

Welfare to work devolution – lessons from North America and Europe

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Welfare to work devolution

- UK system in evolution, with increased role of devolved administrations and local government and in England the growing role of LEPs – both evident in the ‘skills and employment’ elements of ‘City Deals’ and ‘Growth Deals’ (e.g., Manchester and London).
- Manifesto commitment (2015) to agree bespoke deals with local areas to devolve powers and budgets to boost local growth (in England). DWP committed to explore feasibility of joint commissioning for next Work Programme contracts with Manchester, London, Sheffield and Leeds.
- Welfare to work devolution is an international trend - frequent reference made to experience of other countries – presentation looks in more detail at four of the most commonly cited – Canada, USA, Netherlands, Germany.

Devolution in the UK

- UK welfare to work policy highly centralised – historical tension between localism and centralisation.
- Some key elements:
 - Central control of uniform national benefit system
 - Standardised delivery of work first stricter benefit regime
 - Central accountability and power of UK executive
 - Scepticism about local capacities and evidence
 - Wary of political/performance variations
- Multiple efforts to give national programmes a local dimension (AMBs, TEC/LECs, New Deal Partnerships)
- Policy flux and increasing ‘ask’ from local government with overlapping responsibilities (regeneration, skills, social exclusion, economic development, etc.)
- Pattern set by LGA/JCP Accord, City Strategy Partnerships and three ‘tiers of devolution.

Types of devolution in OECD countries

- Studies distinguish between three distinct processes (which often co-exist within national delivery systems):
 - **Managerial or administrative decentralisation** - where centralised national agencies give local managers increased operational flexibility in implementing central policy objectives.
 - **Economic decentralisation** - where national or regional agencies contract with private and voluntary sector agencies to deliver employment services previously delivered by the public sector.
 - **Political decentralisation or devolution**, where specified programme or fiscal **policy authority** is transferred to lower tiers of government (regional and/or local), which then play a more central role in welfare to work design, implementation and policy formation.
- Note that local flexibility of the first two often unsatisfactory to other local stakeholders because local priorities subordinate to central government objectives.

Variants in welfare to work devolution

- **Federalism** – where employment and welfare to work policy authority has been devolved to states or provincial governments already responsible for delivery (e.g., Canada and the USA).
- **Municipalisation** - national PES services have been devolved to local government for means-tested social assistance recipients (e.g., the Netherlands, Germany) or more rarely for all jobseekers (e.g., Denmark).
- **Regionalism** - devolution of employment services has been part of a broader shift of powers to regions (e.g. Belgium, Italy, Spain).

Findings from four countries

- Welfare to work devolution different in each country - motivated by a range of factors and implemented within different national traditions and social and economic circumstances (but common factors precipitating reforms - caseload increases and funding crisis).
- Devolution has differed across a number of service delivery/funding dimensions, with variations in devolution of:
 - Insurance based and means-tested social assistance benefits
 - Functions of the Public Employment Service
 - Role of regional and local government
 - Role of employers (corporatist; employer boards)
- Implemented also through varied performance-based agreements and central/local funding models.

Canada and USA

- Canadian devolution:
 - Full devolution of social assistance with only one federal requirement in ‘Canada Social Transfer’
 - National control of redesigned Employment Insurance but negotiated devolution of EI funded employment and training services through long term performance-based inter-governmental agreements.
- U.S. devolution:
 - From ‘waivers’ to full devolution of previously entitlement-based welfare – states receive block grants set at 1996 level which they have to co-finance and ‘maintain effort’; welfare to work delivery systems have to maintain work participation rates.
 - Managed devolution of workforce development funds to state/local employer-led Workforce Investment Boards, mandated to establish ‘one stop services’ (Jobcenters), with three service levels and coordinate 16 ‘mandated’ services (new legislation 2015).

Germany and the Netherlands

- German reforms have concerned both centralisation and decentralisation:
 - National PES responsible for UBI, and centre finances 'basic income' but local government responsible for rent. etc.
 - Now some 320 joint PES-municipal and 110 fully devolved municipal delivery agencies, with degrees of flexibility within national performance system
 - Joint partnership structures – ARGE/Jobcentres
- Netherlands welfare devolution to local government with national PES retained for insured unemployed – requirements on both to cooperate in service delivery. Key features:
 - Work and Income Act, 2004 – funding incentives to reduce benefit receipt both by stronger gatekeeping and 'work first' and 'workfare' strategies.
 - Block grant operates within framework of a national benefit entitlement system (linked to minimum wage).

Netherlands Block Grant

- Budget for welfare block grants calculated annually on basis of independent forecasts of eligible individuals (existing welfare beneficiaries, unemployment trends, and legislative changes).
- Budget is allocated between municipalities according to a regression formula which reflects size of municipality and demographic and labour market characteristics, with some variation for smaller municipalities (for whom reliable data is not available, so previous expenditure level is also used). The formula is updated annually.
- Can retain surplus but strict rules ensure they meet over-spending from their own resources - can return to the Ministry only in exceptional circumstances.
- Combined with a strong cultural commitment to equal access, analysts suggest the system has reaped “the benefits of decentralisation while at the same time ensuring a high degree of similarity in service standards across the country”.

What has been devolved

- Reviews show varying powers devolved in different countries:
 - Ability to design local services or adapt national programmes, rules and target groups to local needs.
 - Organisation of service delivery and recruitment and management of personnel.
 - Contract design and/or subcontracting with providers.
 - Budget Flexibility (e.g., funding from block grants; ability to vire funds between budgets; retention of surpluses; performance penalties and bonuses).
 - Freedom to design benefits (eligibility, amount, delivery)
- Limited empirical research – findings are mixed with reviews indicating the effects of decentralisation shaped by country-specific policy aims, design, and economic/political context.

Devolution Proposals

- Plethora of devolution proposals from local government, stakeholders, think tanks - focus on skills and Work Programme but some more radical envisage elements of the benefit system.
- Apart from advantages for growth, local accountability, coherence and efficiency a central 'ask' is for financing mechanisms that reward local areas from additional tax revenue/benefit savings (e.g., Manchester 'Earn Back'; London Finance Commission, 2013; LGA/*Inclusion*, Devo Manc, Respublica and Devo Met, RSA, 2015).
- Welfare to work devolution can result in improvement, but carries risks and challenges which policy makers have sought to resolve in varied ways.

Challenges of devolution

- **Accountability:** W2W significance requires national frameworks through which to establish central accountability.
 - National objectives often the basis for ***negotiated agreements and targets*** with lower tiers of government.
 - Accountability secured through ***conditional central funding, performance reporting systems, and central or regional scrutiny***.
 - Centre to promote transparency and facilitate/undertake evaluation – requires that ***local actors define clear objectives and measure outcomes in comparable ways***
- These mechanisms help mitigate potential for misaligned or conflicting incentives including pressures to shift costs and resist central reform.

Challenges of devolution

- **Differential management and delivery capacity:** Design of devolution needs to take into account personnel, organisational and fiscal capabilities of regional and local authorities and, at least initially, the centre should facilitate capacity building as in US waivers and Canada LMDAs.
- **Coherence/Fragmentation:** No automatic relationship between devolution and decentralisation and more coherent or integrated service delivery. Need for flexibility in national and local frameworks to foster cooperation among relevant actors and sustained development of more effective inter-agency working:
 - Co-location, one-stop and integrated/coordinated service delivery
 - Partnership agreements, MoU's, service protocols, SLAs

Challenges of devolution

- **Individual equity** - the risk of a 'postcode lottery': Conflict between norm of equal treatment and devolution in W2W services. Key issue is to what extent variety is acceptable and what minimum service standards should be available?
- **Area equity** - design of budgetary mechanisms to ensure resources are commensurate with local levels of unemployment and disadvantage, including income poverty rates. Lessons highlight:
 - Importance of financing systems that balance performance-related incentives and sanctions with necessity for maintaining provision of support for service users, especially in areas with weak labour markets.
 - Funding formulas need to protect against abrupt changes in local allocations, mitigate against any 'race to the bottom' and provide for the impact of 'economic shocks'.

Report reference

- Finn D. (2015) *Welfare to work devolution in England*, Joseph Rowntree Foundation, York, at <http://www.jrf.org.uk/publications/welfare-work-devolution-england>