Reform Principles

There is a better way to design, deliver and administer our public services. The case studies in the previous chapter clearly show that. What is now needed however is a set of simple principles that policymakers can draw on when thinking about delivering change, whether it is in welfare, social care or criminal justice.

These principles aim to do two things. First, change the way policy-makers think about how to approach problem-solving and secondly, promote the use of different methods for delivering change. For each of these principles we have listed some high-level financial, organisational and institutional changes that could help to unlock new innovations and reforms more systematically across the public sector.

1. Value

Managing costs is important but our “Government-by-accountant” system creates a short-term and pessimistic view of public investment.⁹⁸ Large chunks of expenditure are determined not according to need but based on what is left over after the big political spending commitments have been made. In this environment, the focus tends to be on ensuring that costs to the Exchequer are stable and predictable. This creates an element of scepticism about investing upfront in a service even if it can deliver bigger savings down the line.

The public sector might be more receptive to radical reform if it was able to strike a better balance between cost management and investment. In other words, if we had a budgeting system that focused on the value we get from the money we spend on public services rather than simply the costs.⁹⁹ For example, a pound spent improving outcomes in services that support people not in employment, training or education, is a more effective use of public money than paying for the higher costs of imprisonment or unemployment further down the line. Introducing a prison entrepreneurship programme could save the Government up to £1.4 billion on the cost of re-offending, the equivalent of a 17x return on investment.¹⁰⁰ A budgeting system that focused on value as well as managing costs would be much more open-minded about these types of investments. Ultimately, it would enable the Government to take a longer-term view of investments, particularly in human-facing services, and shift the focus of activity away from addressing symptoms and towards the causes. For mixed economy services that involve private providers, longer-term budgets should encourage suppliers to build capability and underwrite the short-term entry costs of using new methods or technologies.¹⁰¹

In policy terms, value could spur a number of practical changes. Continuing the past reforms to HM Treasury, the Government might examine the case for

98 NESTA, The End of the Treasury: breaking up the UK's finance ministry, September 2014

99 Mike Farrar, Why thinking about value rather than cost will save the NHS, Hanover

100 Centre for Entrepreneurs, From Inmates to Entrepreneurs, how prison entrepreneurship can break the cycle of re-offending

101 Mike Farrar, Why thinking about value rather than cost will save the NHS, Hanover

separating its budgeting functions from its economic and financial briefs.¹⁰² The Cabinet Office could also lead a piece of research into the cost interdependencies between services, examining how failures in one (e.g. education) drive cost in another (e.g. criminal justice), which in turn will help departments and local places build a stronger financial case for prevention schemes. Further down the line, this might allow for the introduction of new financial management techniques that strengthen cost accountability between different parts of the public sector and reduce the incentive for cost-shunting. This is something that Policy Exchange has previously recommended with a per-pupil levy for schools that failed to help pupils achieve at least a C grade in English and Maths, recognising that the cost of this failure is picked up by Further Education Colleges.¹⁰³

The Government should also consider extending the accounting horizon for expenditure on people-facing services. This might pave the way for financial techniques that hypothecate future expenditure in order to fund present day prevention programmes on the assumption that they will deliver future savings in that budget. This is obviously not without its risks – there is no guarantee that the intervention will prove effective. However it would encourage the public sector to more forensically measure the positive financial returns from a new policy programme, including the introduction of real-time financial accounting, particularly if there is an opportunity to extract real costs from the system further down the line. Consolidated, multi-year and place-based budgeting is another way of creating additional spare capacity in the system to fund prevention schemes, allowing for the transfer of expenditure from one service to another or consolidation between different services to act on a specific problem like addiction, unemployment or poor health.

Finally, value means changing the way we measure success in social programmes. The introduction of market mechanisms over recent years has had some positive impact but they still continue to create a bias in favour of claiming value in the short to medium term (e.g. getting a job, reduced offending, less truancy), rather than ensuring that they translate into the long-term outcomes that reduce the need for expensive interventions in the future. Again this will require longer-term budgets to ensure that what is being measured and paid for are successful outcomes rather than outputs.

“Value means changing the way we measure success in social programmes”

2. Local first

In all human-facing public services, there should be a presumption in favour of designing, delivering and administering service reform at the local level. Long-lasting and successful change is most likely to start from the bottom-up. There are too many institutional and cultural impediments to driving reform from the centre. Managing problems small scale at the local level means the costs and benefits of change are more tangible to public sector employees and local people. It also reduces the temptation for leaders to overhype the impact of the proposed solution, undermines the collective power of the unions, and puts the emphasis on practical planning rather than politics or ideology. Moreover, local officials are best placed to utilise the network of local providers that can deal with the variety

102 NESTA, *The End of the Treasury: breaking up the UK's finance ministry*, September 2014

103 Policy Exchange, *Crossing the line, improving success rates among students retaking English and Maths GCSEs*, August 2015

in demand for services and are more likely to identify common-sensical, simple solutions to social problems compared with an official in Whitehall.

The Government's devolution agenda, and more specifically the City Deals process, should be used as a window of opportunity to start multiple conversations between the centre and local places about public service reform, experimenting with the use of new service models or technology. Over-time we should expect devolution to lead to a more experimental and competitive culture between the regions, with local places using different delivery methods to solve their problems, and the best ones being imitated by others.

In the long-term, the introduction of Mayors in City regions across the country should see the faster transfer of powers and budgets to local places over the course of this Parliament, and the next. However local first should not mean local government monopolising service provision. It might mean devolving power to front-line professionals, community and neighbourhood organisations or to the individuals themselves. The focus should be on removing the constraints on these actors to self-organise and develop their own solutions. This was the driving force behind academies in schools and is now tentatively being replicated in the prison system with a handful of 'reform-prisons' being given freedom over setting budgets, opting out of national contracts and developing their own rehabilitation methods.¹⁰⁴ There is potential for going much further in this direction.

Local first should lead to the proliferation of different deliver models. The Collective Impact programmes from the United States, like Strive in Cincinnati or Shape up in Somerville,¹⁰⁵ show how power can be decentralised to many different organisations simultaneously while still ensuring that each one is kept accountable for their actions. Collective Impact programmes don't create new programmes from scratch or require additional money, instead they get the whole community of local organisations with a stake in an area of social policy, like education or welfare, to act on the problem in co-ordination, removing duplication and ensuring that improvements are being made at all stages of the policy continuum.¹⁰⁶ Collective impact approaches recognises that no one organisation can address a complex problem and so getting results will require a whole community of organisations acting in concert on a single set of goals.

3. The mission

Improving performance in the public sector will require an increase in the sources of power across the whole system. This is not a structural issue about the relative merits of devolved versus central Government it is more a practical point about the ability for people on the frontline to act on their local knowledge and expertise. New solutions will only be achieved by giving people greater autonomy over the methods they use for problem solving. At present, there is clearly an overconcentration of power at the centre of Government which is both directly and indirectly acting as a constraint on the ability of frontline workers and local places to use their own initiative and work in co-operation.

Mission-based control orders, often used in the military, are perhaps the best way for an organisation to increase the autonomy of people to act under a devolved system while maintaining some level of central control. In the military, mission orders involve commanders giving subordinates directions about what is to be done (the mission) but allowing them the freedom to determine how to do

¹⁰⁴ Financial Times, Gove's Prison Reforms nod to academy school model, May 28 2016

¹⁰⁵ Stanford Social Innovation Review, Collective Impact, Winter 2011

¹⁰⁶ Ibid.

it (the means).¹⁰⁷ Many innovative companies also set a clear aspirational mission for their employees to work towards. Google’s mission, for instance, is to organise the world’s information and make it universally accessible and useful.¹⁰⁸ Or in science, the scientific method gives researchers a clear incentive to innovate in search of new knowledge. In many parts of the public sector, however, there seems to be a deficiency of a mission or purpose.

What we need therefore is for the Government to start setting big objectives – outlining the core purpose or mission of our public services – but then allowing frontline staff and local actors to determine how best to achieve them.¹⁰⁹ The Centre should be agnostic on whether local places decide to use markets, joint-ventures, or provide a service in-house, provided that they meet the desired

“In many parts of the public sector, there seems to be a deficiency of a mission or purpose”

objectives. Indeed, in many areas, there are much higher levels of skills and expertise among the network of local third sector private providers than the public sector. But in aggregate, giving each local area the ability to experiment

with different methods will ultimately lead to greater variation in the approaches used and help us to understand what policies are most effective.¹¹⁰

Defining the mission of will be crucial in the transition from universal public services to a more devolved and differentiated style of service provision. In Sweden, for example, the centre devolves multi-year consolidated budgets to local areas but sets out what end goals it expects them to deliver with the funds (the purpose) through ‘Letters of Instruction’, leaving it up to the areas to decide for themselves how they go about achieving them.¹¹¹ Applying this principle to the UK public sector might mean that central Government sets goals like ‘every young person job ready at 18’, ‘full employment’, ‘reduced incidence of mental health’, ‘lower crime’ or ‘community cohesion’. A Bristol, London or Manchester would then be able to use their own budget and operational independence to determine the best way to deliver the education system, skills training, employment support, and the health service in a way that meets one or all of these goals. Moreover, at an even more localised level, the Government can use this principle to bring together many different local players to act on a specific problem in co-ordination. Collective impact programmes, for example, depend on the creation of shared goals and on which charities, mutuals, and social enterprises can then try to deliver.¹¹²

4. Capability

Capability means placing greater importance on Human Resources. It is not appropriate to devolve additional responsibility to local authorities who do not have the right set of in-house skills to make use of them. Delivering effective reform locally will therefore require the recruitment and development of public sector staff who have the skills, knowledge and courage to innovate; alternatively it might necessitate the transfer of additional financial resources to local authorities so that they can procure this capability from the private and third sectors. The importance of HR is already recognised in some areas of Government like the Teach First programme in Education, and Frontline in Social Care, but it is still overlooked in others, for example employment support.

107 Roberto Poli, *Overcoming Bureaucracy: the idea of Auftragsstaktik*

108 Google, *Company Overview*

109 John Seddon, *The Whitehall Effect*, 2014

110 Ibid.

111 OECD, *Budgeting in Sweden*, 2001

112 Stanford Social Innovation Review, *Collective Impact*, Winter 2011

Moreover, the Civil Service itself remains a heavily London-based institution. The proportion of Civil Servants working in London has remained largely unchanged since 2010 and two thirds of Senior Civil Servants (SCS) and over half of the senior management grades (SCS and Grades 6 and 7) are also employed in London.¹¹³ There is now a sense that the lack of capability outside of London is holding devolution back with the Government arguing that devolution deals vary between places according to ‘ambition, capacity and readiness.’¹¹⁴ So as we move to a more decentralised political system with City Mayors and Combined Authorities, it makes sense to distribute civil service capability more evenly across the country.

In concrete policy terms, this might mean giving local places autonomy over the paybill for public sector workers so they can alter terms and conditions to attract, retain and develop local talent. And as part of the ongoing City Deal agreements, central Government could also devolve civil servants (or their headcount allocation) alongside the devolution of new powers and budgets. This will help to ensure that the location of Civil Servants starts to reflect the shifts in political power away from London and into all corners of the country.

Moving Civil Servants out of London is not a new idea. Around 20,000 Civil Servants moved out of London between 2004 and 2010 following the Government-commissioned Lyons review into Civil Service relocation.¹¹⁵ A 2010 follow up of that review, led by Iain R Smith, said that the long-term goal should be to reduce the number of Civil Servants in London by one third.¹¹⁶ There are currently around 80,000 Civil Servants in London and Policy Exchange believes that the long-term goal of devolving one third of employees is realistic given the ambition of the Government’s plans for devolution.¹¹⁷ One third would require the devolution of around

“As we move to a more decentralised political system with City Mayors and Combined Authorities, it makes sense to distribute civil service capability more evenly across the country”

25,000 Civil Servants or their headcount allocation to city regions and Local Authorities over the rest of this Parliament and the start of the next. This would give local places the capability they need and, if managed efficiently, could actually save the Government money as Civil Servants outside of London earn, on average, around £3,000 less than their counterparts in London. By devolving Civil Servants, the Government would be giving local places the capability they are lacking in some areas to make full use of their new responsibilities.

For front-line and human-facing services like employment support, housing, criminal justice, and social services capability will mean designing services that help people to help themselves. Policymakers need to get a better understanding of how people see themselves in the context of their own lives – where do they see their lives going, and how do they intend to get there? Only then can they start to provide them with the types of personalised support that will help them to live an independent life. In practice this might also mean moving beyond the traditional provider-user dichotomy and helping people with those personal issues that inhibit the development of a more sustainable solution (loneliness, the drink problem, depression etc.). This will mean redesigning services to be more holistic and flexible, for example helping people with parenting, healthy living

113 ONS, Civil Service Statistics, 2015

114 Government Response to CLG Select Committee: “Devolution: the next five years and beyond” May 2016

115 Relocation: transforming where and how Government works. Ian R. Smith March 2010

116 Ibid.

117 ONS, Civil Service Statistics, 2015

and emotional self-management – all those skills that build self-reliance rather than simply addressing their immediate problems.¹¹⁸

5. Networks

It is obvious enough that government cannot solve today's biggest social problems on its own. So if we really want to reduce dependency on the state over the long-term then policymakers need to build and sustain local networks into future service reform.

Centralised Government cannot utilise or build networks – it doesn't have the deep local knowledge of who the local actors are and traditional services don't engender the types of conversations between providers and user's that get into the more personal aspects of people's lives. Devolution should change this. It can help to break down organisational siloes and makes it easier for government to connect with smaller private and third sector organisations. It is charities, social enterprises and mutuals that have the local knowledge and expertise to make real change and often operate with the types of values (an intrinsic type of motivation) that large bureaucracies cannot match.¹¹⁹ Local Government can play an important role in directly co-ordinating the actions of these groups by setting some shared goals to work towards, giving them financial backing and also co-locating different public, private and third sector providers.

New technology can play a transformative role in developing networks of support by bringing together family, friends and neighbours at a low cost and replacing services traditionally offered by the state. In social care, for example, a smartphone could easily bring together a network of on-demand practical support (made up of volunteers, charities, and private sector providers) and also facilitate more frequent social interactions with family and friends. Exploiting the power of social networks will be an important part of delivering more effective reforms because it is our peers that have the biggest influence on individual behaviour.¹²⁰ Moreover trust in vertical networks – for example in institutions like government and business – has fallen, while horizontal trust – between other people – has grown.¹²¹ So if services can utilise the positive role played by these social networks, then they can create a support structure which can continually flex to address problems as and when they come along.¹²² This is why programmes involving peer-families, rather than case workers, like the Family Independence Initiative (FII) have been so successful. Helping people at the bottom to build a social network is not a utopian idea. It simply reflects how the majority of people get by – when things get tough we draw on the economic and social capital that has been built up in the past through relationships with friends, family and neighbours.

6. Experimentation

In complex environments, where cause and effect is not properly understood, it is much better to test an idea on a small scale, and with an open-mind, rather than starting with a pre-determined solution. This type of experimental thinking has been generally deficient in the public sector. Progress on tackling our biggest social problems is slowed by Whitehall's fetishism for static evidence-based policy that simply serves to reinforce the status quo.

Creating a more experimental model of Government will require a significant cultural change in the way that Government develops and delivers policy. Culture

118 Danny Kruger, *The Social Strategy*, Demos Quarterly

119 Ibid.

120 Participle, *Beveridge 4.0*, September 2008

121 Gillian Tett, *Why We Trust the Cyber Crowd*, Financial Times

122 Participle, *Beveridge 4.0*, Version 1, September 2008

is notoriously difficult to change but particularly so in the public sector. A good place to start would therefore be to alter the language used so that it properly reflects the reality that social policy is very difficult to get right. Rather than talking about what works, we should talk about what worked ‘there’;¹²³ rather than best practice we should be highlighting better practice;¹²⁴ policies should be evidence-informed not evidence-based.¹²⁵

In practical terms, the Government could create a legal basis for policy experimentation in new legislation, helping to create an operational environment that is more accommodating to testing learning and subsequent changes in direction. For example, despite the many failings of Universal Credit, some provisions were at least made in the Welfare Reform Act to test different approaches given the unknowns about how people would response to different incentives. Alternatively, sunset clauses that create a fixed end or termination point for a policy programme and therefore a point from which to evaluate impact could also be used more systematically. Politically, experimentation will mean having a bit more humility, acknowledging from the outset that something might not work and being more open and transparent about when it hasn’t. Indeed, being less prescriptive about the effects you intend to see, can actually unearth problems or opportunities that would not otherwise have been considered.

The institutional barriers to experimental policy-making will also have to be dismantled. The Treasury’s Green Book, which provides guidance to other public sector on how proposals should be appraised before funds are committed, is a barrier to service reform because the entire emphasis is on ex-ante appraisal (guessing the impacts and then making a judgement about whether or not to pursue it) rather than ex-post evaluation (actually doing the policy first and then evaluating what the impact has been). The Green Book appraisal guidance needs to be reformed in a way that makes experimentation easier, requiring for example evidence of prototyping and ethnography as part of any business case submission and asking departments to set out plans for how projects might be wound down and dismantled.

On a large scale, devolution offers the promise of experimentation, with each area determining their own solutions to persistent social problems like unemployment and poor health. But to incentivise innovation still further, central Government could consider creating a central match funding grant that helps devolved areas launch their own policy experiments.

123 Hardie, J, and Cartwright, N, Evidence-based policy, A Practical Guide to Doing it Better, September 2012

124 John Seddon, The Whitehall Effect, 2014

125 Stanford Social Innovation Review, Reconsidering Evidence: What it Means and How we Use it, January 2016

Annex A: Delivering Differently in the Welfare System

This annexed document applies our delivering differently principles in practice. Specifically, it outlines what a delivering differently approach to changing elements of the welfare system might look like.

The devolution agenda

What is it?

The Government's devolution agenda has seen the transfer of new powers and control over existing budgets to local authorities (or a combination of them) through City Deal agreements. These agreements typically contain several elements:¹²⁶

- Giving local authorities control over a number of specific policy areas and the transfer of additional budgets alongside these powers.
- Greater powers over local taxation, and greater flexibility over Council Tax, as well as the announcement by the Chancellor that Local Government will retain 100% of business rates.
- The election of City Mayors and Combined Authorities, giving those areas additional tiers of accountability that are proportionate to the scope of the new powers that they have taken on.

Although there is some variation in terms of the scale and scope of the City Deals, in general terms there has been a 'set menu' of policy areas that central Government has shown a willingness to pass over to local authorities.¹²⁷ This includes further education, business support, control of EU structural funds, a mix of new fiscal powers, the power to create integrated transport networks, and additional planning and land use controls.

How did we get here?

The current fervour around devolution is the product of a number of simultaneous policy developments over the last five years:

- Community Budgets: these were essentially a precursor to City Deals. The budgets joined up service provision and pooled budgets between different service providers within a focused area. Local places believed that they could both improve public service outcomes and deliver better value for money by making full use of the totality of spending within their local area, and by

¹²⁶ House of Commons Library
Research Briefing, Devolution to
Local Government in England,
April 2016

¹²⁷ Ibid.

aligning the objectives, activities and resources of different organisations.¹²⁸ West Cheshire, the whole of Essex, Greater Manchester and the West London Tri-borough area were the first four areas to pilot this approach.

- The Single Local Growth Fund: Lord Heseltine's 2012 report *No Stone Unturned: In Pursuit of Growth* recommended that the Government combine all separate funding streams that support growth into a Single Pot, primarily drawn from housing, skills, and transport. The idea was that a Single Fund would encourage local areas to be more responsible for economic growth locally, requiring them to develop multi-year strategic plans from which they can negotiate a growth deal with central Government.
- Fiscal Consolidation: the need to bring public spending under control has prompted policymakers in both central and local government to consider more fundamental reform to public services in order to deliver more with less. The recent shift in emphasis within the City Deals away from local growth and towards public service reform reflects the fact that many cities have seen devolution as an opportunity to try something different in order to deliver better outcomes with fewer resources.

Where is it going?

The devolution agenda is a once in a generation opportunity for local places to unlock innovation and deliver public services differently. The agenda is important not simply because it will see the devolution of existing powers and budgets but because it will get central Government out of the way, removing existing constraints on local leaders and practitioners to act independently.

Although there remain some short-term political obstacles to devolution, the roadmap over the course of this Parliament has largely been set. Devolution will continue through a mixture of 'earned' (bottom-up) and 'overnight' (top-down) devolution:

- 'Earned' Devolution: cities will want to take control of more individual budgets (e.g., vocational education, apprenticeship grant, the custody and probation budgets etc.) and these will be handed over to those areas that can demonstrate the capability to manage it and the ability to put forward a compelling cost/benefit analysis. Over time, we can expect similar deals to be struck with other areas, following improvements in those areas that were the early movers.
- 'Overnight' Devolution: inevitably there will be many instances where Whitehall's request for evidence that local is better will be a barrier to devolving further. For many nationally controlled policy programmes, there is an absence of any counterfactual. Devolving powers in some areas will require a political leap of faith from Ministers. The introduction of City Mayors from 2017 may accelerate 'overnight' types of devolution as they will apply more overt political pressure on central Government to devolve.
- Over the course of this Parliament, as existing national policy programmes come to an end and contracts expire, you would expect Cities and smaller local authorities to agree multi-year, place-based city budgets. In future, this might involve the Centre handing out a block grant to local areas, setting the outcomes they expect them to achieve but leaving it to the places themselves to determine how they achieve them.

128 National Audit Office, *Measuring the Cost and Benefits of the Wholeplace community budgets*, March 2013

Delivering Differently with the Jobcentre Plus and Employment Support Allowance

This section examines two areas of the welfare system in need of reform and explores the potential benefits of taking a Delivering Differently approach. The idea is that these case studies can be picked up and operationalised by officials, both in Central and Local Government, during the course of future City Deal negotiations.

The Jobcentre Plus Network

Despite the progress made with the City Deals, the Jobcentre Plus (JCP) network, which provides out-of-work benefits and employment support, is still under the control of central Government. For reformers looking to improve the way the JCP works, there are a number of standout features to the network that reflect some of the problems with the our centralised system.

Caseload management: The DWP requests that Jobcentre advisors ask JSA claimants to sign-on every two weeks. New claimants are now required to sign-on weekly for at least the first 3 months. The current sign-on process usually involves an interview with an employment advisor where the claimant demonstrates what steps they have taken to find work. Signing-on forms part of the wider Claimant Commitment – a list of actions that the claimant has agreed to carry out in order to continue to receive benefit, and transgressions of which can result in a sanction. Some Claimant Commitments now stipulate up to 35 hours of job-search related activity following DWP’s announcement that claimants should spend as many hours looking for work as they would expect them to spend in work.

It seems common-sensical and fair for claimants to regularly attend the Jobcentre and demonstrate what they have done to look for work in return for receiving benefits. The indirect effects of this requirement however may undermine the pursuit of the employment outcomes we want to achieve. The variations between the casemix of claimants on JSA means that some may need to sign-on regularly, some can be left to their own devices, and others might need a completely different type of conversation to get off benefit. And while employment advisors have had some additional flexibility about how they approach claimants since 2011, on the whole, many of the discussions are compliance-based, focused on the ‘inspection’ of what has been done to search for work.¹²⁹ In some instances, this compliance culture can prevent the longer, open-ended and positive types of discussions that are lead to better outcomes. It might also be creating perverse incentives in the system – the claimant’s energies will be focused on ‘proving’ that they have searched for a job, rather than finding a job that is suitable for them and offers a reasonable chance of long-term employment (i.e. the outcome that we want).

Staff recruitment: The distribution of staff and resources across the JCP network is still managed centrally. Workforce allocations are based on aggregate forecasts of claimants, rather than the different claimant types.¹³⁰ Each JCP is given a headcount allocation based on the estimated number of claimants in each JCP district and then multiplied by the national average time for interviews between claimants and advisors. Generally, claimants have two types of interviews at

129 House of Commons Work and Pensions Select Committee, *The role of jobcentre plus in the reformed welfare system*, 20 January 2014

130 NAO, *Responding to change in jobcentres*, 2013

the JCP: the job-search related activity one (signing-on), and a work-focused interview, where advisors offer support and advice and can refer claimants to external support if necessary.¹³¹

The way the centre manages the allocation of JCP employees demonstrates how remote decision-making can result in poor decision-making. The NAO, for example, has found that the timings of interviews carried out by JCPs were longer than national estimates by 15 to 20 minutes.¹³² The standard time used by DWP in workforce planning for a work-focused interview is 5 minutes when in actual fact the typical time can vary from 10 to 40 minutes in length. It is clear therefore that the central management of staff means that allocative efficiency is not being achieved across the network.

Furthermore, every JCP broadly follows the same recruitment rules, with the similar levels of base pay, a hierarchical grading structure and fixed pay increases for JCP staff regardless of performance and local conditions. Compliance with the principles of fair and open competition that govern public sector recruitment, also means that in some cases it can take four to six months to recruit additional staff.¹³³

All of these central controls on staff recruitment undermine the ability of local managers to use the HR function in a way that enables them to attract, retain and develop the best type of staff and allocate them across their network in a way that more closely approximates local need.

Institutional silos: Siloed thinking, like in the rest of the public sector, is a significant problem in the JCP. Although there are good examples of collaboration, the JCP operates in an institutional environment that is disconnected from those other actors (the NHS, local services, employers and wider civil society groups) who can have a positive impact on claimant outcomes.

The best examples of innovative, multi-needs services are those that have been developed by Local Authorities on the margins of DWP's current employment programmes. Greater Manchester's Working Well programme,¹³⁴ and London's Working Capital programme,¹³⁵ all show how local people are better placed, from the start, to design employment services that cater for complex needs, integrating local health services with debt advice for example, rather than delivering the single-need employment service by DWP.

Incentives not people: Good practice in JCPs is largely attributed to good local staff. Across the country there are examples of proactive JCP managers that have taken the initiative to build solid links with large local employers and a network with other locally provided public and third sector services that they can direct claimants towards.

However, the mainstream debate over improving and innovating in the JCP network tends to focus excessively on the relative effectiveness of certain management techniques (like for example creating a better assessment tool for analysing first-time claimants or increasing the number of hours spent searching for work) rather than focusing on how to improve the individual and collective judgement and experience of frontline staff who are ultimately best placed to decide what management techniques will work best. Maximus, for example, the employment services organisation, has seen the benefits of recruiting people who used to be in the armed forces as employment advisors – their motivational and time-keeping skills can have positive knock on effects for claimants.

131 House of Commons Work and Pensions Select Committee, The role of jobcentre plus in the reformed welfare system, 20 January 2014

132 NAO, Responding to change in jobcentres, 2013

133 Ibid.

134 Manchester City Council Press Release, New Scheme will get 5000 working well in Greater Manchester, April 2014.

135 Central London Forward Press Release, £11m investment to help tackle long term unemployment from 2015, January 2015

Innovation is supervised: The Jobcentre Plus has become a less target driven organisation over the last five years and the range of performance metrics have been scaled back. JCP is now only monitored on the number of off-flows from benefit at 13, 26, 39 and 52 weeks.¹³⁶ All JCPs are also given access to the Flexible Support Fund (FSF) which managers are allowed to use at their own discretion to help claimants get back into work, for example helping to cover training, travel costs for interviews, childcare, or clothing and uniforms to start work.

However, the DWP's approach to fostering innovation in the JCP has still found it difficult to drop the pretence that Whitehall knows best. Ideas that represent a more radical departure to the way JCP traditionally administers benefits and delivers employment support have to be submitted to the department.¹³⁷ Even the range of innovations and pilots trialled at the JCP give an insight into just how inflexible the current system is, with four separate pilots dedicated to just increasing or decreasing the frequency and length of job-search review interviews.¹³⁸ Again, the intention behind all of this seems to be to capture evidence of what works through a 'pilot' before allowing others to mimic the best ones. But what might work in Luton will not necessarily work in Leeds.

Beyond these management issues, there is a more general problem with the JCP's operating model.

Resources do not tackle where the biggest costs are: JSA costs the state much less than Employment Support Allowance (ESA) – the other main out-of-work benefit in the welfare system. The Government spent £3 billion on JSA in 2014/15 but over £12 billion on ESA. The picture is the same in the UK's cities as well: London spent £370m on JSA but £1.7bn on ESA, the North East spent £110m on JSA but £675m on ESA, and Manchester spent £100m on JSA but £801m on ESA.

Despite the high cost of ESA relative to JSA, JCP resources are heavily focused on JSA claimants. The present ratio of employment advisors to JSA claimants is 1:45, while the rate of advisors to ESA claimants is 1:970. Of course, there is a lot more cycling (people coming on and off) with JSA, some ESA claimants are not going to be able to work and those who are required to undertake work-related activity only have to be have a work-focused interview twice a year. Moreover, the statutory duty of the JCP is now only to pay and administer benefits rather than directly support transitions into employment. The current allocation of resources reflects all of this.

It is clear however that these resources are not being allocated in a way that can get to grips with the biggest costs in the employment related welfare budget. It is also not clear how much of JCP's activity with JSA claimants can be directly attributed off-flows from the benefit. Most people move off JSA relatively quickly. Three in every four end their claim within six months and less than 3% have a claim lasting longer than 3 years.¹³⁹

Middle management roles and back office staff also consume a lot of the Jobcentre's HR budget. There are around 19,000 frontline advisors but an additional 16,000 are employed in middle-management and back office positions. Moreover people in these roles are paid, on average, around £6,000 more than people in frontline positions. To put this all into perspective, if the JCP could adjust its ratio of front to back office workers to match the Dutch nursing organisation Buurtzorg then it would release around 16,000 additional frontline staff.¹⁴⁰

136 House of Commons Work and Pensions Select Committee, *The role of jobcentre plus in the reformed welfare system*, 20 January 2014

137 National Audit Office, *Responding to Change in the Jobcentre*, 13 February 2013

138 Ibid.

139 DWP Guidance, *Community Work Placements*, March 2015

140 Buurtzorg, the Dutch Nursing organisation, has a ratio of back-office to frontline staff of 3: 7000

In the future, with more routine employment services being automated electronically, and the standardised roll out of Universal Credit, you would expect that the process of administering JSA claimants for benefits would become much less labour intensive. Depending on the future direction of Universal Credit, the administration of benefits and delivery of employment support might be entirely decoupled, freeing up additional resource to focus on the latter.

Reforming the Jobcentre Plus through a Delivering Differently lens

If the Government is committed to revolutionising the way that England is governed then there is a very strong prima facie case for devolving operational and budgetary control of the Jobcentre Plus network to local places. There are a number of additional reasons why now might be a good time to think about taking a different approach to the Jobcentre. First, the DWP's DEL budget is being reduced, meaning that the JCP will need to find new efficiencies through co-location. Second, the Government has started to focus on the links between unemployment and health, giving greater impetus to collaboration between JCP, local authorities and the NHS. In both cases there are good reasons to think that local places, rather than central Government, are best placed to find efficiencies and make the links between different public sector providers.

We recommend that the following elements of JCP be devolved to any City Region, County or individual Local Authority who is willing to take them on:

- **The DEL Budget:** the total amount spent on running the JCP in a local area should be devolved for the remaining financial years during this Spending Review period. This would include an allocation of the paybill that covers employment support, a portion of the Flexible Support Fund, and potentially control over the leases of DWP properties, including unoccupied estates. The final amount devolved could be calculated by looking at the average amount spent by the area (for example Greater Manchester or the North East City Region) over the previous 5 years. Central Government would still retain control of the benefit payment systems, as well as the back office functions that administer them. Additional resources would be provided by central Government in the event of a recession and subsequent spike in unemployment, if required.
- **Other employment-related funding:** in addition to the DEL budget, all other employment-related funding that goes through the JCP could be devolved. For example, funding from the European Social Fund (ESF), the New Enterprise Allowance (NEA), Troubled Families Budget, and the Work and Health Fund (from 2017). With this single pot, local places can then decide for themselves how to deploy it.

There are a number of ways in which local places could use their operational and budgetary control of JCP to innovate and transform their public services. Ultimately, it will be up to them to decide how they go about delivering differently, drawing on some the principles and case studies covered in this report. However, we have set out below some areas where possible changes could spur innovation and better outcomes:

Better Workforce Planning: One of the primary benefits of local budgetary control is that it will give local authorities much greater flexibility over how they choose to deploy their Human Resources budget to meet their local labour market needs. Free from central Government control, they could decide to invest in a smaller but better paid and more highly-skilled workforce. They would be able to increase basic pay scales in order to recruit experienced specialists from the private sector (in mental health for example) or attract workers with strong interpersonal skills from other parts of the public sector (such as teachers, members of the armed forces, nurses or carers). Individual managers could reward the highest performing advisors with significant pay increases, above the national average. Additional capability to record, measure and evaluate the impact of devolved control for employment support might also be needed. The Centre could then set standards on the type, quantity and quality of data that the JCP would collect as part of running the service.

Local areas would then be able to reorganise their workforce so that they can properly tackle the biggest costs in their local welfare system. For example by increasing the number of ESA employment advisors and reducing the number of JSA advisors – something that might be easier once the administration of benefits is moved online through Universal Credit. They would also be in a better position to pull resources in areas where the claimant count has dropped significantly and re-prioritise them to areas with high levels of long-term unemployment.

Self-Management: Full operational control will allow the JCP to change the way it manages its caseload of claimants. A smaller but more capable JCP will be better able to triage claimants and offer more flexibility in the length and frequency that they sign-on for benefits. Given the wide variety of needs within the claimant mix, greater flexibility over the management of the caseload should free up resources to tackle the hardest to help and those at risk of long-term unemployment. An advisor may decide, for example, that 40% off her caseload does not need to sign on weekly, fortnightly or even monthly, leaving her more time dedicated to helping those who require more intensive support. Ultimately this may allow for the kind of time-rich, future-orientated service that can help to find sustainable work for those claimants who might not otherwise come off benefits. For example, an earlier test on longer job search interviews in the JCP that asked claimants to ‘verbalise what you are going to do, come back two weeks later and discuss whether you have done it or change your objectives, go out and do it again’,¹⁴¹ showed promising early results in increasing off-flows from benefit after 13 weeks.

The Delivery Culture: Once devolved, JCP will be able to experiment with new ways of administering and delivering employment support. Although there is some flexibility to deliver bespoke services already, the integration and sequencing of support should at least be greatly improved: the JCP will be in a better position to develop links with other public sector providers ensuring claimants are getting access to the service they need the most, first. For example, a person who visits their local authority with a housing issue might get redirected to the JCP (and vice versa), or a new JSA claimant might instantly get redirected to a mental health provider or debt advice service. It also provides the opportunity to align employment support

141 House of Commons Work and Pensions Select Committee, *The role of jobcentre plus in the reformed welfare system*, 20 January 2014

with the other areas of expenditure, like the adult skills budget, breaking down the siloed provision of services that leads to waste and duplication.

Local places may even decide to break up different parts of the JCP in order to provide a dedicated and personalised service for certain cohorts. In Ipswich, for example, the local council, a private provider and national charity have come together to create a separate employment centre – ‘MyGo’ – for young people, recognising their unique position in the labour market and the damaging consequences for young people not in work, education or training at a critical stage in their early adult life. Alternatively, they might decide to group together claimants with a particular issue, like mental health, and commission specialist local providers to provide them with tailored employment-related support.

Employment Support Allowance

Employment Support Allowance (ESA) was introduced in October 2008 to replace Incapacity Benefit (IB) and Income Support (IS). It provides financial support for people who are incapable of working for health-related reasons. To be eligible for ESA, claimants have to undergo a Work Capability Assessment (WCA) within the first 13 weeks of a claim to determine if they have limited capability to work, and whether they can engage in work-related activity.¹⁴² People already claiming incapacity benefits (IB and IS) also undergo a WCA as they migrate off the old benefits and onto ESA. The assessment determines whether claimants are fit to work (and subsequently have to claim Jobseekers’ Allowance, a lower level of financial support for being out of work), or placed in the Work Related Activity Group (WRAG) or Support Group. Access to full benefits for people in the WRAG group is conditional on having a Work-Focused Interview with the Jobcentre (usually twice a year) but they do not have to apply for jobs or be available for work.¹⁴³ People in the Support Group are entitled to the full benefit with no conditionality and receive no employment related support.

ESA was meant to be a radical reform of incapacity benefits giving extra support to help people into work. But although it simplified the payment scheme, and removed some of the perverse financial incentives to stay on the benefit, it has not achieved its original aim. The overall caseload is around 2.4 million and 1.3 million (54%) are in the support group. One in 16 working-age people claim incapacity-related benefits (compared to one in 14 in 2008); almost half of the caseload (45%) has claimed ESA for more than two years; and in excess of 100,000 people have claimed for more than five years.¹⁴⁴ Furthermore, while the full migration of people claiming IB was expected by 2014, around 133,000 people are still claiming the benefit.¹⁴⁵

What are the problems?

ESA is clearly in need of some reform. Providing full financial support for people incapable of working is an essential component of our modern welfare system. However there are some people claiming ESA who both want to work and are capable of doing so. The current system is letting them down. Part of the problem is that the centralised, top-down design of ESA has inhibited a more innovative approach to employment support.

142 House of Commons Library Research Briefing, Employment and Support Allowance: An Introduction, September 2015

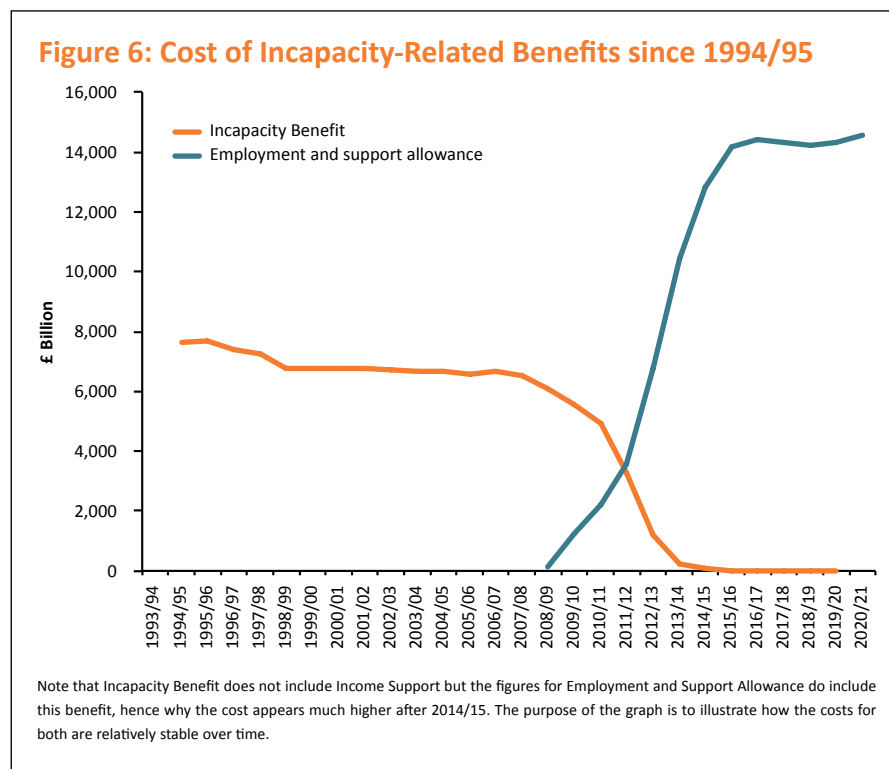
143 Ibid.

144 Reform, Employment Support Allowance: the Case for Change, December 2015

145 Department for Work and Pensions Benefit Expenditure and Caseload Tables, Autumn Statement 2015

Protecting costs: from a financial perspective, ESA is a good illustration of how top-down budgeting can protect the costs of social problems. Remember that the current budgeting process means that large chunks of departmental spending are not determined on the basis of need but instead by what is left over after a swathe of other political commitments have been made.¹⁴⁶ In this environment, the main concern for the Treasury is to control Total Managed Expenditure (£734.4 billion in 2014-15)¹⁴⁷ in line with the Government’s original plans – something that it has done very well over recent decades.¹⁴⁸ In this type of budgeting environment, costs to the Exchequer that are both relatively stable and predictable – like incapacity related benefits – are extremely useful to a Treasury trying to deliver planned spending outturns. Figure 6 below, shows how the cost of incapacity-related benefits have remained (and are forecast to remain) relatively stable over time, even after the full transition of existing claimants to ESA. The annual spend on Incapacity Benefit did not vary by more than around £1 billion before its replacement, Employment Support Allowance, was introduced. For these reasons, it is easy to understand why the Treasury has viewed expenditure on incapacity benefits as somewhat of a sunk cost.

Figure 6: Cost of Incapacity-Related Benefits since 1994/95



146 NESTA, The End of the Treasury: breaking up the UK’s finance ministry, September 2014

147 Institute for Fiscal Studies, Total UK Spending, 28 September 2015

148 NESTA, The End of the Treasury: breaking up the UK’s finance ministry, September 2014

149 Learning and Work Institute, Halving the Disability Employment Gap, May 2016

This sunk costs issue helps to explain why the ratio of spending on incapacity-related benefits to employment-related support for this cohort remains so low. It is obvious enough that helping people with health problems get back into work will cost money but given the historically low rate of off-flow, there has been a degree of Government scepticism about the costs and benefits of investing in new programmes that try to reduce the caseload.

It is estimated that the Government has spent around £450 million on Work Choice, a programme providing support for around 95,000 people with barriers to work from disabilities or long-term health conditions.¹⁴⁹ Most of these referrals

were however for people claiming JSA, not ESA, reflecting the higher levels of support needed even within the Government's mainstream employment benefit. In the period since Work Choice began (2010/11), out of 121,700 referrals 49,510 of these were JSA, and only 9,980 were people claiming ESA or IB.¹⁵⁰

A new Work and Health Programme will replace the Work Programme and Work Choice from 2017. Around £130 million per annum has been allocated to the programme but to put that in perspective, the combined lifetime cost of the Work Programme and Work Choice is £3.25 billion. A further £40 million has been earmarked as an innovation fund to 'pilot' new ways of joining up health and employment.¹⁵¹ However, based on the previous costs of these programmes, £260 million over 2 years might only be enough to help around 52,000 people back into work.¹⁵² And even then, given the high number of JSA referrals for Work Choice, we should not expect this money to make a significant dent in the number of people claiming incapacity-related benefits.

A complicated approach to a complex problem: helping people with health related problems or a disability back into work is not easy. It is a complex problem. There is a lot of uncertainty about the actions required and there will inevitably be variations in what a good outcome looks like.

Successive Governments have however used management methods more suitable to a 'complicated' problem rather than a complex one like disability benefits.¹⁵³ It has tried to address the issue by breaking it down into individual pieces, separating for example the ESA caseload into different segments according to a centrally determined set of 'descriptors' (criteria used to determine if someone has the capability to work), from which the DWP can then calculate how much benefit a person will receive. Inevitably, the whole segmentation process has become too simplistic:

- Some claimants, for example, may be found fit for work but still believe they are incapable of working. When they return to the Jobcentre to claim JSA, there is no guarantee in this situation that they will receive the level of support (employment or otherwise) that they might need and are potentially at risk of becoming long-term unemployed.
- People put into the WRAG group may have no likely prospect of ever returning to work as their illness or disability may deteriorate. These people are subject to some conditionality and employment-related support, potentially taking resources away from others who have a more realistic chance of going back to work.
- Some claimants will be put into the Support Group but have a reasonable chance of returning to work in the future. These people will not be subject to conditionality or any employment-related support. This may make it more difficult for them to find work when they are in a fit state to do so.

While we can expect the re-assessment process (claimants are reassessed on a regular basis to ensure that the support they are receiving is sufficient) to spot some of these issues the overall low rates of off-flow gives reason to think that the system is ineffective in properly aligning the assessment process with suitable types of support. Indeed, the whole premise of the WCA seems to have been that

150 DWP, Work Choice, Official Statistics, February 2016. These figures do not include Access to work or the Fit for Work Service

151 HM Treasury, Spending Review 2015, November 2015

152 Based on the assumption that it costs around £5,000 to help someone back into work

153 The difference between a complicated and complex problem was described in Part 1

if we could simply assess and categorise people more effectively then that itself might lead to a reduction in the caseload.

Moreover, the Work Capability Assessment is obsessively medical and compliance-focused. It involves an arbitrary point-scoring system to reach decisions on fitness for work and involves a checklist of descriptors that can give a false impression of scientific validity to the process.¹⁵⁴ While the WCA captures expert consensus in a form that can be applied consistently across large numbers of people to determine a person's health condition, it inhibits the forward-looking and open conversations about what types of employment claimants might be able to take up, the level of support they might need to reach this stage, and their own willingness to do it. It ultimately conflates institutional needs (categorising people to pay benefits) with individual needs (the financial or employment-related support they need) with the later being compromised.

Whitehall still thinks it knows best: the Government wants to halve the disability employment gap over the course of this Parliament. This is the difference between the employment rate of people with a work-limiting health condition or disability and the rest of the working age population. Halving that would mean helping around 1.2 million people with health-related conditions back into work. From 2017, the Government will use the Work and Health Programme to try and close that gap but in the interim, a £40 million Work and Health Innovation fund will 'pilot' new ways to join up employment and health systems. The aim is to create evidence about what works in this area ahead of the national rollout of the full scheme. Again, it seems that conventional wisdom in Government is that there is a specific formula or intervention in health and employment systems that can produce the desired outcome and then be replicated nationwide. This is clearly not the case. What works in one place might not necessarily work elsewhere.

Reforming Employment Support Allowance through a Delivering Differently lens
There is a strong case to be made for taking a different approach to Employment Support Allowance, using innovative and local-led approaches. Clearly, the constraints on the public finances put a ceiling on what might be achieved over the next few years, with investment in employment support already scaled back and the DWP expected to make significant efficiency savings. However, if the Government were to adopt a longer time horizon for accounting and accept higher short-term costs in view of their lifetime benefit, then some considerable progress might be possible.

A different budgeting environment would be open to innovative financing methods like 'investing to save', which switches resources spent on social failure to investing in success.¹⁵⁵ The central principle behind invest to save is to allocate future AME spend to today's employment support programmes on the basis of future savings that will be achieved in that budget.¹⁵⁶ If you spent £5,000 to support an ESA claimant into work, for example, then the annual cost would be around £11,000,¹⁵⁷ but over the next five years the Government would get back around £32,000 in financial savings.¹⁵⁸ In other words, supporting people back into work can be cost effective if a longer-term view is taken: it both brings down the benefits bill and increases tax returns to the Exchequer. The Treasury however remains sceptical of hypothecating funds in this way as they want

154 Dr Paul Litchfield, an Independent Review of the Work Capability Assessment, Year 4, December 2013

155 Kris Krasnowski, Overcoming Whitehall's Orthodoxy: Investing to save, the Reformer's blog, December 2015

156 George Selmer, Whatever happened to DEL and AME, November 2015

157 Based on the assumption that ESA claimant costs the state around £6,000 per year in benefits

158 Calculations based on the Unit Cost Database provided by New Economy

concrete evidence that what they are investing in will work and that the savings are cashable.

The devolution agenda however presents an opportunity to experiment with the ‘invest to save’ model, particularly with non-cyclical benefits like ESA. Experimenting with this financing method on a small-scale in a local area first significantly reduces the potential financial costs from failure. It will also create observable evidence about what types of employment support are conducive to sustainable employment outcomes that reduce the size of the AME budget and result in cashable savings for the Treasury. Furthermore, there are good reasons to think that local places will be much better placed than Whitehall to deliver a more effective programme of employment support by joining up different services and utilising existing networks of support.

Devolving Employment Support Allowance – how might it work?

We recommend that the Government considers entering an ‘invest to save’ deal for ESA claimants with any City Region, County, or individual Local Authority that is receptive to the idea. The exact terms of the agreement would be negotiated between Central and Local Government but the contours of the deal might resemble the following:

The Treasury would ring-fence a Local Authorities’ estimated future expenditure on ESA, perhaps up to the value of one financial year. This pot of money would then be devolved to the area as a lump sum to fund employment support programmes for ESA claimants. The exact amount devolved might be calculated using an average derived from the amount spent over the previous five years, as well as the estimated caseload up until 2020/21. The fund would only cover expenditure paid to claimants in the work-related-activity group (WRAG), given that people in this cohort are the most likely to return to full employment.

To allay the Treasury’s concerns about any deadweight loss (where the Government is paying for off-flows that might reasonably have been expected to occur without employment support), the level of the fund might be reduced in proportion to the average rate of off-flow over a typical year. For example, if the average annual cost of ESA for WRAG claimants in the North East Combined Authority (NECA) region is £104 million; the average historical off-flow rate is around 2,600 per year; and the average cost of an ESA claimant per year is £5,200 then the final amount devolved will be lower, at around £90.5 million. The Government might want to reduce the budget still further, based on the assumption that not everyone who receives support will find sustainable employment. The eventual amount reduced could be based on the success rate of previous programmes.

The link between the employment support provided, the employment outcomes achieved and its impact on the local benefit caseload will be measured and tracked by local places themselves which, further down the line, will allow the Treasury to ascertain the cost savings from the programme in the AME budget with a view to either lowering the areas resource budget or increasing the budget for another local service, in proportion to cost savings made in the caseload. As an example, if NECA spent £90 million and helped around 9,000 ESA claimants into work then the amount saved for the Treasury in ESA payments over the next five years would be around £235 million.

Once the ESA budget has been devolved, local places should be given full operational autonomy over how they decide to spend it. They might consider the following approaches.

- Local Authorities could decide to carry out their own assessments and work-focused interviews. These might be less compliance-focused and involve a longer, open-ended discussion about the types of jobs claimants might be able to do and what level of support they might benefit from.
- They could segment claimants based on their own estimations of how far they are from the labour market and use this to commission more personally tailored employment support from private or third sector providers.
- Alternatively they could hand over a large portion of the budget to a network of charities and civil society groups with an expertise in health and disability who would be responsible for helping a certain cohort of the caseload find sustainable work.
- They might decide to invest in a large number of new ESA employment advisors, increasing the base pay to attract more talented specialists and offer larger financial incentives for advisors who are successful in finding claimants long-term and stable jobs.