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# localist papers

5. Local Welfare



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Direct Democracy is a group of 38 Conservative MPs, MEPs, MSPs and activists dedicated to the principles of localism and the devolution of power. The Localist Papers are an examination of how these principles might apply to specific fields of policy. They are not manifestoes, and not all our supporters endorse them in full. Rather, they explore some possible ways in which power could be shifted from the bureaucracy of the central state to local communities and individual citizens.

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# The Localist Papers

## 5 Local Welfare

### 1 Summary

The welfare state is not working. Billions of pounds are spent each year on supporting millions of people, yet rather than alleviating poverty that money is helping to sustain it. More than 50 years after the introduction of universal welfare provision, today more households depend on some form of welfare than at any time in our history.

The problem is that the British welfare system, built on the model of universal provision, is highly centralised, and presided over by remote technocrats. There is little scope for pluralism, or innovation, and almost no pressure to seek better ways of alleviating poverty.

Both Labour and Conservative governments have tried their hand at welfare reform, but none of the steps they have introduced has significantly cut levels of welfare dependency. This is because the one policy change they have not tried has been to devolve control over welfare from central to local government – a change which when implemented overseas has reduced both poverty and welfare spending.

It is time to break with the principle of universal provision, and to localise control over welfare. This would involve:

- Replacing the principle of universal provision, on which the welfare state was founded, with the principle of localised welfare provision.
- Providing welfare and social security budgets not through national agencies (as at present) but through local county and metropolitan authorities.
- Transferring control and accountability for how welfare is provided within the communities they serve to locally elected councillors.
- Enabling local, not central, authorities to commission charities and other bodies for welfare work.
- Enabling and encouraging different town halls to offer different levels of welfare support, using variable criteria for assessing need.

### 2 Introduction

A decade ago, Bill Clinton signed into law perhaps the single most successful piece of legislation in recent political history – Workfare. This approach to welfare sought to end the dependency culture by forcing the able-bodied back into employment. Despite forecasts of doom, it was a resounding success – the number of families on welfare in the US has since tumbled by 60%, from five million to two million families, with those millions moving not into penury but into the workforce and onto the ladder towards prosperity.

Yet the key to Workfare was that it was not a central-government measure. Instead, it freed the states to experiment – as many had already begun to – with their own models of welfare. Suddenly, local politicians were free to adjust welfare spending and policies to local needs, with their hands constrained only by market forces: if they were excessively generous with their spending, those with no desire for employment might migrate from other states.

Workfare was in the finest traditions of localism.<sup>1</sup> But it was also in the finest traditions of how welfare used to work in this country – not blanket state coverage of the deserving and undeserving alike, but compassionate local initiatives based on unique knowledge of circumstances and character.

Now, sadly, Britain's swaddling welfare state is keeping millions in dependency and poverty. Although unemployment has fallen consistently since the Thatcher revolution, the number of those claiming incapacity benefit has soared far beyond any medically probable level. The culprit is uncaring, inflexible universal welfare provision.

Localist principles can be applied to welfare provision in this country. And the case for

their implementation is moral as much as political: after decades of universal welfare provision, we have become so used to the notion that a remote agency is responsible for welfare, that we rarely ask how poverty can be alleviated.

If we embrace localism, that mindset would be laid to rest.

### The purpose of welfare

The purpose of welfare should be to provide for those in need who are unable to provide for themselves. It should do so in a way that encourages those who might be able to contribute towards their own wellbeing to do so.

Almost by definition, any successful welfare system demands a way of assessing need and of gauging the personal circumstances of different individuals. Who is needy? How much might one individual be expected to contribute towards their own support? And for how long?

Trying to devise a single universal scheme that can take into account such details will always be difficult. Yet this is precisely what the founder of the post-war welfare state, William Beveridge recommended in his report of 1942.

It is this principle of universal provision, on which the British welfare state was founded, that needs to change. There is overwhelming evidence from both Europe and the US that localised provision – allowing as it does pluralism, innovation and accountability – works better than centralised welfare.

A universalised system will by necessity be centralised. It will mean a uniformity of provision, which evidence from overseas suggests is a key obstacle to effective welfare provision.

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<sup>1</sup> See *Direct Democracy: An Agenda for a New Model Party*, 2005, which set out a plan for the decentralisation of power in the UK.

### 3 Lessons from the US

Decentralised welfare provision works. The federal welfare law introduced in 1996 (the Personal Responsibility and Work Opportunity Act, more popularly known as “Workfare”) sparked an amazing revolution in welfare policy. Rather than simply handing recipients their money, this reform devolved the administration of welfare. A rigid federal programme that state governments were forced to implement was replaced with one which empowered states to create their own programmes, rules and goals. It was tantamount to taking the current British welfare system and giving individual councils the right to tailor benefits to individual needs in their respective communities.

Those opposed to the 1996 US reforms, among whom liberal groups were the most vocal, decried it as “the most brutal act of social policy since Reconstruction [in the wake of the US Civil War]”.<sup>2</sup> They predicted that it would lead to a spike in poverty and destitution, as state governments competed to be the stingiest and drive welfare recipients into other states, in a “race to the bottom”.

Instead, the reforms enabled state governments to bring down child poverty by 1.6 million and to reduce welfare caseloads by half (2.41 million).<sup>3</sup> This was remarkable. But it was not all that the reform did. Black children are one of the most disadvantaged segments of the American population. Previously untouched by welfare programmes, welfare reform dropped the poverty rate among them from 41.5% in 1995 to 32.9% in 2004. During the same

period, the poverty rate for children of single mothers fell from 50.3% to 41.9%.

But the aggregate figures do not explain what happened in the US. Instead, we should look at the states themselves, especially those with the most innovative reforms. The stories of Wisconsin and Florida provide powerful lessons for the UK – and point to how localism and local accountability can transform welfare in the UK, for the benefit of all.

**“Reforms have enabled state governments to bring down child poverty by 1.6 million and reduce welfare caseloads by half.”**

#### Wisconsin

One of the reasons the 1996 reforms came about was because of positive pressure: a handful of states had already developed pilot projects on welfare reform, which were reaping impressive rewards. Arguably the most successful of these initiatives – and certainly a driving force for the campaign to devolve control of welfare to the states – took place in Wisconsin. It is a prime example of why welfare should not only be implemented but also be designed by local government.

Wisconsin’s reforms began in the late 1980s, and at first could only be carried out under a series of special waivers from federal government. They included programmes to get most capable welfare claimants off benefits and into the workforce as soon as possible.

Under the “W-2” system (“Wisconsin Works”), brought in after the 1996 legislation, welfare recipients were individually evaluated to measure their employability. In each

<sup>2</sup> Cited in Arianna Huffington, *Where Liberals Fear to Tread*, 26 August 26 1996, at <http://ariannaonline.huffingtonpost.com/columns/column.php?id=659>

<sup>3</sup> R Rector, “The Impact of Welfare Reform”, Testimony before the Committee on Ways and Means, United States House of Representatives. 19 July 2006, <http://www.heritage.org/Research/Welfare/tst071906a.cfm>

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category, recipients were held accountable for their performance; if they failed to complete their required activities – for example, failing to show up to work – they faced warnings and financial penalties. An appeal process was also put in place to avoid abuse of the system by both recipients and caseworkers. Rather than objecting to this raised level of responsibility and accountability, a large number of recipients liked the system, reporting increased self-esteem and hopefulness for the future.

**“In Florida, both welfare policy and administration were devolved to local boards – and almost every region met or exceeded its targets of getting people back to work.”**

The Wisconsin reforms also recognised that bureaucracies as well as recipients can be a hurdle to welfare reform. “Pay for Performance” made regional offices accountable for their efforts. No longer would counties be allocated a set amount of funding for welfare services – instead, they would be required to ‘earn’ those funds by increasing the number of recipients placed in jobs or community-service work. This regime also introduced competition, opening welfare contracts up to private providers alongside public ones. Incentivised under this programme, inner-city Milwaukee caseworkers increased job placements by 30%.

Between 1987 and 1997, as its experiments began to flourish, Wisconsin saw its welfare caseloads drop by almost 70% between 1987 and 1997, at a time when caseloads in the rest of the country were rising steeply.<sup>4</sup> By 2004

almost 67% of Wisconsin welfare recipients were working.<sup>5</sup> And the state did not deport the unemployed: it spent 45% more per family, finding them jobs, self-respect and a sense of personal empowerment.<sup>6</sup> Improvement in Wisconsin’s employment record was not a flash in the pan.

### Florida

Perhaps the most dynamic of any of the American welfare reforms took place in Florida. This state did not use its authority merely to tweak the old system – it introduced an entirely new social contract for the poor. While the Florida reform reflected major US trends in welfare reform (including time limits on benefits and work requirements), its major contribution to welfare policy was its emphasis on local control and local accountability.

The policymakers there understood that a top-down approach does not work: one size does not fit all; policies designed to help those in tourism-based economies like Miami will not work for those living in small agricultural towns like Immokalee. So Florida created 24 regional boards empowered not only to develop their own strategies, but also to execute welfare services in their local regions.

This devolved not only the policy of welfare but also its administration to local boards. The only unifying requirement among the regions was that each region must meet a core set of programme goals. A testament to benefits of devolution is that almost every region met or exceeded almost every target. To protect the poor, those regions that failed to make the goals were put on administrative watch until they improved.

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<sup>4</sup> R Rector, “Wisconsin’s Welfare Miracle”. *Policy Review*, Hoover Institute, March and April 1997.

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<sup>5</sup> J Zeigler, “Implementing Welfare Reform: A State Report Card”, Cato Institute. Policy Analysis no. 529, October 2004.

<sup>6</sup> A Sherman, “Milwaukee After W-2. Published in *Ending Dependency: Lessons from Welfare Reform in the USA*, Civitas, 2001.



## Why it worked

By devolving control over how welfare was distributed, the federal reform law allowed states to introduce their own incentives, partnerships with businesses and charities and their own penalties. It worked, and worked well. Due to its success, some states have devolved further, moving welfare to the municipal level.

Those sceptical about applying US policies in the UK like to say that the two countries are not comparable – given their size, US states are not the same as British county councils. However, this discounts the lessons learned from both Wisconsin and Florida. Both states devolved power to those closest to welfare claimants. Regional boards (with populations roughly equivalent in size to county councils) were created in Florida and given autonomy to create their own programmes. Meanwhile, Wisconsin gave caseworkers more control over how much assistance claimants needed.

Both Wisconsin and Florida embraced localism and reaped significant rewards. It would be foolhardy and insular to dismiss these successes as peculiar to the US. Indeed, the benefits of the 1996 federal welfare law did not come from factors unique to America: moving from central to local government reaps advantages of proximity, pluralism and reduced bureaucracy, as well as aligning assistance to local needs.

For example, one of the greatest criticisms of welfare is fraud and abuse of the system. This leads to a perception that benefit claimants are lazy cheats and caseworkers are hopeless bureaucrats – a perception which is only reinforced by the Government's announcement that fraud and error cost UK taxpayers £2.6 billion in 2006.

But issues of fraud and error are systematic to large, faceless bureaucracies. It is easier to play "the system" when it is so far removed from those who contribute to the funding. This has some unintended consequences: when the Government ran an advertising campaign to tackle benefit fraud in the

North East, fraud shot through the roof. People perceived benefit fraud as easier to commit – you weren't cheating the system, but getting what everyone else was taking. Benefits, in other words, were no longer seen as a tool of rehabilitative social policy, but as an entitlement. Reporting benefit fraud is much more likely if people associate their neighbour's abuse of benefits with money taken directly from their own pocket. This perception of theft is lost when fraud is a national problem rather than a local one.

Then there is the simple fact that people are more prone to error when working in large institutions. Things get lost, overlooked or neglected when dealing with large groups rather than individuals. And it appears to be such failures of the system rather than criminality which is the main problem – of the Government's £2.6 billion estimate for fraud and error, the overwhelming majority was the latter.

Accountability and careful execution require proximity. Working in small groups makes problems easier to see and the solutions easier to find. It reduces unintended consequences, enabling caseworkers to tailor programmes for the specific needs of claimants, and prevents abusers from exploiting loopholes that enable them to play the system.

Proximity also encourages involvement from the community. Rather than donating a lump sum that is added to Whitehall's coffers, communities can see the direct benefits of their contributions when given locally. As Florida found, business is more willing to get involved in helping people get back to work when it knows it is helping its own region. For moral as well as political reasons of corporate social responsibility, helping local communities is much more rewarding than contributing to the national system.

Devolution also encourages experimentation. One of America's greatest resources is its policy innovation. States compete against one another for the privilege to tax their citizens. This competition, coupled with devolution, encourages policy experimentation. Given

that they are nicknamed “the laboratories of democracy”, it should not be so surprising that welfare reform was so successful when handed over to the states. Those policies that worked – such as Wisconsin’s – could then be used as a template in other states.

## 4 Lessons from closer to home

There are also plenty of countries here in Europe – as well as our own past – which can provide lessons on how to reduce unemployment and its related social illnesses.

### Switzerland

Switzerland offers a unique case study of the devolution of welfare. The country boasts one of the lowest levels of unemployment in the world, of just 3.3%. However, when broken down, this number becomes rather puzzling: the unemployment rate for non-Swiss is significantly higher than for Swiss citizens.

The reasons for this imbalance can be found in how each of these groups is served. Unemployed Swiss citizens have welfare provided by their “commune”, while non-Swiss citizens are cared for by their “canton” – a significantly larger unit. It is not that unemployed EU citizens are flocking to Switzerland, but that local government is much more effective in the development and execution of welfare. In a country of 26 cantons, a non-Swiss national can easily become lost in the system, turning into a nameless welfare claimant. Meanwhile, it is more difficult to play the welfare system of one of Switzerland’s communes, of which there are more than 3,000: both fellow residents and the caseworkers themselves will be better able to spot failures in the system, and to assist those in need.

### France

While France’s unemployment rate hovers around 9%, joblessness among the young is overwhelming. Almost 25% of those under the age of 25 are unemployed.<sup>7</sup> The most disadvantaged are arguably those in the immigrant neighbourhoods of Paris, where unemployment tops 60%, and whose discontent was broadcast around the world during the riots of November 2005.<sup>8</sup>

The level of welfare assistance in France is significant. A typical low-income family of four has much of its rent subsidised by the French Government, and can receive more than £600 a month in welfare benefits. The unemployed receive even more. However, handouts are not enough – even for those who are the most disadvantaged.

The French Government is a behemoth – a centrally-run bureaucratic machine. It provides its citizens with universal healthcare, generous pensions and substantial poverty assistance. But these benefits come at a price: high unemployment. The riots made clear that people are not happy on unemployment benefit, but want an opportunity to become self-sufficient. The question is, who is better placed to help them find those jobs: cumbersome central government, or flexible and responsive local programmes?

### Who learned from whom?

The Swiss and the Americans were not the first to treat poverty locally. For most of British history, this was the policy of the UK. In 1388, Richard II ordered that the destitute stay in their own locality. This sense of containing poverty to localities was reinforced throughout Tudor times; laws restricted begging to geographical areas and required

<sup>7</sup> M Dettmer and S Simons, “Jobless Youth: Riots in France and Quiet Debate in Germany”, *Der Spiegel*, 28 March 2006.

<sup>8</sup> M Tanner, “Welfare Lessons From France.” *Washington Times*, 15 November 2005.

those out of work to return to the locality where they were known best.

It wasn't until the Poor Law Act in 1601 that poverty was moved beyond a societal problem and became a social responsibility. Local Parish Committees were appointed to ensure the poor and the needy were assisted – although this was as much to deter vagrants as for the direct benefit of the impoverished.

Perhaps a better model comes from the friendly societies, recognised by Parliament in 1793.<sup>9</sup> These were self-governing and self-funding mutual benefit associations, created as a safety-net for manual workers. Societies determined how much members should contribute, who would receive benefits and how much they would receive. Some provided illness benefits, others did not. This provided an extremely efficient social safety net for manual workers and their families, despite the pressure of the Industrial Revolution.

This localised approach to welfare, with its emphasis on flexibility and voluntary membership, was swept away by the 1911 introduction of the National Insurance Act, a change reinforced by the Beveridge Report. The centralisation of welfare has, despite astonishing rises in economic prosperity and living standards, created its own problem of dependency: over the last 10 years, 2.9 million new jobs have been created, and Labour has pumped resources into the “New Deal”, yet the rate of unemployment among 18-24 year olds is 70,000 people higher than it was in 1997. Something is not working, at least for some.

## **5 Labour's welfare reforms and the role of charities**

It is clear that problems with the tax and benefits system generate disincentives to work, and that the situation is getting worse thanks to Gordon Brown's reliance on means-testing. According to the Institute for Fiscal Studies:<sup>10</sup>

“...changes to income tax, employee National Insurance contributions, council tax, tax credits and benefits alone strengthened work incentives on average under the Conservatives and have weakened them under Labour.”

**“The centralisation of welfare has, despite astonishing rises in prosperity and living standards, created its own problem of dependency.”**

However, this doesn't tell the whole story. The expansion of tax credits, for example, has focused on households with dependent children; much less generosity has been shown to working age households without dependent children. Indeed, among the latter, poverty, as officially defined, is now not only increasing in relative terms, but in absolute terms too.<sup>11</sup> For this group, unemployment is certainly not being compensated for by increases in levels of benefits; so what is keeping them out of gainful employment?

A large part of the answer lies in the wide range of personal obstacles experienced by those of a working age, but out of work. These include

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<sup>9</sup> D Green, *Reinventing Civil Society: the Rediscovery of Welfare Without Politics*, IEA, 1993.

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<sup>10</sup> Joseph Rowntree Foundation, *The poverty trade-off: work incentives and income redistribution in Britain*, September 2006.

<sup>11</sup> John Hutton, Hansard, Col 20WS, 23 April 2007.

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genuine disabilities and illness, behavioural issues such as substance addiction, and a lack of skills and experience in the jobs market. The Government's Welfare Reform Bill was introduced to tackle these issues with the specific objective of reducing the incapacity benefit count – Britain's hidden reserve of long-term unemployment.

However, the state is not particularly well placed to tackle the many and complex issues individuals face in getting back to work. As documented by the Social Justice Policy Group, voluntary organisations are more suited to the very personal approach required to overcome the underlying causes of joblessness.<sup>12</sup> Ministers readily acknowledge the potential of the voluntary sector in delivering Government programmes, and gave the role of employment charities a specific mention in the Welfare Reform Act.<sup>13</sup>

Can we therefore expect a radical decentralisation of the welfare system, and a devolution of decision-making power to charities? No – because although the government is opening up employment services and other public programmes to providers from outside the public sector, they are simultaneously centralising control over the commissioning of such services.

Examples of the new centralisation can be found in the Offender Management Bill and the Freud Report on the Government's "welfare to work" strategy.<sup>14</sup> The following comment by William Higham of the Prison Reform Trust is typical of the concerns of small charities:<sup>15</sup>

"It's one thing to go after a vibrant, mixed economy, it's another to structure it in such a way that only certain people can compete on an even playing field. Regional commissioning is appropriate for some services, but the bulk of work is very local in nature and anything that would risk squeezing out the small charities and community groups has to be guarded against."

With good reason, the Government prefers to work with innovative providers from the private and voluntary sectors, rather than union-dominated statutory bodies. However, the suspicion must be that this is in order to tighten, not loosen, top-down control over public services. Where contracts or grants were once awarded on a local basis, they are being consolidated into much larger area contracts so that the commissioning agency has only a few contractors to deal with.

This approach tends to freeze out smaller, locally-based charities – whose strength and expertise derives from the roots they have in particular communities. Moreover, charities find themselves disadvantaged because, being charities, they can only raise limited amounts of working capital – an essential requirement when late-paying, multi-million-pound contracts impose major cashflow issues on the body providing the services.

In other words, New Labour is restructuring our public services in such a way that only large private companies, such as the likes of Capita, have a chance of participating on something like an equal footing to the state. In such circumstances, charities can only stay involved as sub-contractors, a precarious position where they find themselves dancing to corporate agendas and absorbing the costs of management fees.

So far very few charities have gone public with the concerns they express in private discussion – and for good reason, because they would be punished if they did so. That much was made clear by one of the leading voices in the voluntary sector, Debra Allcock Tyler, of the Directory for Social Change, who said the

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<sup>12</sup> Social Justice Policy Group, *Breakdown Britain – denying the vulnerable a second chance: undervaluing Britain's third sector in the fight against poverty*, December 2006, page 57 to 59.

<sup>13</sup> Ed Miliband MP, keynote address to the ACEVO Summer Forum, 8 June 2006.

<sup>14</sup> D Freud, *Reducing dependency, increasing opportunity: options for the future of welfare to work*, DWP, 2007.

<sup>15</sup> W Higham, *ThirdSector*, Prison Reform Trust, 7 March 2007.

reason charities “don’t shout enough” is that “there are lots of instances in which they do make a noise, but then lose funding”.<sup>16</sup>

For real reform of the systems by which we hope to get people back into work, it is necessary not only to involve a greater range of service providers, but to shake up the commissioning side of the equation too. At the very least, control over the commissioning of employment services should be decentralised to local authority level.

There is, of course, no guarantee that local government will behave with any greater respect toward employment charities than central government. But at least the charities would have a wider choice of public-sector partners. Furthermore, contracts would cover smaller areas, enabling a wider range of charities to participate.

## **6 Reform is within reach**

Welfare reform should not be a debate between Right and Left – it should be a discussion about what works and what doesn’t. It is increasingly clear that turning someone’s life around is a process better undertaken by those in proximity to them, better by local than by central government, and better by charities than by government at all.

Instead of seeing inequalities and poverty as local problems that demand community action to address, we have come to see them as inevitable problems that a distant state needs to address. Indeed, universal – rather than localised – welfare provision has a superficial attraction. We like the idea that everyone in need will be cared for equally. Some might fear that localising control over welfare might automatically mean reducing help available to the needy, and downward pressure on efforts to tackle poverty.

But a centralised system treats people as cogs in a machine, in a top-down system devoid of compassion. Centralised welfare has

robbed local neighbourhoods of any sense of ownership of efforts to help the less fortunate. Leaving it to “they” at the DSS office to help the less fortunate means that “we” do not do something about it.

With remote officialdom responsible, there has been no innovation in terms of provision. The *status quo* fails to take into account the personal circumstances of different individuals. Worse, there is no scope to differentiate between deserving and undeserving cases. Instead, those in genuine need are treated as “scroungers”, while others come to depend on a system that was supposed to help them help themselves.

Localising welfare would change this, striking the right balance between compassion and self-sufficiency. It would, as the example of the US shows, greatly cut the numbers on incapacity and other benefits, without ruining their lives or casting them into misery.

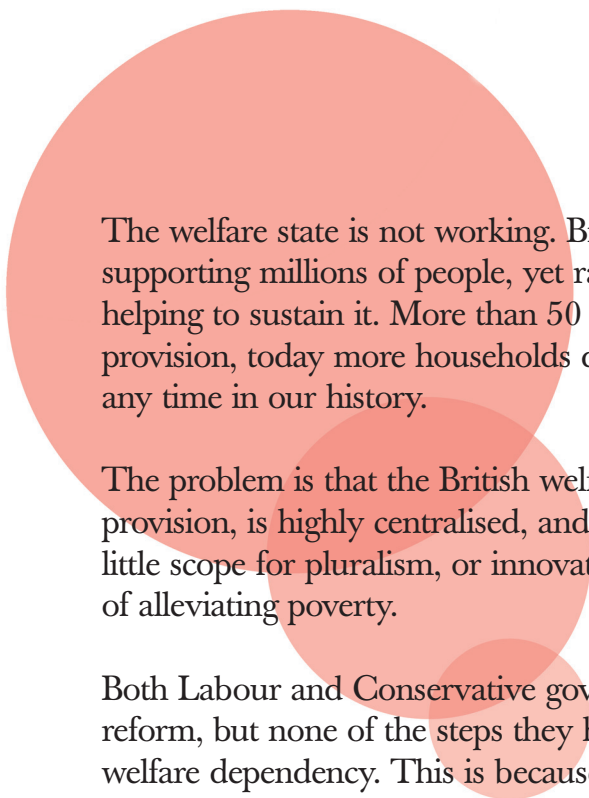
**“Localising welfare would strike the right balance between compassion and self-sufficiency. It would, as the example of the US shows, greatly cut the numbers on incapacity and other benefits, without ruining their lives or casting them into misery.”**

And it would not be hard to do. County councils and metropolitan authorities are already in charge of delivering benefits; they simply have no say over who is entitled to receive them.

Empowering these local communities to take control of their own welfare policies and budgets would require no major structural overhaul, since the system is already in place. Why delay bringing services closer to those they are supposed to serve?

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<sup>16</sup> D Allcock Tyler quoted in *ThirdSector*, 9 May 2007.



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