

# Small State, Big Society

Essays on Reforming the State to Create  
a Stronger Economy and Bigger Society

Edited by Tom Shakespeare

With a Foreword by Dr Anthony Seldon



# About Localis

## Who we are

Localis is an independent non partisan think-tank dedicated to issues related to local government and localism. We carry out innovative research, hold a calendar of events and facilitate an ever growing network of members to stimulate and challenge the current orthodoxy of the governance of the UK.

## Our philosophy

We believe that the primary role of the state should be to reduce the need for the state, by fostering an independent society and a diverse local economy. Local government and citizens need to have a much greater role to achieve a stronger and more independent society, in which there needs to be a closer proximity and visibility between taxes paid and money spent. We also believe in opening up the state monopoly in public services to provide greater choice and personalization.

## What we do

Localis aims to provide a link between local government and the key figures in business, academia, the third sector, parliament and the media. We aim to influence the debate on localism, providing innovative and fresh thinking on all areas which local government is concerned with. We have a broad events programme, including roundtable discussions, publication launches and an extensive party conference programme.

## Find out more

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# Foreword

Dr Anthony Seldon



*Dr Seldon a political historian and commentator on British political leadership as well as on education and contemporary Britain. He is also Master (headmaster) of Wellington College, and was co-founder and first Director of the Institute of Contemporary British History. He is also author or editor of some 25 books, and recently presented a BBC documentary on trust in British politics.*

Historians will look back to 2010 as a low period in British public policy and history. Trust in politicians, while historically low, fell to new depths as a result of the MPs expenses scandal, and the erosion of trust as a result of the way in which public opinion was steamrollered during the Gulf War. Turnout for elections has been falling over many years, and the young in particular are dangerously disconnected from politics and public policy. Despite unprecedented increases in public spending in public services including education and health, the improvements in performance have been strongly contested, and are felt by many to have failed to produce value for money. State schools have certainly improved in Britain since Labour came to power in 1997, but for all the attention from Number 10, and the extra money, the gulf in performance between the state and private sectors has not narrowed but increased. The Blair rallying cry of 1997 that new Labour would build 'world class public services' has failed to transpire. Now the financial crisis means that for the next five years at least, our public services will be experiencing cuts in many key areas. The bounty days are over.

The left wing has a grave problem in responding to the crisis. Their traditional response to everything is 'bigger government, higher public spending', but the economic conditions would not allow for that. The traditional right wing response is to cut funding on public services without being particularly clear or articulate about what would come in its place. New Labour's much vaunted 'third way' trumpeted by Professor Anthony Giddens and others, failed to translate into a clear programme of policy. Deadlock would appear to be today's reality.

Since 1945, the size of the government sector has increased out of all proportions. The post-war Labour government massively extended the welfare state and nationalised significant sections of the economy. When the Conservatives were returned to power in 1951, rather than fulfilling their promise to 'roll back the state' they accepted Labour's *dirigiste* reforms as the new status quo. In

the years that followed, Labour and Conservatives tried to outbid each other in general elections with 'bread and circuses' promises to the electorate as a way of securing election. Ted Heath after 1970, and Mrs Thatcher after 1979, both offered the prospect of reducing the size of the state sector. But under both Prime Ministers, public spending was to increase. The size of the public sector continued to expand, under both Conservative and Labour governments, following Thatcher's fall in 1990. Clearly, this increase cannot continue forever, and new thinking must be found.

That is where the essays in this booklet come in. They provide a diverse set of commentaries on the role and size of the state, as well as the third, sector, drawing on experience not only in Britain, but also Scandinavia, the United States and even Bhutan. Taken together, these essays begin to outline a powerful and genuine third way between state monopoly supply and the total free market.

This radical thinking is badly needed. Radical change often comes out of extremity. Without the experience of the Second World War, the Labour government would not have been able to move as quickly as it did after 1945, without the breakdown of the Keynesian social democratic consensus in the 1970s, Thatcher would not have had the impact that she did after 1979. The unifying idea behind many of these essays is the increased role of social enterprise and cooperatives, local communities and volunteers. Whichever political colour holds power after 2010, the move towards the reinvigoration of the local community is unstoppable. For 65 years, the big state has flattened and pinched out individual and community enterprise and spirit. No longer. The revolution has begun.

# Introduction

Tom Shakespeare



*Tom leads on research for Localis, and amongst other things, has written several reports, including 'Can Localism Deliver?' and 'For Good Measure'. Tom joined Localis in June 2008, having previously worked for Policy Exchange where he contributed to a report on party financing called 'Paying for the Party'. He has a degree in mechanical engineering and in 2007 completed an MA in political research at the University of Nottingham.*

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In his Hugo Young lecture in 2009, David Cameron outlined his vision for a 'Big Society' which, he suggested, did not rely on 'Big Government'. The idea that society can be strengthened without the expansion of government or the state is not new, but as Anthony Seldon suggested in his foreword, such an approach would be a radical departure from the current paradigm which has dominated politics for many years. It also poses some very interesting questions about the nature and purpose of the state in the first place.

It is for that reason that Localis is undertaking extensive research, beginning with this series of essays, looking at the role of the state both in the UK and abroad – particularly with regard to the changes needed to create a stronger economy and society. We will be exploring the extent to which public services can be delivered more effectively with a dramatically reformed state, ensuring better services at lower cost, and ensuring that the right conditions are present for economic growth.

The need to make significant savings to the public purse makes this debate particularly timely. Combine this with calls for reform of the political system and the need for dramatic public service performance improvements, it could be argued that there is the perfect storm of pressure on the current system.

But let's be clear, the public sector is not under pressure for undue reasons. Over the last thirteen years inequality has increased despite massive investment. Public sector productivity has reduced by over 3%. There is massive inefficiency and wastage in public services. There is a massive housing shortage, meaning that house prices have risen to such an extent that the average age for first time buyers has risen by five years in the last thirteen. There are 8.2million economically inactive people. Economic diversity has reduced. The list could go on, but the point is that the state has failed in many

ways to deliver what is required of it. Ultimately, the inefficiency of the state means greater taxes which ultimately mean damage to the economy with further pressures on public services.

The first section of this booklet will look at international lessons for the future of the state and society in the UK. The second section will explore a range of innovative thoughts and ideas that are already happening in the UK, before drawing to a conclusion.

What these essays will demonstrate is that accusations that the small state, big society approach are empty and will not work are unfounded. There are many people engaged right now in delivering better, innovative services at lower cost, and involving people and communities in the process. While it is true that bluntly rolling back the state will not roll forward society, what you will find in this series of essays is that rolling forward a very different kind of state will path the way for big society and then roll back the state.

# International Lessons

*“The state is not ‘abolished’,  
it withers away”*

(Friedrich Engels, Anti-Dührin)

# International Lessons

In this collection of international essays, there are a number of interesting lessons which can be drawn for the future of the State and how public services could be delivered in the UK. In the first essay 'Emergent State Welfare', by Dr Arnold Kling, there are a number of very interesting lessons to be drawn. In contradiction to conventional wisdom, Dr Kling points out that the US 'welfare state' is actually as large as most other Western countries, but much less reliant on centralised planning. He suggests that much of the economic success in the US can be attributed to labour mobility, capital market diversity and competition in higher education, and not particularly the size of the state. This is a very interesting point, as in theory it means that a high public sector spend can work hand in hand with a strong economy.

Interestingly, economic growth occurring despite the state, not because of it is also a significant conclusion to be drawn from Sweden too. In his essay 'Welfare State Capitalism', Johnny Munkhammar explains that, within reason, economic success is not strongly dependant on the size public systems, but rather on the competitiveness of the private sector and the strength of the free market. He explains that at times, the size of the state has damaged the economy, and only when the state has been rolled back has it improved – as it was in the nineteenth century when the majority of the top 50 companies in Sweden were formed. Sweden is now one of the most economically free countries in the Western world, and with reforms to public services through initiatives such as the schools voucher system, the welfare state is being dramatically streamlined too.

In terms of public services in the US, Kling points out that their welfare system is designed very differently compared to the UK. Probably born out of historic or cultural factors, Kling suggests that the bottom-up, emergent nature of welfare provision is the defining characteristic of the US approach, in direct contrast to the UK's centralised approach. There is a lot the UK can learn from this. The rhetoric around personalisation, demand-led services and moves towards public sector co-operatives chimes quite well with the American approach. This approach does not necessarily imply a reduction in the size of the state, but it does suggest that the way public services are created and funded has massive implications for how effective they actually are. This lesson is one that could be better learned in the UK.

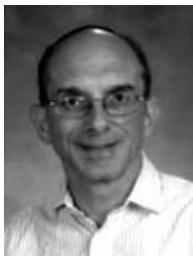
The third essay 'Merging Profit Motive with Moral Imperative' describes the power of social enterprise to directly confront major problems facing our society. Drawing on lessons from the US, Jerr Boschee outlines the reasons why non-profit organisations have turned to profit-making approaches in order to ensure long term financial security. This 'cultural shift' from non-profit to profit making enterprise has been the major transformation in the US social enterprise industry, with state and federal governments barely recognising them. Now governments

are becoming a major purchaser of social enterprise 'products', and combined with new legal forms, social enterprise is becoming a major transformative power. The ability to impact on social problems without direct state funding is a huge opportunity in the UK too. Moving from large scale, state funded charities to small scale social enterprises has huge potential, particularly in the current financial climate. But getting over the cultural or ideological barriers, and learning how this was done elsewhere, is vital for the UK to make progress.

A tough economic climate also forces us to turn to radical and unconventional sources of inspiration for the future. In the final essay by Dasho Karma Ura, we learn about a completely different way to approach governance in Bhutan, by focussing on a well-defined understanding of 'happiness'. For example, he suggests, to "it is far better to address enmities at their root cause than to create structures and institutions to solve them". While in Britain we may struggle to get to grips with what we believe to be 'fuzzy' concepts such as 'happiness', there is clearly a lot we can learn that may challenge our conventional wisdom, and make us look at policy questions in a very different way.

# Emergent State Welfare in the US

Dr Arnold Kling



*Dr Kling is a highly respected American economist and founder of EconLog, a popular economics blog. He has worked as an economist in the Federal Reserve System and is currently a scholar at the libertarian think-tank – Cato. He has held various academic posts, including teaching ‘Economics for the Citizen’ at George Mason University. He has written several books on a range of topics.*

## What the US approach to welfare can teach the UK

The United States has a surprisingly large welfare state. The American tradition includes a strong element of pragmatism and a distrust for government. Government programs tend to emerge as add-ons to civil society, rather than following a grand plan. Our welfare state is best understood as an emergent phenomenon, rather than as the product of coherent design. Its advantages and disadvantages reflect his haphazard emergence.

## American History and the Evolution of the Welfare State

*“Americans of all ages, all conditions, and all dispositions constantly form associations. They have not only commercial and manufacturing companies, in which all take part, but associations of a thousand other kinds, religious, moral, serious, futile, general or restricted, enormous or diminutive. The Americans make associations to give entertainments, to found seminaries, to build inns, to construct churches, to diffuse books, to send missionaries to the antipodes; in this manner they found hospitals, prisons, and schools. If it is proposed to inculcate some truth or to foster some feeling by the encouragement of a great example, they form a society. Wherever at the head of some new undertaking you see the government in France, or a man of rank in England, in the United States you will be sure to find an association.”*

Alexis de Tocqueville, *Democracy in America*, Book 2, chapter 5

America has always turned first to its voluntary associations to address social problems. Government programs have tended to build on and adapt from such bottom-up solutions.

When America was founded, the functions of the central government were tightly circumscribed. The Constitutional doctrine of “enumerated powers” stated that only specific powers were given to the central government, with other powers reserved to the states and still others reserved to “the people,” meaning that they would not be exercised by government at any level.

In addition to the Constitution, an important factor limiting the power of government was the vast unsettled portion of the American continent. The original thirteen states were huddled along the Eastern seaboard, but the American people soon spilled out into the middle of the country, where territories enjoyed at most some protection from the national government but otherwise had no formal political structure of their own. The frontier territories put many Americans out of reach of government. Citizens became used to solving public problems in *ad hoc*, informal ways.

## Social insurance is one way to build a welfare state but not the only way

By the end of the 19<sup>th</sup> century, massive migrations had ended, the frontier was largely closed, and a manufacturing industry had grown to match or even exceed the importance of agriculture. A political movement known as Progressivism emerged. Although its antecedents can be found prior to the Civil War in the anti-slavery societies, temperance leagues, and early feminist movements, the Progressives achieved prominence in the 1890's. They gained full-fledge political power early in the 20<sup>th</sup> century under Presidents Theodore Roosevelt and Woodrow Wilson.

Although the Progressive agenda included the sort of social insurance that we now associate with the welfare state, that agenda made little headway until the Great Depression, when President Franklin Roosevelt was able to enact Social Security. Still, he faced considerable opposition, and efforts to expand social insurance programs proceeded only in fits and starts. Even today, national health care remains an elusive dream for those in the Progressive tradition, notwithstanding the legislation that passed on March 21 of 2010.

### Haphazard Evolution

The Progressive agenda has always encountered vigorous opposition. As a result, the creation of the welfare state in America has been a haphazard, evolutionary process. Christopher Howard, a Professor of Government at the College of William and Mary in Virginia, has written,

Historically, European welfare states (and Canada) have relied heavily on social insurance programs. Because the United States does not meet this standard, it seems to lag behind. While this approach may lead to a number of interesting and important comparisons, it misses alternative ways of addressing social needs. The American welfare state happens to rely less on social insurance and more on tax expenditures, loan guarantees, and social regulation than welfare states elsewhere...Social insurance is one way to build a welfare state but not the only way.<sup>1</sup>

For example, one of the tools used in America for income redistribution is the Earned Income Tax Credit, which is a rebate given to low-income taxpayers. The EITC can and often does exceed the tax payments made by individuals, so that it operates like a negative income tax. Howard points out that the EITC grew faster than any other social program from 1980 to 2000.<sup>2</sup>

1 Howard, Christopher, *The Welfare State Nobody Knows: Debunking Myths About U.S. Social Policy*, Princeton University Press, 2007, p.2

2 Ibid,

Many features of the American welfare state pertain to housing. The tax deductibility of mortgage interest payments dates from the original income tax, almost one hundred years ago. However, only in the period since the second World War did it become a significant middle-class entitlement. We also have subsidies for rental housing, government-insured mortgages, and—until the financial crisis—odd hybrids called government-sponsored enterprises (Freddie Mac and Fannie Mae), which were created in order to make mortgage loans available at low cost. Freddie Mac and Fannie Mae still perform that function, but they are now under the auspices of a government “conservatorship.”

Howard points out that the United States had as much social spending *per person* as the typical OECD country. As of 1999, America spent \$4800 per year on net social spending, compared to just \$4400 per year in Canada or the United Kingdom. It is only as a *proportion* of GDP that social spending in the U.S. is lower, with 16.4 percent vs. 21.6 percent in the UK and 18.7 percent in Canada<sup>3</sup>.

### Health Insurance

The evolution of health insurance helps illustrate the way that the American welfare state emerged.

How can the world’s richest nation have roughly fifteen percent of its population carrying no health insurance whatsoever? In other respects, our system is not so different. We are not the only country where health insurance is not uniform—in Switzerland insurance varies by canton and in Canada the health system varies by province. We are not unique in the share of health care spending paid for by consumers—in fact, the share of personal health care spending paid for by consumers out of pocket in the United States is only 12 percent, which is even lower than the average among OECD countries.

What is unique about our health insurance system is that it has no coherent design. Other countries’ central governments designed their health care systems, mostly in the decades following the second World War. Instead, our health care system inherited some of its key institutions from before and during the war, and it has evolved in a haphazard fashion since. Even the most recent reforms represent incremental patches to the existing system, rather than a wholesale restructuring of health care finance. The recently-passed legislation would not fully close gaps in insurance coverage or create a system that flows from a single consistent design.

Modern American health insurance began in the 1930’s with Blue Cross and Blue Shield, which are still major insurance providers today. These were an intermediary between health care providers and groups of patients, with the groups typically consisting of workers in the same occupational trade or from the same employer. The Blues offered assurance to consumers that the cost of treatment would be covered, and they offered assurance to doctors and hospitals that they would be paid. The health care providers were more interested in obtaining reimbursement for services than in providing individuals with something that an economist would consider to be insurance.

The Blues offered no mechanism for limiting the health care budget. They did not challenge the doctors on their medical decisions or prices charged. In short, they did everything to encourage the use of medical procedures and nothing to restrict the incomes of health care providers. Given that they were created by doctors and hospitals, this is not surprising<sup>4</sup>.

3 Ibid, p. 24

4 See John Goodman, “Health Insurance,” *The Concise Encyclopedia of Economics*, <http://www.econlib.org/library/Enc/HealthInsurance.html>

The next step in the evolution of U.S. health insurance was the Second World War, during which wage controls were imposed in order to hold down inflation. To compete for scarce labor, some firms began offering health coverage as a benefit to workers. The Roosevelt Administration was favorably disposed toward this development, and it permitted health coverage to be used as a means of evading wage controls.

The precedent of treating health coverage as a privileged form of compensation was carried over into the tax code. Worker pay in the form of employer-provided health coverage is exempt from income taxes and payroll taxes. This health care tax exemption has become the largest “tax expenditure” in the U.S. tax code, costing over \$400 billion a year.

In 1965, the United States enacted government health coverage, but only for the poor and the elderly. Medicaid, which is administered and partially funded by the states, covers people with low incomes. Medicare, which is a national program, covers people aged 65 and older.

Thus, the U.S. health care system evolved as a set of policies without an overall plan for universal coverage. Instead, one large class of citizens receives health coverage that is heavily subsidized by their employers. Another large class of citizens over age 65 receives coverage that is heavily subsidized by the national government. Still another class of citizens, with low incomes, is eligible for coverage under Medicaid, which is administered by state governments with financial support from the national government. Many of those who fall outside of these classes—mostly the self-employed and people who work in small businesses—are uninsured. The 2010 health care legislation includes health insurance subsidies for people in this class as well as penalties for people who fail to obtain insurance. However, the outcome of these reforms has yet to be determined, particularly since several features of the legislation do not take full effect until 2014.

## Conclusion

The welfare state in the United States differs from that of other large countries more in terms of style than size. It is much more of a patchwork system and much less of a grand design. It often operates indirectly, through tax breaks and loan guarantees, rather than through direct expenditure.

In my opinion, the American economy is more dynamic than that of other large countries. However, it would be rash to suggest that this dynamism comes from having a smaller state. In fact, both the regulatory and redistributionist footprints of government in the United States are rather large.

I suspect, instead, that our dynamism comes from three factors: greater labour mobility, more diverse capital markets, and more competitive higher education. In each case, policy plays a role, but policies reflect deeper cultural factors.

Greater labour mobility is encouraged by labour market policies that place relatively few restrictions on firms’ shedding of workers. However, these policies probably reflect long-standing cultural norms that expect less in terms of corporate paternalism and more in terms of individual effort in finding gainful employment.

Americans have never liked large banks. As recently as fifty years ago, banks were effectively forbidden from operating in more than one state. Instead, we have always had a highly diverse financial sector, including large banks, small

community banks, an active securities market, and venture capital. The diversity of our financial sector makes it relatively easy for small businesses to get started. These new firms challenge existing businesses. Old and inefficient firms tend to enjoy relatively little protection, so that they are driven either to adopt new and improved processes or else go out of business.

Finally, America has many colleges and universities, and they operate in a relatively competitive environment. One of the dimensions on which they compete is in trying to capitalize on innovations developed in conjunction with scientific and engineering research.

The United States has a welfare state that is actually rather large and inefficient. It has a large regulatory footprint in many areas. However, it has, at least until recently, avoided the stagnation that comes from "crony capitalism," or tight partnerships between government and large enterprises. It may be that the size of the state is less important than the way in which policies allow labour mobility, capital market diversity, and competition in higher education.

# Welfare State Capitalism in Sweden

Johnny Munkhammar



*Johnny is a Swedish writer and entrepreneur. He has worked for the free-market think-tank Timbro as well as for the Confederation of Swedish Enterprise and as an editorial writer. He is the author of five books on economic policy and reform and is the Research Director of European Enterprise Institute. He is also a regular blogger at [www.munkhammar.org/blog](http://www.munkhammar.org/blog)*

## How Sweden has achieved economic success despite a large welfare state

Sweden is a very popular reference country in policy debates all over the world. Usually in positive terms, I am happy to say, being a Swede. I am, however, more skeptical about which lessons policymakers tend to learn. This is often a consequence of a flawed or outdated description of Sweden.

The most common description of Sweden among policymakers involved in economics is probably that “the bumble-bee flies”. That is, Sweden, with its high taxes, is an economically successful country and thus proves that high taxes do not harm economic growth. More broadly, Sweden is sometimes described as the only place where socialism works.

This is amusing, but ultimately wrong. Sweden is one of the most capitalist countries in the world. Among the 160 countries studied in the Index of Economic Freedom, it ranks number 21 – one of few countries that increased economic freedom during the financial crisis. Sweden scores higher than Germany and Belgium and reformers like Cyprus and Georgia.

Simultaneously, Sweden does unquestionably have a welfare state of a similar kind as the rest of Western Europe. Only a third of taxes, however, go to welfare services such as education, health care, child and elderly care. Twice as much goes to economic transfers – compensation for retirement, unemployment, illness and parenthood.

This may seem to be a contradiction: A very free economy, but with rather extensive public systems – “social insurance” – to take care of people. But in fact, it may very well not be a contradiction. The economy needs to be this free

in order to sustain the vast public systems; only capitalism produces prosperity enough to pay for the public welfare systems.

Some pieces of Swedish economic history are indispensable when trying to understand the country's prosperity. In the mid-1800s, Sweden was one of the poorest countries in Europe; an underdeveloped, rural country. Then, during two decades, Finance Minister Johan August Gripenstedt launched far-reaching reforms.

Sweden was opened to the world, to free trade and migration. Free enterprise and free competition were introduced. In particular, the financial sector was deregulated. A single currency was introduced. Railway infrastructure was built. And from 1890 to 1950, the Swedish economy was the fastest-growing in the world, next to Switzerland.

47 of the 50 biggest Swedish companies today were founded before 1970, most of them around the year 1900. Companies like Ericsson, Volvo and IKEA are quite well-known today. To a substantial extent, Swedish prosperity has ever since been founded on the success and skills of these companies, started by entrepreneurs a century ago.

What kind of a country was it that went from rags to riches? Was it successful socialism? Far from it: The Swedish tax pressure was lower than the average in Europe during all these successful 60 years, actually lower than in the United States. In 1950, taxation had increased to 20 per cent of GDP, still low.

But the image-setting socialism did come, starting by the end of the 1960s. In 1970, Sweden was the fourth wealthiest country in the world per capita. And then the 1970s became a decade of radical government intervention in society and in the economy. The tax pressure was doubled, companies were socialized, markets regulated, public systems expanded, borders closed.

What happened? The golden years were over. Sweden dropped from being the fourth wealthiest country to number 17 – in 20 years. The economy was in stagflation; real wages increased by one per cent in 20 years. Unemployment, which had previously not been a problem, became one – despite massive hiring in the public sector.

This was to an extent the result of the oil-price shock as well as the weaker international growth in general. But Sweden developed much more poorly than similar countries, after having developed much better for decades. This was the result of the vast and swift expansion of the state – in terms of taxes, regulations, ownership and general political interventions.

Still, many saw the wealth that had been built before socialism, and drew the wrong conclusion. It was thought – and of course this was widely supported by the responsible politicians – that socialism had built the wealthy Sweden. Rather the opposite was true, socialism was about to end it.

The perception that people's living standards and general welfare rested upon the rather new big state prolonged the problems and halted important reforms. But as a consequence of reforms in other countries as well as opinion-making efforts by business, Sweden started finally rolling back the state.

Starting in the late 1980s, Sweden started de-regulating markets, opted for a low-inflation policy, and decreased marginal tax rates. In the early 1990s,

this was intensified, with most markets except labor and housing being de-regulated. The state sold its shares in a number of companies. The Central Bank was made independent.

Sweden increased its economic freedom more than most Western European countries. This laid the foundation for the success of the past 15 years. Sweden has experienced higher growth rates than the EU average. Productivity in the business sector has developed very well, thanks to the openness and new competition.

Taxes are still high, but decreasing. They are one important factor in determining economic development, but not the only one. And since Sweden is one of the freest countries in most other respects, that compensates for the high taxes. And since half of the taxes are invisible, indirect, people don't know how much they pay – which make them easier to accept.

Sweden has very efficient and non-corrupt institutions. This is important for business. And raising taxes are done with efficiency – people can now file their income-tax return with an SMS. And Swedish taxes have been adapted to the global economy; they have decreased for mobile tax bases, such as capital, and increased for consumption.

As people's incomes have risen, living standards have improved. More people eat at restaurants, more people travel abroad, more people invest in a new kitchen for their house, more people buy DVDs and new cars. After the reforms of the early 1990s, real wages increased by 35 per cent in a decade – 35 times more than the 20 years before.

There are, however, serious problems that remain. And where state control still dominates, the problems are the worst. The generous benefits for non-workers have led to many people on welfare – about one-fifth of the workforce. High taxes and regulations have led to few entrepreneurs and few new jobs. Quality and accessibility in welfare services are far too low.

The current government, in power since 2006, up for re-election in September 2010, has launched reforms within those areas. Taxes have been decreased substantially, welfare benefits streamlined, choice and competition introduced in welfare services, and some easing of regulations for entrepreneurs have been implemented.

It is too early to evaluate the effects, but some effects may be indicated. More people are actually working in Sweden now than before the financial crisis, which indicates the value of the labor market reforms.

The reforms have largely been directed towards rolling back government, further removing the obstacles to prosperity enacted during the 1970s. Still, much remains to do. Swedish taxes, for example, continue to be very high – second highest in the OECD. This is a problem for entrepreneurs and working people.

So the Swedish economy is not developing well thanks to the big state or high taxes, but despite them. When the state expanded, economic and social problems increased. And as reforms to roll it back have been introduced, the development has once again improved. Now, it is important for Sweden to continue reforming.

How did government interventions affect social conditions? Well, poverty measured in relative terms is very low. This is because income differences are

among the smallest in the OECD. But in real terms, there are groups of a substantial size that are not part of the labor market or of society in general.

Various labor market regulations keep the young and immigrants out. Insiders are protected at the cost of vast groups being left outside, living off low contributions from the state. And people with a low productivity are not allowed to work, since the collective bargains demand certain minimum wages. These are seriously adverse social effects.

Government interventions often simply have counterproductive effects. Hiring and firing regulations may have as a purpose to make people feel safe, but they keep vast groups outside society. Still, special interests and the laws of public choice – that public bureaucracies tend to preserve themselves – may keep them in place.

Sweden is so successful because  
it is so free, which is the way it  
has always been

The Swedish experience shows that it is easy for politicians to promise more benefits, paid for by people's taxes, which are often hidden. There are however many obstacles to giving people back their choice and responsibility. But Sweden in the last 20-25 years is a very clear example of a country that to a large extent has managed to do so.

The UK, by contrast, launched liberalizing reforms before all other countries, starting in the early 1980s. Thatcherism boosted the economy all the way through the 1990s, when reforms such as the independence of the Bank of England were added. Sweden came later, and is now decreasing taxes and public spending, while the UK has done the opposite for a decade.

If the state today has the responsibility to deliver something, say, health care, the impression can be made that if the state doesn't do it, there will be no health care. This is of course wrong; if there is a demand, there will be a supply. But it will be delivered not by the state but by others – entrepreneurs, foundations, social groups – in society.

Moving from a welfare state to a welfare society is a major challenge. Sweden is taking such steps at present. Twenty years ago, 99 per cent of all schools were public – now 14 per cent of basic schools and 44 per cent of high schools are private. Through the voucher system, everyone can choose school and many people choose the new, private, ones.

Similar systems are introduced for child care and health care. People are allowed to make a choice and take their tax money with them – bureaucrats at the top of the pyramid don't have the final call. This leads not only to choice, but to competition between providers and thus improved quality.

The pensions system has been reformed and the so-called demographic time-bomb has been defused. Mandatory pensions became substantially lower, but to them there is employment-based pension as well as private pension insurance. And every Swede can invest part of the public pension as he or she likes.

Much can be learned from Sweden – both success and failure. It is imperative that policymakers in other countries draw the right conclusions. Sweden is so successful because it is so free, which is the way it has always been.

# Merging Profit Motive and Moral Imperative

Jerr Boschee



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## The experience and growth of social enterprises in the US

Federal and state government have been all but irrelevant to the evolution of social enterprise in the United States.

The movement emerged primarily from the private sector, in the 1970s and 1980s. Except for a few courageous entrepreneurs scattered across the country, people in the non-profit sector did not begin to explore the possibilities until the mid-1990s. Still another decade passed before federal and state governments began to pay serious attention. Even today, efforts by the public sector to support social enterprise are limited to creating modest incentives for social investors and occasionally using the bully pulpit to endorse the efforts of social entrepreneurs.

An explosion of activity took place across the United States during the 1970s and 1980s as entrepreneurs, small businesses and major corporations discovered social markets and started social enterprises. They began to run adult day-care centres; educational programs for small children, high-school dropouts, and adult students; low-cost-housing projects; vocational training and job-placement efforts; home-care services for the disabled and elderly; hospice care; outpatient mental-health and rehabilitation services; prisons; wind farms; psychiatric and substance-abuse centres; and dozens of other businesses that delivered products and services previously provided by nonprofits or government agencies.

How did most people in the non-profit world react?

They were appalled, affronted by the thought of "making money" while delivering social services and blind to the financial pressures that would gradually erode

non-profit reserves and force them to seek new sources of revenue to finance their programs. For the most part, nonprofits remained frozen for nearly 30 years while businesses cherry-picked the most attractive market opportunities.

How did the public sector react?

It didn't. If anything, it pushed more and more of the responsibility for meeting social needs onto the non-profit sector and simultaneously slashed federal and state funding for human services by 23 per cent, in real terms, during the 1980s alone.

## Origins

Although there had been isolated incidents of private sector companies addressing social needs through their products and services, William C. Norris, founder of Control Data Corporation, codified the principles of social enterprise for the private sector when his Fortune 100 company responded to the torching of American cities during the inner city riots of 1967. Norris immediately built plants in five inner cities and two depressed rural communities – and then proclaimed his company's new strategy would be "to address the major unmet needs of society as profitable business opportunities." Control Data began to use its expertise in computing services to revitalize urban and rural neighbourhoods, incubate small businesses, promote alternative energy sources, create jobs, deliver education, and respond to other social needs.

During the next two decades, Control Data's example prompted other companies to follow its lead, and, in 1982, the management expert Peter Drucker and the economist John Kenneth Galbraith, as well as more than 250 chief executives from around the world, joined Norris at Control Data's headquarters in Minneapolis for an international conference to promote the concept.

Drucker spoke about simultaneously "doing good and doing well," Galbraith debunked the business bromide that "our social responsibility begins and ends at the bottom line," and Norris repeated the message he had been trumpeting for years: The transformative power of business, he told his colleagues, is the ability to merge two often opposing forces – the profit motive and moral imperatives.

Norris and his admirers were creating something new, something the business world had never seen. Their social enterprises went beyond the traditional concept of corporate social responsibility by *directly confronting social needs through the businesses themselves* in addition to grappling with them indirectly through socially responsible business activities such as corporate philanthropy, paying equitable wages, refusing to manufacture weapons, and using environmentally friendly raw materials.

But it took nearly a generation before most people in the non-profit arena grasped the power of the social markets. Once they did, in the mid-1990s, nonprofits around the country began to pursue sustainability by adding business activities to their traditional stew of volunteers, charitable donations and government grants. A few have even abandoned dependency on donors and government subsidies entirely, achieving self-sufficiency by focusing exclusively on profits from their businesses.

## Driving Forces

So what changed? What prompted nonprofits to re-assess their traditional strategies?

During the past three decades, social innovators in the United States and around the world began to reach a disquieting conclusion: Inspired vision,

impassioned leadership, enthusiastic volunteers, government subsidies and a phalanx of donors are not always enough.

## The transformative power of business is the ability to merge two often opposing forces – the profit motive and moral imperatives

They serve admirably while innovators transform their dreams into fledgling programs and steer their organizations through early growing pains. But there comes a time, albeit reluctantly, when most founders and their followers begin to understand that living from year to year does not ensure the future, and that is the moment when they begin migrating from innovation to enterprise. It is one thing to design, develop and carry out a new program, quite another to sustain it. So they begin turning toward commercial markets, gradually exploring the possibilities of *earned* revenue, many for the first time, and often with reluctance given their uneasiness about the profit motive.

The moment of realization comes at different stages and for different reasons. Major funders may be experiencing donor fatigue. The initial band of dedicated volunteers and employees might be burning out. Government support for a project could be waning or the cost of delivering services escalating dramatically. It might even be that the organization is on the threshold of significant growth but cannot proceed without new sources of financing.

In the United States, the moment arrived for most nonprofits in the mid- to late-1990s, although a handful of pioneering social entrepreneurs had been emphasizing earned revenue since the 1960s and 1970s. Around the world, the moment is dawning today for some of the most successful social innovators, and they are slowly moving away from a *dependency* model of financing, the traditional business model for nonprofits in which they depend solely or almost entirely on charitable contributions and public sector subsidies, with earned revenue either non-existent or minimal. The movement takes two forms:

- Some are working toward *sustainability*, the ability to fund the future of a nonprofit through a *combination* of philanthropy, government subsidies and earned revenue
- Others are seeking *self-sufficiency*, the ability to fund the future of a nonprofit through earned revenue alone

### Definitions

A social enterprise today is defined as any private sector or non-profit business that uses earned revenue strategies to pursue a double or triple bottom line, either alone (as a social sector business) or as a significant part of a mixed revenue stream that includes charitable contributions and public sector subsidies.

In the United States today, there are basically three types of non-profit social enterprises:

**CHAMELEONS** are businesses that begin life as nonprofits and stay that way – but in every other respect operate as for-profit businesses. They have at least a five-year track record of self-sufficiency, defined as consistently hovering around break-even or achieving profitability through earned revenue alone. Well-known examples include Pioneer Human Services in Seattle, Housing Works in New York, Minnesota Diversified Industries, Delancey Street Foundation in San Francisco, and Gulf Coast Enterprises in Florida.

**MIGRATORS** have at least a five-year track record of *pursuing* self-sufficiency, defined as being fully committed to social enterprise, with earned revenue the driving force for strategic planning, and at least two-thirds of the organization's operating expenses covered by earned revenue. Prominent examples include Melwood in Maryland, Skookum in Washington, Esperanza Unida in Milwaukee, Rubicon Programs in San Francisco, and Triangle Residential Options for Substance Abusers in North Carolina.

**SUSTAINERS** are not seeking to make a profit from their earned revenue strategies, but use them to reduce dependency on philanthropy and government subsidies. Earned revenue typically covers less than two-thirds of their operating budgets and may or may not be the driver for their strategic planning, but it still plays a significant part in the organization's financial framework.

The types of businesses operated by social enterprises in the United States can be divided into three categories. The first treats the people it serves as potential employees, the second views them as customers – and the third combines the two approaches.

**AFFIRMATIVE BUSINESSES** (known in the U.K. as “social firms”) are created specifically to provide four things for people who are mentally, physically, economically or educationally disadvantaged: Permanent jobs, competitive wages, career tracks, and ownership opportunities. It has been estimated that more than two-thirds of all social enterprises created by nonprofits in the United States are affirmative businesses, primarily because one of a non-profit's greatest assets is an available, untapped labour force (and also because these types of businesses are more difficult to scale and therefore less appealing to the private sector). The businesses themselves are typically straightforward enterprises such as janitorial services, telemarketing, packaging/assembly plants, temporary employment agencies and the like – their social missions are workforce development, job creation and career development.

**CUSTOMER-FOCUSED BUSINESSES** directly address social needs other than workforce development, job creation and career development. They can be sub-divided into categories such as “human service businesses,” “environmental businesses,” “educational businesses,” and so on. Examples include such enterprises as home care services for people who are frail or elderly, adult day care, assistive devices for people who are physically challenged, management of low-income housing units, employee assistance programs, publishing companies, and dozens of others.

**HYBRID BUSINESSES** simultaneously deliver a product or service that directly addresses a social need and employs the members of a target population such as people who are developmentally disabled, men and women on welfare, former prisoners, recovering drug addicts, high school dropouts and others.

Business ventures that generate revenue from a non-profit's under-utilized assets or as a convenience for clients or patrons (such as space rental, parking lots and cafeterias) are not considered to be social enterprises (unless they qualify as affirmative businesses) because the ventures are not *directly* related to a social mission.

### Contributing Factors

A series of tectonic shifts occurred during the last 30 years of the 20th century

in the United States that changed the rules of the game for nonprofits and prompted them to join the private sector in the social enterprise arena:

- Operating costs began to escalate and non-profit reserves eroded: In 1977, the average non-profit in the United States had more than three months of operating capital in reserve at any given time – by 1989 it had less than four days, not enough to cover even a single week’s payroll
- Annual support from individual, corporate and government sources all declined or flattened
- More nonprofits began to compete for the available charitable funds (there are three times as many nonprofits in the U.S. today than there were 30 years ago)
- More people needed help with the basics of food, clothing and shelter
- Donors and government officials began calling for nonprofits to do more with less, insisting on greater accountability and better results
- Numerous well-publicized scandals embarrassed the non-profit sector and by the mid-1990s, according to the Gallup Poll, one in three Americans believed the non-profit sector should be eradicated because it was inefficient, ineffective and unethical

### Fighting Back

By the late 1990s, we began to see a response to this pincer movement closing in on the sector, especially a shift in mindset away from viewing service recipients as objects of charity toward one that viewed them as capable individuals who could benefit more from opportunity and empowerment than from handouts. That led to the expectation programs should intervene in people’s lives in ways that create growth and independence rather than dependence, and earned revenue initiatives – especially affirmative businesses – met that expectation perfectly.

The severe cuts in government funding for human services during the Reagan Administration in the 1980s also forced nonprofits to either find new ways of doing business (e.g., leaner, meaner, more self-sufficient) or watch their organizations disintegrate. Simultaneously, at the close of the 1980s, the triumph of capitalism over communism in Eastern Europe ushered in a new respect for the power and legitimacy of the marketplace, even among the liberals who were managing most nonprofits – and not just as a transactional environment but as a transforming one.

In addition, throughout the latter half of the 20th century, the “entrepreneur” had emerged as the hero of the new economy in the United States, leading to greater tolerance for informed risk-taking and innovations, even among staid nonprofits: In 1967, only eight American universities and colleges were offering even a single course in entrepreneurship; by 1984 there were more than 250, including 212 business schools and 41 engineering schools.

And as we neared the end of the century, volunteers and Board members who came from the business world began importing new philosophies and management theories. Coupled with escalating demands for superior leadership and accountability, these new ways of thinking and behaving led nonprofits inexorably toward strategies for improved performance and sustainability, which in turn pointed toward social enterprise.

Increasingly, then, non-profit leaders began embracing the concept of social enterprise and started working individually to change their organizations and

collectively to create a movement. We began to see the emergence of heroes and role models, authors and activists who paved the way, people who provided the practical models and “proof of concept” that helped push recalcitrant Board and staff members to do what had previously been unthinkable – endorse earned revenue initiatives.

### Current Conditions

Across the globe, social enterprise today has moved into the mainstream and is no longer an isolated experiment. During the spring of 2010, the 11th Social Enterprise Summit, sponsored by the Social Enterprise Alliance, the largest membership organization for social entrepreneurs in North America, is being conducted jointly with the 3rd Social Enterprise World Forum, which is rotating through five continents from 2008 through 2012. Federal and state officials around the world are awakening to the potential of social enterprise, including a few enlightened public servants in the United States. A dozen international conferences each year tout the benefits of social enterprise; for-profit and non-profit social enterprises are proliferating; academic institutions are offering courses and degree programs; social investors are knocking at the door; the subject appears everywhere in the news media; and a rising generation of young people is energizing the field.

So: We have an emerging lexicon, a rapidly growing community of social enterprise practitioners, an expanding pool of knowledge, new support systems (communications networks, conferences, consultants), a heightened expectation that nonprofits will apply business practices, evidence of more sophisticated business planning, an increasing flow of human and financial capital, and an eroding gulf between nonprofits and for-profits.

What we didn't have in the United States, until very recently, is any significant involvement by the federal or state government, and certainly nothing like the interventions of the British government during the first decade of the 21st century. That is slowly beginning to change. The government has long been a purchaser of products and services produced by nonprofits through such federal set-aside programs as AbilityOne, but today it is also stimulating social investors by creating new legal forms such as low-profit, limited liability corporations (L3Cs) that make it easier for nonprofits to raise money for their social enterprises. As a result, a new breed of social investors is rising that has very different priorities than traditional investors or those who are interested in corporate social responsibility per se (see “Investment Priorities Matrix” on the next page).

For the most part, however, the social enterprise movement in the United States continues to be driven by the private sector and, increasingly, by the nonprofit sector. The social markets began calling 40 years ago. Entrepreneurs, small businesses, and large corporations listened – and eventually nonprofits joined them. Today the public sector is also beginning to recognize the transforming power of social enterprise – and, at long last, is starting to treat it seriously.

*"Investment Priorities Matrix"*

	<b>Businesses with a single bottom line (financial)</b>	<b>Business with a single bottom line that practice corporate social responsibility</b>	<b>For-profit social enterprises (double bottom line)</b>	<b>Nonprofit social enterprises (double bottom line)</b>
<b>Traditional Investors</b> seeking financial returns	First priority	Second priority	Third priority	Not a priority
<b>Socially Responsible Investors</b> seeking both social and financial returns	Not a priority	First priority	Second priority	Third priority
<b>Social Investors</b> seeking both social and financial returns	Not a priority	Third priority	First priority	Second priority
<b>Social Investors</b> primarily seeking social impact	Not a priority	Third priority	Second priority	First priority

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# Happiness Beyond Wealth in Bhutan

Dasho Karma Ura



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## What Bhutan can teach the UK about poverty and progress

Bhutan and Britain are asymmetrical in many significant ways for lessons from Bhutan to be drawn. Yet distinctiveness of each country creates scope for mutual lessons. Compared to Britain, Bhutan is more ecological than economic, more cultural than global, and more communal than individualistic. The visionary leadership of the Buddhist monarchy played an unrivalled role in Bhutan's progress. The former King of Bhutan founded 'Gross National Happiness' (GNH), and his distinctive laws and policies were framed by the intentions behind GNH. In 2006, Oxford-and-Harvard educated Crown Prince Jigme Khesar became the King. The constitution was proclaimed and parliament elected in 2008. Since then, decision-making process has shifted towards an elected government. A good policy environment in Bhutan has so far attracted long term aid for development. The state is big, by any measure including public expenditure as a proportion of GDP (almost 50%). However, it is not the size but the quality, efficiency and distribution of expenditure that matters.

Hydropower sector investment fuelled growth and built a strong revenue base of the government to finance a welfare state. Hydropower export is the backbone of Bhutanese transformation, along with foreign aid. The Bhutanese economy is growing fast, but I do not say this with untainted pride knowing that GDP calculation betrays true wealth creation. Bhutanese people's lifespan is now 66, and per capita income rose last year to \$ 2,154 (equivalent to \$ 5,815 in PPP term). I mention these income figures for a sense of international comparison, but not as a robust indicator of happiness.

GNH is certainly a dominant discourse in Bhutan, with each voice trying to interpret GNH in a way that reflects their view of life aspirations – from

conscience-concerned lamas, cut-throat businessmen, mike-loving politicians, to procedure-bound bureaucrats, to investor-inviting 'globalizers'. The present government was elected predominantly on a GNH manifesto, articulated by the current Prime Minister. There is a broad consensus in our society in following GNH. But new policy directions sometimes provoke subtle disagreement, as liberalisation, market mechanism, free trade and foreign direct investments are initiated. The debates on GNH are a part of deliberative democracy. To discuss GNH is to discuss the future of Bhutan as well as what life is for. The debates are about the meaning of change in people's life: whether proposed change would enhance happiness in a holistic, eudaemonist sense. We should pose this important question: What is the relationship between happiness and wellbeing on the one hand, and economic development on the other?

Internationally, less attention is paid to happiness at official level. Traditional spheres of government consist of conventional public goods, such as security, economy, social justice, public infrastructure, health and education. Happiness is, explicitly, not one of them; it is subordinated to the private realm. Public policies and government priorities are important determinants of the conditions of happiness. Left to our own personal strivings, chances of succeeding are lower if policies do not take account explicitly of this universal pursuit of individuals.

Not so in Bhutan. As a basis of public policy, measurement of GNH for policy guidance is important. Development of GNH metrics is necessary for complementing, or substituting where necessary, narrower indicators of progress. Conditions of life that favour well-being and happiness are tracked by surveys every two years. To inform people and the government about the changes taking place, a wide array of qualitative and quantitative indicators of GNH have been estimated. I will come to their salient features shortly. However, work on new indicators of wellbeing and happiness needs to be extended to full-cost accounting to reflect better cost and benefits. Happiness and wellbeing are derived from capital of various kinds: human resources, ecological, economic, cultural and social. Full-cost accounting should cover them.

To have a better system of planning and vetting project proposals, GNH-sensitive project screening tools, which differ from agency to agency, have been developed and just introduced. For example, GNH project screening tools for the health sector is different from the one used by hydro-power sector. But it will take some years for this particular project appraisal tool to gain wider acceptance in Bhutan, in place of other ways of evaluating the desirability of programmes and projects. Such screening tools do make a difference to decisions. As an experimental case, when the entry of Bhutan to WTO was screened from a normal economic perspective, entry was favoured. But when GNH policy screening tool was applied to the question of WTO entry, the outcome was not so favourable. Entry into WTO is still a pending issue in Bhutan, partly because of otherwise unseen issues noticed when we use GNH lens.

At the core of GNH concept and measurement is the view that a more holistic range of human needs should be appreciated for happy and fulfilling life. We take a eudaemonist view of human beings. Such needs, or primary goods, are listed in political-philosophy literature. But usually the range is not detailed, and it often tails off with rights and freedom as a catch all category. The conceptual structure of GNH lists some 72 factors or conditions as representing this wide spectrum of human needs for us to be happy in a deep and holistic sense. These include indispensably freedoms and rights as

part of good governance. The list of 72 factors constituting and conducive to happiness are grouped under nine domains of GNH, namely psychological wellbeing, balanced time use, community vitality, cultural diversity and resilience, ecological diversity and resilience, good governance, living standard, health, and education.

These factors, or variables, are aggregated to build a weighted index of GNH, which is decomposable at various sub-group levels like geography, gender, education level, occupation, age etc. It is also decomposable separately into qualitative index and quantitative index for qualitative and quantitative variables respectively. Some of these factors are culturally specific but an overwhelming number are not and they can be used in a trans-boundary way. Of the 72 factors, 12 are quantitative variables and 60 are qualitative variables. As survey instruments are improved, the balance of qualitative versus quantitative variables will change more in favour of quantitative factors while keeping the total list roughly same. At this moment, a Bhutanese on average enjoys 43 factors sufficiently out of an ideal 72 factors.

The cockpit of socio-economic development planning in Bhutan, next only in influence to the Cabinet, is known as the Gross National Happiness Commission. While conceptualisation and field surveys on GNH are carried out by the Centre of Bhutan Studies, implementation of GNH through ministries and other agencies are responsibilities of the Cabinet and Gross National Happiness Commission. This particular institutional arrangement underlines the fact that any different intent has to be expressed in terms of policies, and policies must be embedded in new institutions that carry them out. Envisioning a new class of government institutions to reflect the thrust of GNH will become an important part of GNH institutional restructuring in the course of time, if GNH is to gain deeper traction. I doubt if it can be done successfully with the present institutional structure which closely corresponds and echoes the sector composition of GDP in terms of ministries looking after agriculture, fisheries, forestry, electricity, mining, manufacturing, and banking etc. Their focus only on material aspects of reality misses certain relational and intangible factors crucial to happiness. Thus it may not be a pure fantasy to contemplate a new organization such as the Ministry of Psychological Wellbeing and 'Relationality' in distant future.

**Their focus only on material aspects of reality misses certain relational and intangible factors crucial to happiness**

Let us take one out of nine domains of GNH at a time to get a flavour of what GNH entails. First is psychological wellbeing. In most approaches to well-being and happiness, mental and emotional states will not be assessed, unless there is an unlikely case of widespread clinical depression. However, from a GNH perspective, people ought to enjoy much higher level of virtuous emotions, instead of hovering above depression level, and it is of interest to estimate the distribution, frequency and causes of non-virtuous and virtuous emotions as reported in first person account. The Buddhist view also advocates resolving afflictive mental dispositions sufficiently so that we can find a good life by being ethically virtuous. In the GNH index, examples of positive virtuous emotions are calmness, generosity and compassion, and those of non-virtuous emotions are anger, frustration and jealousy. Emotional conditions of the population are also assessed by prevalence and degrees of stress. When such introspective data on emotional states are divided into urban and rural residents, an early and tentative indication is that psychological wellbeing is

lower for urban residents in spite of their economic and educational status being higher. This explodes the commonsense perception in Bhutan that urban life is necessarily happier and better in all respects. Had the emotional dimension of existence not been included in GNH, we would have tended to over-focus easily on the supply of material conditions as important for happiness occluding deficient factors of urban life. Deficiencies of urban life were also revealed with respect to variables linked to community and cultural vitality. These findings raise questions, among others, about the rapid trend of urbanisation in Bhutan. The strong emphasis of the government on reaching electricity and roads and mobile telephony to all the rural households in the country, before 2020, should stem the urban growth. Mental training such as calmness and insight meditation is one of the complementary routes to psychological wellbeing. Consequently, meditative calmness is practised every day in schools throughout Bhutan. It is a part of GNH value infused education curriculum being devised, which itself is an important part of the larger mandala of GNH.

Health and education are domains of GNH on their own. Both services are free of costs in Bhutan claiming together about 25% of the budget. These services are needed to realize human potential without depending on chances of birth and wealth. They should be completely free from the perspective of GNH. 95% of children of school going age are enrolled, though the dropout rate by the 12<sup>th</sup> grade is considerable. Basic educational opportunity is widespread. Social mobility fuelled by educational qualification has been remarkable so far. But a stratum of entrepreneurial economic elite seems also to be emerging for the first time in our history.

Health as an aspect of GNH consists in healthy lifestyles in both mental and physical spheres instead of the need to consume increasing level of medical care. While controlling infectious diseases, life style diseases have to be prevented. Healthy life style supported society requires different approach than intensification of medical care in society that results from worsening social, environmental and economic structures. In the narrow sense, health is product basically of physical activity, healthy food intake, and medical infrastructure. In a broader sense, health is a function of social, economic and environmental relationship within which those three factors are accessible to an individual. Measures of health domain of GNH specify those three narrower factors in some detail, while the broader relationship is captured by other domains. Bhutan was the first country to outlaw smoking. Smoking and overeating are not a problem in Bhutan, but drinking is for a substantial section of society. As regards physical activity, walking three km per day is proposed as a standard in GNH. Rural people meet this standard but city people do not. Making walking feasible in cities may entail wider reforms including opening walking trails and shortening working hours. Likewise healthy food intake entails persevering with local organic food production, although importing chemically produced food is cheaper. What Bhutan produces is predominantly organic but facing declining food sufficiency, it imports industrially produced food.

One may have everything – income, environment, culture, community, health and so forth. But none can be savoured without the capacity for a balance use of time in 24 hour cycle. How well we live can be judged by how well we can distribute our time within every 24 hours cycle over sleep, work, socialisation, physical exercise, reflection, education, personal care and so forth. Loss of enough time for any of these essential activities is indeed diminution of the breath of life. Time use balance interpenetrates all crucial

aspects of happy life. As a measure of wholeness of life, balanced time use represents both process and outcome of good life. Each person has to live well, 24 hours at a time.

# Lessons from the UK

*“Ask not what your country  
can do for you – ask what you  
can do for your country”*

John F. Kennedy, 1961

## Lessons from the UK

Following on from the international lessons, one of the common themes to emerge from the essays was that no matter which country you are from, or what your ideological belief – the most important factor about the state is that it is run efficiently and effectively. More often than not this will lead to a reduction in the size of the state.

In this chapter we explore some examples of what could begin to shape the future of the state and society in the UK. With a range of contributions from leading edge thinkers and commentators, we can begin to see some real coherence in the idea that the state could begin to operate in a very different way. John Seddon, in the first article ‘Economics of Flow’, questions the apparent consensus around economies of scale and efficiency. Instead he argues, with a range of case studies, that efficiencies will fall out of services which are created with a view to serving demand and ensuring ‘flow’ in service provision. This requires a more adaptable state – less restrained by compliance and bureaucracy and more able to innovate around common policy issues. Seddon suggests that the benefits, beyond financial savings, extend as far as people becoming more involved in their communities when services are better designed around the needs of the user.

The second essay by Dick Atkinson describes how community groups can begin to deliver public services and improved community outcomes at a much lower cost than presently delivered by the state. Drawing on his experience at Balsall Heath Community Forum, he suggests that creating an ‘enabling’ state rather than a ‘provider’ state will deliver massive improvements to society, and reduce the size and need for the state in the long run.

Another point that was raised in the International essays was that the ‘big society’ can be created, not so much by state handouts, but more by supporting social enterprises and community groups. However Tony Smith’s essay, ‘The Enabling State’, raises the conundrum that a preventative state requires increased up-front funding, and perhaps even a bigger state. As an alternative he suggests that innovative financial models such as social impact bonds, Total Place and Accelerated Development Zones could begin to provide the necessary front-loading of finances in a more austere economic period. He describes the importance of local government in achieving the ‘big society’, especially as an enabling platform through which people can begin to take control of their own lives through various initiatives of co-production.

Joining up the public sector in local areas is a major theme of the reform agenda in the UK. In Paul Carters essay, ‘The joined-up state’, he argues that there are massive savings to be made by reducing the duplication in the delivery of public services, and that ‘Total Place’ has become the best way to begin to

achieve this. He argues that there are many clear big wins, notably the culling of quangos and the reduction of masses of duplication in local areas. However, he also warns that the relationship between central and local government is absolutely vital, and that this initiative must be pursued in the spirit in which it was intended. Total Place is a massive opportunity, but it must be more than a cost counting and ultimately cost cutting exercise. It should also, as Paul suggests, be about delivering better services and all that entails.

The final essay by Iain Hasdell summarises the key challenges and responses that will be required for local government in the coming years, looking particularly at the need for strong leadership, intelligent cuts, procurement and making use of innovative financial instruments. This ties together the key strands from the other essays, and hints at what is required in the years to come.

# Economics of Flow

Prof. John Seddon



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## How focussing on economic flow rather than scale can challenge our understanding of efficiency

Alvin Toffler once remarked that the future can always be found around us – it is simply a matter of being able to see it. In public services all over the world, there is a ferment of activity in which small groups of dedicated people are enthusiastically demonstrating that better economics follow from delivering services that are truly local. This is so much against the grain of opinion and current political narrative that it seems impossible for many minds to comprehend.

UK public-sector reform is subject to a tsunami of ‘scale’ thinking. Driven by ministers who think that economies of scale are a ‘no-brainer’, promulgated through directives sent down from the mountain-top of Whitehall, supported by ‘evidence’ from the Audit Commission that is clearly derived from its ideological conclusions, and audited by the same for compliance, it is a wave of such ferocity that repeated spectacular failures of scale projects (shared services, IT-led change) are simply rationalised away – as though it will be all right if we get it right. The recent budget is merely the most recent expression of the long-held scale mantra. Everyone is locked inside the box of scale-based reform.

Yet the evidence for a better way exists. Local authorities that reject the Audit Commission and Department of Work and Pensions guidance on how to manage housing benefits processing deliver a service that puts official targets in the shade – and cut costs into the bargain. East Devon and Stroud councils, to cite just two, process claimants’ benefits in less than half the official ‘target time’, and in a period when the number of benefits claimants is increasing. East Devon has serviced 33% more demand and Stroud has serviced 50% more, both with less resource. Blaenau Gwent has leapt from the bottom of the Welsh league table to the top; the improvement in housing benefits service has cut the number of ‘benefits’ calls to their service centre by 50% and face-to-face visits to solve benefits problems by 57%. These are improvements and savings that would never have been put in a ‘plan’.

Managers and employees at these councils – and others like them – have worked their way to a profound realisation: economy is in the flow of the work, not its scale. By learning how to design their services to meet citizen demands they have improved the services while driving out costs. Cost reduction is the consequence of their focus on purpose, in direct contrast to the political narrative which has cost-reduction as its *raison d'être*.

Believers in economy of scale assume that work should be treated as 'activity', and 'activity' equals cost. This leads them to imagine that moving customer contact to call centres or the internet will be cheaper; and that creating back-offices and sharing services will provide opportunities to cut costs.

IT help-desks are a favourite of those who argue for sharing services. Stockport council provides compelling evidence for rejecting that advice and taking a different route. When Stockport studied its IT help-desk as a system, it discovered that although it did plenty of other things, the help-desk didn't help. By redesigning the service against customers' demands the council created a service that makes customers very happy – it helps – at 17% less cost: a saving far beyond those promised, and not achieved, through sharing IT help-desks. The lesson is that re-designing services creates more value than sharing them; savings from employing fewer managers or locations are trifling by comparison. Worse, IT services are often 'shared' or scaled on the basis of contracts which pay private-sector providers according to the volumes of activity. The perverse consequence is that when worse service creates failure demand (demand caused by a failure to do something or do something right for the customer, Seddon 2003<sup>5</sup>) there is no incentive for the provider to get rid of it. On the contrary, it becomes in the provider's pecuniary interest to maintain a poor service.

### Managing costs causes costs

The scale approach to sharing services creates costs in other ways. Transferring customer service work to a call centre may lead to lower costs per transaction, which managers see, but they don't see that the move generates more transactions, so that overall costs rise. Typically the call centre employs 'customer service staff', low-paid 'generalists', people who can't help with anything that requires expertise. So while managers may get ticks from inspectors for having the phone answered in two rings, the call centre solves few problems; additional failure demand being the inevitable consequence. This is a lesson in costs being attributable to flow rather than scale. The increase in demand is invisible to managers and inspectors alike because both are focussed on other (misleading) metrics, promulgated by Whitehall as 'best practice'.

One service always referred to as an 'obvious' candidate for scaled service is housing benefits. But the real evidence is that housing benefit is best delivered by putting the right expertise at the first point of transaction with the claimant. Transaction costs go up (shock horror) but total costs fall, because appropriately skilled people have the ability to absorb the variety of citizen demands, so that problems are solved quickly and without fuss. By contrast, scale designs try to standardise variety away by force-fitting demand into rigid pre-defined categories. As a result citizens experience the 'run around' as they try to get their needs met by a service that isn't designed to fit them, and costs inevitably rise.

In Portsmouth, housing tenants experience exemplary services. Property repairs are completed either on the day required by the tenant or within less than a week (compared with the official target of 28 days). Private-sector suppliers

5 'Freedom from Command and Control', John Seddon, Productivity Press, 2003

have more than halved their costs per repair and the city council's housing department operates with 12% less resource – more numbers that no one would dare to put in a 'plan'. Portsmouth's design has been developed in conjunction with its private-sector suppliers – a pocket of excellence in strategic partnerships that goes against the grain of guidance on partnerships coming from the centre.

Meanwhile, the many housing organisations that obey official advice to use shared call centres for reporting housing repairs find themselves paying their local-council partner large sums for call-handling that is of no value in doing the work and confuses customers en-route. Being insensitive to customers' needs, and/or doing no more than logging and passing work on, create more demands and thus raise costs. One alarming example is provided by Advice UK<sup>6</sup>. HMRC and DWP are considered to be flagship 'scale' designs. Yet the notorious failure of these organisations to provide services that work for their customers generates massive downstream failure demand in housing services, advice services, local authorities, legal services and the courts system, at a hidden cost to the taxpayer of hundreds of millions of pounds. These represent negative efficiency savings.

Likewise the current drive to provide ever more services on the internet. Again, it is assumed to be cheaper. But, for example, putting school admissions online simply creates more demand into call centres. The more any service is fragmented, the higher the costs; yet fragmentation in the cause of standardisation and volume has been exactly the intent of scale designs.

The concept of the 'back office' was first developed by Chase in 1978<sup>7</sup>. His argument was that de-coupling the customer from the service would enable managers to optimise the use of resources (i.e. people), that is to say, get more work out of them. Back-office work is typically specialised (cutting training costs) and standardised (also assumed to cut costs). But any gain is more than wiped out by disastrously self-reinforcing system effects: since the system is now prevented from absorbing variety, demand (in the shape of failure demand) soars, and managers, not recognising the cause, try to solve the problem with the same thinking that created the problem in the first place; further specialisation, greater use of technology to drive down activity times, outsourcing to low-cost providers. The environment becomes a sweatshop and people's ingenuity is entirely taken up with survival.

To the citizen scale delivery is anonymous, remote and often appears non-caring. The relationship with the community is both partial and warped since it takes place only through fragmented transactions with individuals. Care services exhibit the alarming consequences. There is abundant evidence<sup>8</sup> that compliance with Whitehall's specifications has driven care services away from their purpose. More children and adults are at risk, costs rise because of poor quality care, turnover of social workers is at frightening levels. The minister's response has been to announce improved training. But it is not a training problem. It is a system problem, caused by the way regulation and control (the centre) strangle learning and innovation. But the fact that it is the system that has created the problems we now face is ignored. It doesn't fit the narrative.

In Wales, where there is a more constructive relationship between government, audit and those responsible for service delivery, studying the care system has revealed that millions can be saved by not pushing those who need care into residential accommodation (which they don't want). What pushes people into

## Economy is in the flow of work, not it's scale

- 6 'It's the System, Stupid! Radically Rethinking Advice' AdviceUK: London, 2008. [www.adviceuk.org.uk](http://www.adviceuk.org.uk)
- 7 Chase, R.B. 1978, 'Where does the customer fit in a service operation?' *Harvard Business Review*, Vol. 56.
- 8 Seddon, J. *Adult Social Care: a systems analysis and a better way forward*. Prepared for Ivan Lewis, Minister for Adult Care, Vanguard, December 2005. Munro, E. 'A systems approach to investigating child abuse deaths', *British Journal of Social Work*, 25, 2005. Ince, D. 'ICS and its Fitness for Purpose', *British Journal of Social Work*, January 2010. Wastell, D., White S., Broadhurst, K., Peckover, S., Pithouse, A. "Children's Services and the iron cage of performance management: exit the street level bureaucrat, enter the good soldier Svejik?", *International Journal of Social Welfare*, February. Published online 28 January 2010. Broadhurst, K., Wastell, D., White, S., Hall, C., Peckover, S., Thompson, K., Pithouse, A., and Davey, D., 'Performing 'Initial Assessment': Identifying the Latent Conditions for Error at the Front-Door of Local Authority Children's Services' *British Journal of Social Work*, March 2010. [Academic papers were provided to Whitehall prior to publication]

more expensive solutions is a poor quality service, but it is one that meets the requirements of the regulator; it earns stars.

### Managing value drives out costs

Managing value requires, first of all, thorough knowledge about citizen demands. Understanding demand *in citizens' terms* (what do they want and need from the service?) leads to knowledge about the expertise required to service those demands. Deploying that expertise at the point of transaction gets the work done faster and more efficiently. This is real efficiency saving: better services with lower costs. By focusing on providing what customers want costs are driven out; cost-reduction is a consequence, not a focus for management.

The principle is infinitely replicable. Take potholes, for example. Whether in the UK (many cases) or New Zealand (Central Otago), experience shows that designing road repairs against demand at least doubles productivity. This astonishing improvement begins by understanding demand from the roads and equipping repair personnel with the wherewithal to take responsibility for an area. The designs rip out all the unproductive activity associated with the current (mandated) designs, with massive savings in administration costs. Repair costs tumble as the potholes are filled in.

### Only people can absorb variety

Just as someone who knows an area is equipped do a better job of road repair, someone who knows their community can provide it with more appropriate (better) services. Back to Stroud, where people working in the benefits office see their job as helping people solve their problems, not just administering benefits – a perspective it would be impossible to take in a fragmented scale design. Or Stockport, where IT help-desk people use their knowledge of demand not only to give fast solutions to problems but more than that, to resolve the issues that caused the problems. In these designs morale rises and the symptoms of poor morale – sickness and absence – fall.

There's another important and unexpected consequence. When citizens experience good service their behaviour changes. They not only have good things to say about their council (and send employees flowers or cakes instead of brickbats), they begin to behave more responsibly in their own communities. Visitors to Portsmouth's estates are struck by their appearance and the culture amongst residents. The economic value extends beyond cost-savings. Better services create better communities; the moral economics outweigh even substantial financial benefits.

A good service is one that absorbs the variety of customer demands, and that can only be done by people. To design against demand is the complete antithesis of the current narrative. Being obsessed by costs, managers schooled by Whitehall unthinkingly assume that such an approach can only drive costs up; they are prisoners of a mode of thinking that prevents them from seeing that it is the only way of reliably driving costs out.

### Reforming the reform regime

What we have learned from working with public services in the Netherlands, New Zealand, Sweden and the UK is that the structure of government (whether devolved or centralised) is not the critical factor. What does make a difference, however, is the amount and nature of control exercised through specifications – with which services must comply – and inspection, the means for ensuring compliance. Where any agency mandates matters of method and measures, the inevitable problems ensue.

The ability to mandate method and measures has to be removed from all agencies and made the responsibility of managers who deliver the service. This change to the locus of control is an essential prerequisite for innovation.

One element of control is the requirement for 'improvement' to be planned, resulting in massive investment in bureaucracies of interpretation, planning, project management, administration, report-writing and self-publicity, all of which are a huge stumbling block to innovation. As all the pioneers described here have learned through experience, change is an emergent property, so that having a plan for it is a contradiction in terms. The priority for management is to study their systems, to get knowledge; to understand how their current work designs sub-optimize performance; to discover the importance of understanding real customer demand; and to learn how to design a system to serve it. En route they discover the counterintuitive truth that economy comes from flow, not scale.

Many of the cases described in this article are published in:

Middleton, P (ed.) 2010 'Delivering Public Services that Work (Volume 1): Systems Thinking in the Public Sector Case Studies' Triarchy Press: Axminster [http://triarchypress.com/pages/Systems\\_Thinking\\_Case\\_Studies.htm](http://triarchypress.com/pages/Systems_Thinking_Case_Studies.htm)

Zokaei, K et al 2010 'Lean and Systems Thinking in the Public Sector: Report for the Wales Audit Office' Lean Enterprise Research Centre: Cardiff University [http://www.wao.gov.uk/assets/englishdocuments/Systems\\_Thinking\\_Report\\_eng.pdf](http://www.wao.gov.uk/assets/englishdocuments/Systems_Thinking_Report_eng.pdf)

# Community in Action

Dr Dick Atkinson



*Dr Atkinson is the Chief Executive of Balsall Heath Forum, a community group which has transformed the prospects for local people within a deprived neighbourhood of Birmingham. It has won national recognition and numerous awards for civic renewal. He has written several publications, including his influential book 'Civil Renewal'.*

## How one community group in Birmingham is delivering more for less and reducing the value of the State

These tried and tested old sayings are as true today as they were yesterday:

*"It takes a whole village to educate a child."*

*"Prevention is better and cheaper than cure."*

But, in modern times, we have forgotten just how true they are. The story of Balsall Heath, one of Birmingham's inner ring neighbourhoods, can remind us about their significance.

Just a mile from the City Centre, Balsall Heath's white working class population struggled in the 1950's and 1960's to cope with the end of manufactory industries. Further, the planners of the day decided to knock down many of the area's old terraced houses, build municipal estates in Birmingham's outer ring and re-house people there. The community was split up and became weak. New residents came from the Caribbean and Asia. Before long the population of 14,000 became made up of 60% Asian, 20% Caribbean, with just 20% of the old population left. People did not know each other, how to improve their quality of life or how to look out for their neighbour's child.

For most of the 1900's, prostitution in Balsall Heath had been confined to one street. It spread through the weakened community in the 60's and 70's until as many as 450 prostitutes worked every street in the neighbourhood. Attendant crimes multiplied. Residents became used to living in their back rooms and would not go out at night. The parks became unusable. Local children were tempted into a variety of delinquent habits. There was no village to guide or steady them. Those who could afford to do so left. House prices hit rock bottom.

A few despairing residents went to the Council and Police in 1980 and asked for 'action to improve our area'. The response they got was depressing. "Sorry, we've tried. There's nothing more we can do. If you don't like it, leave".

### The Recovery

Yet, residents couldn't move. For, they couldn't sell their houses. Nobody would buy them. However, one, a Trades Unionist, who was used to helping his colleagues to improve their conditions at work, wondered whether he could help his neighbours to improve the quality of life in the place where they lived. From small beginnings, first one then another street formed a residents group of those who were prepared to pick the litter from their alleyways, paint out graffiti and sit together on their street comers, stare at the kerb crawlers and shame them away. It took time. But, once the demand of the kerb crawlers had gone, the supply of prostitutes shrank and finally disappeared.

Enthused by their success, residents set up more street associations to tackle anti-social behaviour, move abandoned cars and reclaim patches of derelict land. Step by step, they:

- Raised the money to employ a full time organiser.
- Held monthly communal meals to which 250 people all faiths came.
- Awarded communal honours to the most active good neighbours.
- Produced an annual calendar full of useful dates and phone numbers and a monthly community newspaper.
- Made up food hampers and regularly gave them to lonely elderly people.
- Held a variety of festive events in which all faiths joined.
- Formed a Neighbourhood Forum to:
  - Represent the local voice.
  - Continue to build capacity and create social capital.

Provide the services of the organiser and, before long, 5 neighbourhood wardens and a green team who entered the area into the National Britain in Bloom competition. Today, the Forum employs 15 people who are the arms and legs of residents. But, their task is not to do things 'for' them. Rather, it is to do things 'with' them and to show them how to do things for themselves.

### What values motivated those who led the renewal?

Sir Paul Scott-Lee was a young police officer in Balsall Heath 20 years ago. He saw it at its worst. Upon his return to Birmingham as Chief Constable he revisited Balsall Heath and found the transformation to be 'almost unbelievable'. He explained it in terms of the development of 3 social values:

- Togetherness
- Confidence
- Ambition

Ask the residents what now makes their village strong and cohesive and they add three enduring moral values:

- Duty
- Obligation
- Responsibility

These are not words which often come to the lips of politicians and they are not to be found in the private or public sectors where objectivity, rational calculation and contracts hold sway. But, they need to be kindled. For, they are the vital qualities which bind communal life together and drive it forward.

### Re-ordering statutory provision

The steps described above, each contributed to a bottom up reconstruction of

## The Chief Inspector on the patch at the time of the transformation of Balsall Heath, calculated that the police now needed and deployed 31 fewer officers

the way residents in the neighbourhood live. They can be summed up under the terms: self and mutual help. However, residents realised that they could make even further and faster progress if those Council and other agencies who once said 'leave, there's nothing we can do' gave a more positive response and said: 'Can we have another go? Can we form a new partnership between your now thriving Third Sector and our Public one?'

So, 17 years ago residents also employed a Neighbourhood Manager and asked him to persuade all the local statutory providers of services to step out of their top-down specialist silos and come together into a Neighbourhood Strategic Partnership which encouraged them to join-up their services, make them more effective and respond to the effort the residents had made. It wasn't long before they all realised that they also needed to devise a Neighbourhood Development Plan to implement it and regularly review progress.

So, in addition to the building of a strong community, the way statutory services are delivered to that community have changed from being one-size-fits-all to becoming joined-up, tailor-made and shaped by the once passive recipient. The results have been dramatic, as the Chief Constable observed.

### What is the evidence of success?

In 2009, Birmingham's LSP (Local Strategic Partnership) commissioned a survey of the opinion of 8,000 residents in 31 of Birmingham's neighbourhood's. It asked them: "do you feel safe in your neighbourhood, proud of it, able to influence events in it?" Balsall Heath came out ahead of the field in all 3 categories. More, it came out ahead of the Birmingham average.

Further, house prices are now rising faster in Balsall Heath than in any other neighbourhood. Perhaps, most convincing of all, is the fact that nobody now wants to move. Balsall Heath is now seen as a desirable, attractive, place to live. It attracts inward investment.

### What is the cost of success? Does a transformed neighbourhood cost more or less?

Dr Patrick, the Chief Inspector on the patch at the time of the transformation of Balsall Heath, calculated that the police now needed and deployed 31 fewer officers. As each one cost £42k, this represents a saving of £1,302,000/year. The vice squad, which cost £350k/year was also disbanded. As placing a prostitute before the courts cost £5k and 200 were dealt with annually, this represents a further £1m saved. Total saving = £2,652,000.

That's just the savings made by the courts and the police! The Forum is still calculating the savings made by fire, health, housing, environmental services etc. But, it suspects that these will bring the total to over £10m. This contrasts sharply with the cost of the Capacity Builder (£25k) and Neighbourhood Manager (£35k) and the Neighbourhood Wardens and green team (£250k). Total cost, just £310k.

So, the annual cost of building the village which educates the child costs £310k. But, this investment saves £2.65m in safety alone by preventing a variety of problems from arising. In the case of Balsall Heath, this means that a

far more attractive community really does cost less because of the crimes and other problems it prevents which no longer have to be tackled. That really is 'more for less'.

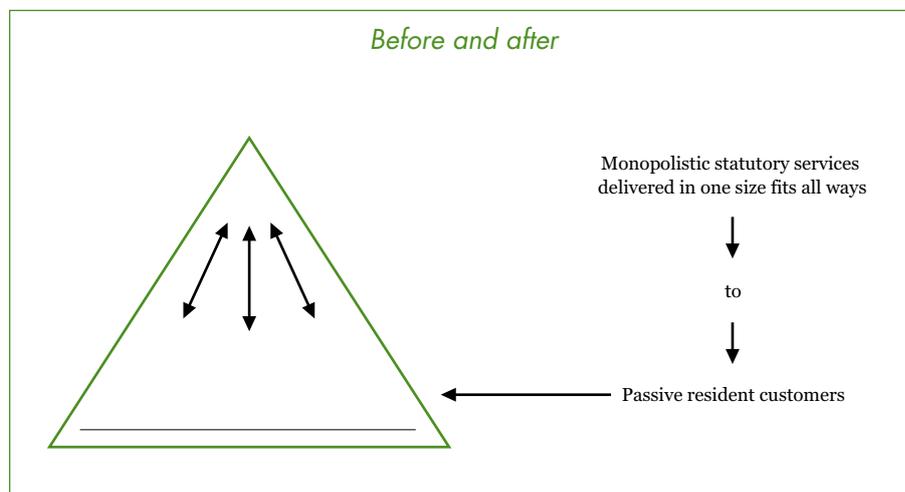
### The replication of the lessons learned

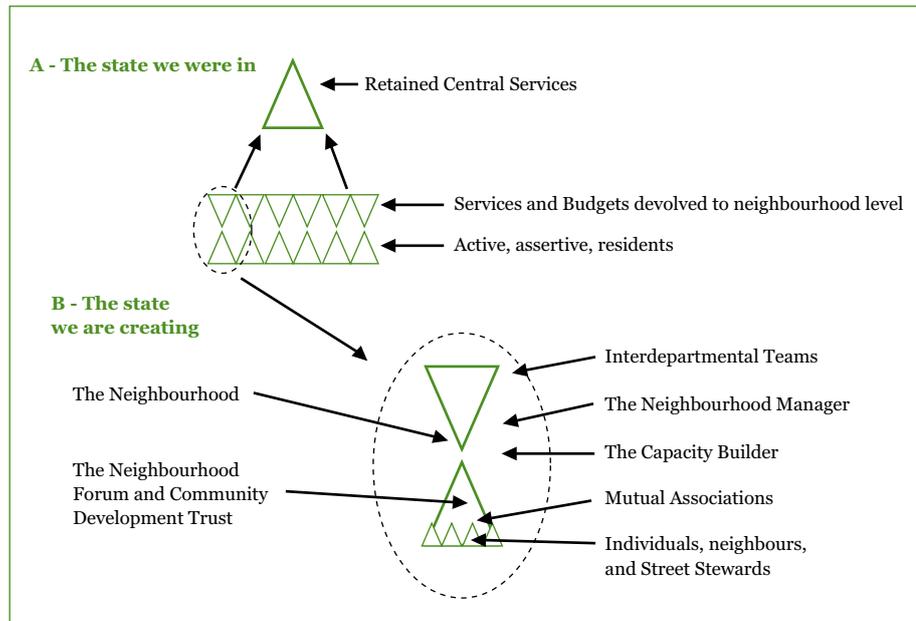
Another saying is telling, this time from the Third World. It asks how you should feed a hungry person. It says: "If you give them a fish, it feeds them for the day. But, it makes them dependent on you to give them another fish tomorrow. However, teach them how to fish and they can feed themselves for life and become independent and proud. More, as the 'provider' becomes the 'enabler' it frees them to move onto other things. So, 'more really does means less'. Plus, in addition to saving the provider money, it frees them to do other, more useful, things.

If Balsall Heath can be transformed, so can anywhere else. All it takes in each neighbourhood is time, a few Active Citizens to start with and the help of two posts – a Residents Organiser or Capacity Builder and a Neighbourhood Manager. Along with a few other neighbourhoods which have recovered, Balsall Heath has piloted the way forward for those which have not. Its residents are now used to helping residents in other areas to see how they too can learn to fish, build a strong neighbourhood, save their partners both money and effort and, thus, ensure that the modest costs of renewal can be sustainably funded by using mainstream budgets differently.

Balsall Heath's Forum is helping its statutory partners to work out just how much they spend on servicing the population of 14,000 people – Total Neighbourhood. As their budgets cover much wider administratively defined areas they don't know and are finding it difficult to disentangle them. However, initial estimates suggest the sum is £100m a year. So, the £10m saved is 10% of the total spend. Is it possible that other neighbourhoods, when transformed and able to fish for themselves, could save similar amounts? If so, 100 transformed neighbourhoods would both create a better quality of life and save 100 x £10m - £1,000m. That's worth knowing. Its also worth acting on.

But, it implies that we must now see the relationship between a strong, not weak, Third Sector and an enabling, not providing, state very differently in the future from the way we have seen it in the past. The difference can be pictured with the help of 2 diagrams.





## Conclusion

It really should be possible to replicate the steps which Balsall Heath has taken in very many other neighbourhoods. While the costs of these steps can easily be found from the savings made, we must stress that it does take time and that it does entail challenging both residents and their statutory partners to change both their attitudes and their relationship.

So, it seems that for the very best of intentions, we spent most of the last century and the first years of this one giving hungry people fish, ever more costly services delivered over large tracts of land. But, we did not realise that we were inadvertently making people dependent on the State to give them even more services and, thus, contributing to the atomisation of the Third Sector, the shrinking of self-reliance and mutual help and the destruction of the whole village which is needed to educate the child.

It is time to reverse the process and to spend the next decade:

- Helping people in the neighbourhoods where they live to learn to fish for themselves, to become independent and proud.
- Turning the State from 'provider' and 'doer' to 'enabler' and, thus, developing a new partnership of equals between it and its now actively participating customer.

In times of plenty, the state might have found it difficult to let go of the past, its powers, its budgets and act in the way described. Now that we need to count the pennies, it may well be that the attractiveness of making savings will overcome the hesitation. 'More for less' is surely irresistible. Prevention really is better and cheaper than cure.

Is an 'enabling' state weaker or less powerful than a 'doing' one. Only if you measure success by quantity and not by quality. Certainly, in Balsall Heath's case, an enabling state is more attractive and valuable. In the bad old days, fewer than 20% of residents voted for Councillors in local elections. Today, the vote has risen to over 50% and 200 plus people attend Ward meetings. So, perhaps in future an indicator of successful renewal should be this: Do more people value and respect the State enough to vote for it at election time?

# The Enabling State

Tony Smith



*Tony was closely involved in the development of Birmingham's radical policy of devolution and localisation and in issues such as civil renewal. As Policy Executive at Birmingham's London office – Birmingham W1 – he has been fully engaged in key policy debates such as the sub-national review, Lyons Inquiry and local government white papers and in the recent development of Conservative policies. He gained a masters degree in 2002, with a dissertation on "Local Government in the Network Society".*

## How local government is leading the way in rethinking the role of the State

In his Hugo Young lecture last November David Cameron described the role for the state in creating a "big society":

*"...the re-imagined state should not stop at creating opportunities for people to take control of their lives. It must actively help people take advantage of this new freedom. This means a new role for the state: actively helping to create the big society; directly agitating for, catalysing and galvanising social renewal."<sup>9</sup>*

"Small state, big society" is an idea that has informed thinking across the political spectrum for a long time. It can be found in the early mutualism of the labour movement, in Edmund Burke's "little platoons" and in the community politics of the nineteen seventies. It underpins the often forgotten third report by Lord Beveridge on voluntary action, which called for the maintenance of a strong role for civil society and the voluntary sector following the establishment of the welfare state<sup>10</sup>.

The aim of engaging communities in addressing social problems and the associated notion of the "enabling state" has also informed many initiatives under New Labour, such as the neighbourhood renewal and civil renewal strategies and the Communitybuilders, Futurebuilders and Empowerment funds. A myriad of local projects and organisations have been supported by the Neighbourhood Renewal Fund and its successor the Working Neighbourhoods Fund, due to come to an end next March. A government wishing to take the idea forward needs to take care not to abandon the very recent investment and learning that has accompanied this and local government's experience of these schemes.

<sup>9</sup> David Cameron: *The Big Society*, Hugo Young Lecture, 10 November 2009

<sup>10</sup> Beveridge, Lord William, 1948, *Voluntary action: a report on methods of social advance*, Allen and Unwin, London

This is Gordon Brown speaking at a seminar in 2001 after the Government launched its Active Communities Unit and announced investment in community groups:

*“Just as the era of ‘no such thing as society’ is at an end, so too the era of centralising government and ‘Whitehall knows best’ is over, and a new era - an age of active citizenship and an enabling state - is within our grasp.*

*“Increasingly, the voluntary sector will be empowered to play a critical role, ranging from under-five provision and preventative health, to adult learning and the war against unemployment and poverty.”<sup>11</sup>*

In a recent Fabian pamphlet the Prime Minister referred to a slightly different notion of the “enabling state”:

*“An enabling state is absolutely vital in insuring that people are given the tools they need to make the most of their lives. Education is one particularly crucial element of that project...this is why no one seriously believes that compulsory education for children is an infringement of liberty or that this education should not be funded from general taxation.”<sup>12</sup>*

This reminds us of a crucial difference between two uses of these ideas. One approach (that adopted by Cameron) seeks to enhance the capacity of communities and individuals to address policy challenges as an *alternative* to expanded state provision. The other maintains that state provision is *in itself* enabling and empowering. Both of these insights can inform thinking about the “enabling state”.

David Cameron’s emphasis on the “big society” and his catchphrase “there is such a thing as society it’s just not the same thing as the state” is often seen as a repudiation of Margaret Thatcher’s assertion that there is no such thing as society. In fact (and this is another illustration that the idea is by no means a new one) Thatcher herself made a similar point back in 1996: “To set the record straight, once again, I have never minimised the importance of society, only contested the assumption that society means the state rather than other people.”<sup>13</sup>

So if the idea is not new then what can we learn about its application and what are the key aspects of the “enabling state” that can actually help to create the “big society”? One vital ingredient is local government, which must play a central role in turning these different strands of thought into practical reality on the ground (and indeed has been doing so for many years). The idea of the enabling state cannot be meaningful without a strong commitment to genuine localism and a rebirth of the autonomous community leadership that local government can provide. Birmingham has a diverse and extensive range of groundbreaking community initiatives (as the examples below indicate) and along with the other core cities must play a leading role in developing these ideas and in realising the vision of an “enabling state”. It is true that councils are sometimes reluctant to empower communities and citizens and some councillors and officers may jealously guard their control of decision making and service delivery. But others are effective and empowering community leaders. The way ahead for government must be to work in a genuine partnership with local councils *and* local communities so that real reform can be achieved. Empowering communities and empowering local councils are not alternative policies – they are both an essential part of the creation of the enabling state.

In this discussion we are of course a long way from the “enabling council” of nineteen eighties environment secretary Nicholas Ridley that some in local government still

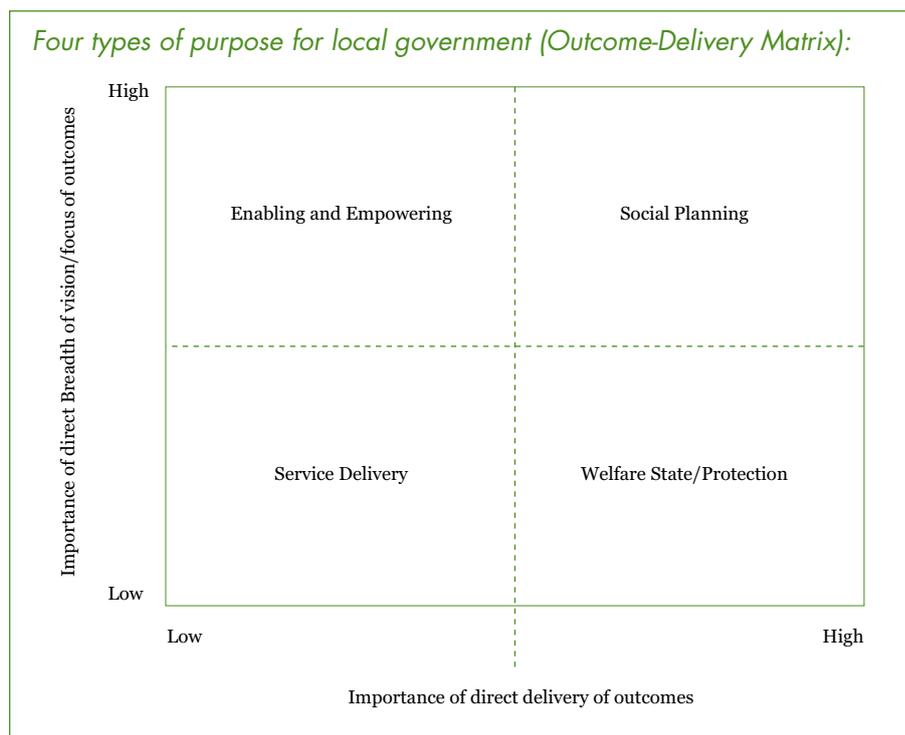
11 11 January 2001: See BBC report here: [http://news.bbc.co.uk/1/low/uk\\_politics/1111216.stm](http://news.bbc.co.uk/1/low/uk_politics/1111216.stm)

12 Brown, Gordon, 2010, *Why the Right is Wrong*, Fabian Ideas 626, Fabian Society

13 *Liberty and Limited Government*. Keith Joseph Memorial Lecture, 11 January 1996. <http://www.margaretthatcher.org/speeches/displaydocument>.

recall (with little fondness). That vision was limited to “enabling the local community to have those services which the free market would not provide”<sup>14</sup> and enabling open competition and choice in the provision of local services. As Helen Sullivan has shown<sup>15</sup> the phrase “enabling council” has evolved over decades to suit different contexts and political purposes, covering decisions about accountability and commissioning, partnerships and citizen choice and empowerment.

Ridley’s version of the “enabling council” and many of the current models for how councils should operate (such as the “Easy Jet” approach) have focused narrowly on local government’s service delivery role. We need to adopt a much wider viewpoint if we are to find a genuinely radical new direction which can deliver outcomes with less resources. The Outcome-Delivery Matrix presented below is one way of framing this choice of broad directions.



The vertical axis of the diagram indicates the degree of attention to broad outcomes, as distinct from narrower service outputs. For example do we limit our attention to the number of street cleaning rounds or do we target a wider goal of cleaner neighbourhoods? The horizontal axis relates to the how much importance we attach to direct delivery by the state. Do we emphasise the importance of the direct delivery of protective or supportive services or the value of having a diversity of providers and the importance of the contribution made by citizens, communities and businesses to the achievement of outcomes?

Some important insights are made clearer through discussion of this matrix. An enabling approach would certainly accept that councils must become commissioners rather than deliverers of services, but this must be based on a concern with achieving broad social and economic outcomes, rather than narrow service outputs and efficiencies – on strategic commissioning rather than narrow procurement. The argument for out-sourcing is not simply cost-cutting but the improved accountability and stronger strategic role that can be achieved by separating commissioner and provider roles. A focus on broad outcomes requires a partnership-based approach,

- <sup>14</sup> Ridley, N, 1988, *The Local Right: Enabling not providing*, Centre for Policy Studies, Policy Study No. 92, p35 [http://www.cps.org.uk/cps\\_catalog/CPS\\_assets/260\\_ProductPreviewFile.pdf](http://www.cps.org.uk/cps_catalog/CPS_assets/260_ProductPreviewFile.pdf)
- <sup>15</sup> APSE and Inlogov briefing, July 2008, *Strategic Commissioning in Local Government*: <http://www.apse.org.uk/briefings/08/08-48%20Strategic%20commissioning%20in%20local%20government.pdf>

The value of the “big society”  
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design of the state itself

but this needs to be a sophisticated set of relationships in which councils can play a key role in ensuring accountability and brokering agreements on the allocation of resources. The Total Place pilots have started to show the way forward, but there needs to be a much closer integration of partnership activity into the mainstream business and governance of councils. There also needs to be a dramatic change in the way that central government organises its budgets and its service silos, to create a framework within which local partnerships can make real progress.

But an enabling approach must also take account of the contribution that the citizens, communities and businesses of the city make to achieving outcomes. This is where the enabling state links to the idea of the “big society” and theories of co-production, which are reflected in Birmingham’s strategic outcome target of “making a contribution”.

Shifting the emphasis from delivering service outputs to wider social and economic outcomes inevitably means thinking about not just the contributions of partner agencies but those of citizens and businesses as well. We need to think in terms of “achieving outcomes together” rather than “delivering outputs” to people. Co-production of course happens all the time across the whole range of public service areas – refuse collection and recycling doesn’t work unless people put out their bins and separate their waste, clean neighbourhoods are impossible if more people drop litter. Co-production theory does not suggest that we do something entirely new. Rather it allows us to think in a new way about how we design services and how better outcomes can be achieved.

Facilitating co-production can involve a range of interventions – what we have called the “ladder of co-production”. At the lowest rungs of the ladder are the relatively short term and straight forward applications of technology (such as enabling people to procure services on line) and changes to business processes (self service) that are very familiar to private sector companies. The development of new technologies has historically been driven by the ceaseless search for cost reduction and companies such as Ikea have based their entire business model on persuading the customer to carry out much of the production chain themselves.

Further up the ladder are initiatives such as personalisation and personal budgets which empower individuals to design and control the services they receive. A key role for the enabling state would be the encouragement of behaviour change through “nudge” tools and incentives. This will probably require a mix of specific but sustained behaviour change initiatives focusing on particular behaviours but also a generic, community and neighbourhood based approach which realises that different behaviours are linked. At the highest level are much more long term and complex programmes such as neighbourhood renewal, community ownership of assets and community provision of services.

Birmingham’s priority neighbourhood programme, involving a large number of neighbourhood management projects is crucial to taking forward this co-production and enabling council vision. It has included innovations such as Neighbourhood Area Agreements and two pilots for the Government’s Neighbourhood Agreement community safety programme. The city’s Community Safety Partnership has also piloted Neighbourhood Performance Reward Grants which reward community groups for achieving outcome targets set locally through small (under £10k) projects. Examples of neighbourhood co-production are given in the box below.

The value of the “big society” and co-production ideas is that they remind us to look at the whole social and economic system and government’s role within it, rather than simply at the design of the state itself. In more managerial or technical, rather than political terms the enabling role of the state is to *build the capacity of the rest of the system to achieve outcomes*. For example supporting stronger communities to help create safer and cleaner neighbourhoods, finding better ways to help people gain skills and employment, supporting the capacity of businesses to grow and to innovate, providing essential infrastructure and empowering individual citizens to take more control of their own social care and health. In Birmingham we are starting to think in terms of creating a “Big City” – one that is better equipped to address its economic and social challenges. This is already reflected in our Big City Plan for the city centre and our Big City Culture campaign for City of Culture status in 2013. Importantly, a “big city” in this sense would also be a more sustainable city, generating more private sector jobs and stronger communities rather than sucking in more public sector resources.

Crucially Total Place combined with co-production allows us to think about how services can be redesigned so that *scarce resources are focused on preventing problems rather than on the more expensive fixing of problems further down the chain* (see example box below). It also allows us to rethink the design of services in terms of the outcomes that matter to citizens and to ask why so many of our services are still broadly based on an essentially Victorian understanding of how to address public needs.

### Examples of neighbourhood co-production in Birmingham<sup>16</sup>

**Moseley Community Development Trust and Moseley Forum** – which have established a farmers market and a community “hub” facility and addressed local regeneration, environment and street drinking issues.

**Balsall Heath Forum** – see the essay by Dick Atkinson elsewhere in this publication

**Friends of Cotteridge Park** – launched in response to the threat of losing their park the group carries out a wide range of projects such as the new community orchard to improve, protect and promote it under the slogan “keeping people involved means keeping a sense of fun”

**Jericho Foundation** – exists to help the most disadvantaged to overcome social problems and to get back into employment. It runs a variety of social enterprises in construction, design, print, catering, cleaning and landscaping. Established in 1993 it has a turnover of £1.7m and places about 250 people a year into employment.

**Bloomsbury Estate.** Beginning in the 1980s the Bloomsbury estate has taken an increasingly co-productive approach to estate management and regeneration. Successes have included a two thirds reduction in repair costs, a dramatic fall in empty properties and turnover, a reduction in rent arrears and the provision of new health and leisure centres and a credit union.

<sup>16</sup> Examples are taken from the forthcoming report of the Community Asset Transfer Development Programme, funded by Advantage West Midlands – *Co-production in neighbourhoods and communities*, by the Chamberlain Forum: <http://www.chamberlainforum.org/>

**Witton Lodge Community Association**, established in 1994 the association formed an agreement with the city council to build homes for rent in return for the proceeds from the sale of some council owned land. More than 500 homes have been built with community involvement in their design.

**Real Time Community Change** – more than 30 pilots of participatory budgeting across the city between 2003 and 2006 involving £330,000 of community empowerment and neighbourhood renewal funding.

**Lozells Neighbourhood Management** – one of our priority neighbourhoods has built the capacity of its neighbourhood forums, improved co-ordination between agencies and used social networking to promote small businesses and support community discussion. Crime has fallen dramatically in the area and unsatisfactory litter areas reduced by three quarters.

**Community Network South West** – set up in response to the closure of the Rover plant at Longbridge and supported by a £1.5m investment the network aimed to develop the community and voluntary sector in the area. It has supported alternative employment projects, helping create 400 volunteering and 60 employment opportunities.

## Savings from Prevention

### **Birmingham Safer Neighbourhoods Projects**

The five projects established in Birmingham between 2001 and 2004 were estimated to have produced savings due to reductions in crime of approximately £6.4million. An evaluation of the projects, published in 2004 showed that the five areas together saw a reduction in crime of 12% and a fall of 40% in burglaries. In the Kingstanding project area burglary fell by more than half (59.4%). The project consisted of the completion of an audit in each area to identify the most important issues and the establishment of a Neighbourhood Action Group, including residents. The task of the group was to prioritise actions that could be taken by the community working with local agencies, including community clean-ups, security improvements and changes to policing.

### **Birmingham's Total Place Pilot found that:**

Silo funding discourages collaboration to prevent costs. For example, the City Council is investing £40m in early interventions with children and families and expect to generate £400m of cashable benefits but only a quarter of these accrue to the local authority, weakening the business case for working in this more cost effective way.

For each drug addict, each year off drugs will save £50,000 in unnecessary social costs.

A small number of people incur extremely high costs. Two Birmingham gang families cost the criminal justice system £7.5m in a generation. Around 6% of Birmingham children are permanently excluded from school, each costing £12,250 in additional services alone. Each of Birmingham's 6,000 crack addicts averages £833k of social costs in their lifetime, whilst most crimes (56%) are drug related.

93% of Birmingham spend related to employment is on out of work benefits and less than 7% on interventions to help people into work. In health, 96% of spend is on treating illness and less than 4% on keeping people well.

But there are big challenges in the way of this approach. The structure and culture of government in this country is largely based on traditional notions of delivering service outputs. Budgets and services are arranged in rigid silos that make it extremely difficult to redirect resources to prevention or to think more widely about outcomes. Projects such as the examples above tend to be funded from short term special grants rather than mainstream resources. The incentive structures within which local government managers and civil servants operate must be radically altered if this is to change. The way we allocate resources also needs to be radically overhauled. Above all we need to find ways to redirect resources into prevention, at a time of restricted funding. This will mean devising mechanisms to shift future savings from prevention or returns on investment into today's budgets. Some promising ideas in this area include:

- Social Impact Bonds, now being piloted by the Government which are based on private investment and returns from future savings based on achieving outcome targets<sup>17</sup>
- Developing area and thematic agreements including reward grants, as proposed in the Government's Total Place report<sup>18</sup>
- Accelerated Development Zones, based on Tax Increment Financing, which could fund infrastructure investment from borrowing against future increases in business rates

There may also be some mileage in exploring the notion of an insurance approach in which public services are required to pay into a prevention "insurance" pot. They would pay reduced "premiums" the more they invest in prevention and the money would be used to top up acute service budgets in the event that savings are not made.

Turning the "big society" idea into reality depends on finding an answer to the above conundrum and mainstreaming these ideas and others like them. Councils and central government will need to generate significant resources through such mechanisms to support innovation funds for preventative and capacity building programmes. If capacity in the wider social and economic "system" cannot be enhanced and resources redirected to prevention then there will be no room to reshape the state so that it operates with less resources. Instead we may find that the extremely tight financial environment ahead will reduce incentives for partnership working and create a defensive attitude across the public sector which will resist such changes. This would be fatal to the ideal of the "big society" or the creation of the enabling state.

<sup>17</sup> For an explanation of social impact bonds see this report from Social Finance: [http://www.socialfinance.org.uk/downloads/SIB\\_report\\_web.pdf](http://www.socialfinance.org.uk/downloads/SIB_report_web.pdf)

<sup>18</sup> *Total Place: a whole area approach to public services*, HM Treasury, March 2010: [http://www.hm-treasury.gov.uk/d/total\\_place\\_report.pdf](http://www.hm-treasury.gov.uk/d/total_place_report.pdf)

A full manifesto for the future development of the “enabling and empowering council” has not yet been written. Valuable but as yet incomplete ideas such as the “big society” will have to be linked to a radical extension of the Total Place concept and a radical rethink of public sector finance if this is to be achieved. At present we have only a few pieces of that jigsaw. There is urgent work to do to complete the picture, using the best ideas from across the political spectrum and most importantly the experience of local communities and local government itself.

The views in this essay are those of the author and not necessarily of Birmingham City Council.

# The Joined-Up State

Paul Carter



*Paul Carter became Leader of Kent County Council in October 2005. He is Chairman of the South East England Councils and outside of local government, runs a number of land based businesses in property, construction and retail in central London. He believes passionately that public services should at all times put the customer (residents) first, be as bureaucratic free as possible, delivering quality and excellent value for money.*

## How public services can deliver better outcomes at lower cost through 'Total Place'

*"The only known mechanism for cutting central costs is the wholesale delegation of services to smaller units, notably local authorities. An analytical tool for this now exists in the Treasury's so-called total place initiative (TPI), which measures total public spending inputs to a county or town against its putative needs – and wonders why so little seems to get through to the front line. Under TPI, government could revive the old block-grant formula and devolve services such as health and education to localities, as in the early welfare state and in most continental countries."*

**Sir Simon Jenkins, 2009**

For the two main UK parties to be united before an election is rare. To agree on a far-reaching financial initiative is perhaps unprecedented. But "Total Place" has achieved this.

Offering an approach to deliver better public services across a whole area at less cost, Total Place has unsurprisingly captured the imagination of press and politicians alike with its promises of significant savings and personalised public services. Such enthusiasm has been reinforced by the overwhelming success of the Total Place pilots announced by the Treasury in March with their promise to release some £20billion of savings over the next 10 years.

This heady mix of greater devolution, savings, personalisation and joined-up public services is one which seldom fails to please. For it to work in practice, Westminster and Whitehall must now have the courage to place democratically-elected local government at the forefront of service delivery.

The success of Total Place is also vital to a much more far-reaching and radical empowerment of local communities and local government at every level. Its delivery could open the way for a major control shift which would bring still greater savings for the public purse and further drive up standards of public service for local people.

### Total Place – what is it?

So what's all the fuss about – what is Total Place? Building on the "Counting Cumbria"<sup>19</sup> exercise to assess total public spending in an area – in this case the whole county of Cumbria – Total Place was launched by the Government in the 2009 Budget. It involves the local public sector working together to deliver better value services by focussing on joint working and reducing waste and duplication.

The concept is not new and – as I indicate below – earlier locally-driven attempts to achieve similar aims have been frustrated by Government Departments anxious to retain their levers of central control. The difference today is the massive economic deficit and the immediate need to make significant public service savings within a political climate clamouring for greater accountability and transparency.

The Treasury pilot of Total Place could not have been better timed. The 13 pilot areas encompassed 63 local authorities, 34 Primary Care Trusts, 12 Fire Authorities, 13 police authorities and a wide range of third sector organizations and service delivery bodies.

The pilots mapped the totality of public spending in their areas exposing the full complexity of local public spending as it currently stands. Viewing service delivery through the eyes of their customers, the pilots then exposed the bewildering array of assessment and programmes many people have to cope with to get their service before identifying new approaches which could deliver significantly better outcomes at less cost.

### The Kent pilot

In Kent, our Total Place submission<sup>20</sup> identified £8.25 billion being spent across the county by the public sector. Much of this funding rains down directly on our residents and businesses from national departments, quangos and agencies with little local co-ordination or accountability.

Recognising the need for joined up delivery and increased local decision-making, Kent's submission developed three major themes:

- Co-ordinated public service access through the development of our "Gateway" programme;
- Shared management of the public estate within the county;
- The transformation and regeneration of the Margate Central and Cliftonville West wards of Thanet, areas of high deprivation and dependency within East Kent.

### Gateways

The Kent Gateway programme is an excellent example both of what local government has achieved and what is possible in improving public service access and support. It already provides integrated access to public services across the county, bringing 60 partners into single, accessible buildings and through shared telephone and on-line handling.

By developing the Gateway model further and, for example, reducing the number of benefit forms completed by those recently unemployed from five to

<sup>19</sup> *Counting Cumbria, Leadership Centre for Local Government, 2008*

<sup>20</sup> *Total Place Pilot: Kent, Kent County Council, February, 2010*

one, and the number of visits to public agencies from four to one, considerable savings are possible. This model could be scaled up over other services, making greater savings and providing much quicker and more co-ordinated support to service users.

### Public Estate

To support the delivery of public services nationally, property assets valued at a massive £370 billion are currently used, with an annual running cost of some £25 billion. In Kent, the public sector property estate is valued at £5 billion with an annual running cost of around £300 million.

The scope for savings through improved and co-ordinated property management within the county is massive. A unified approach, with local partners, would bring natural back office benefits and efficiencies in the same way that the Gateway programme is already delivering them to the front-line.

### High Deprivation

Equally, we are aware of the high cost of deprivation and dependency within some of the most challenged areas of Kent. The Margate Central and Cliftonville West wards of Thanet are amongst the most deprived in the UK (as evidenced by the national Index of Multiple Deprivation) and include the two most deprived areas in the South East. Around 39% of the working age population are on benefits, sub-standard privately rented accommodation is rife, crime rates are over three times the Kent average and life expectancy in Margate Central is a full 17 years shorter than the best elsewhere in the county.

The cost of social benefits in the two wards totals £48 million per year. Helping people into work and independence through targeted local support to bring welfare expenditure down to the Kent average would release £37 million annually. By making Margate a Special Intervention Area, transformational change is now planned to drive up the quality of local housing, to stimulate the local economy and to tackle worklessness – pooling resources to get all 16-24 year olds into employment and or training, including the development of an effective local apprenticeship programme with local employers.

### The national challenge

The Kent experience is not atypical. National data from the Total Place pilots<sup>21</sup> illustrates the scale of the opportunity to join up front and back office services and the challenge of doing so. They indicate the range of innovative solutions already being put into operation by local authorities and their local partners and the potential to do so much more. In the face of such evidence, it will be hard for a Government of any colour to resist the case for change.

In its review of the pilots, the Treasury sets out a series of recommendations most of which should immediately be endorsed and delivered.

But, I believe, the immediate economic need and the demand for greater service co-ordination and personalisation means we should go still further in terms of devolution and reform.

### Bold Steps to Radical Reform

Earlier this year, I set out a vision<sup>22</sup> of better services outcomes and lower cost in

I believe the immediate economic need and the demand for greater service co-ordination and personalisation means we should go still further in terms of devolution and reform

<sup>21</sup> *Total Place: a whole area approach to public services*, HM Treasury & DCLG, 2010  
<sup>22</sup> *Bold Steps for Radical Reform*, Kent County Council, 2010

“Bold Steps to Radical Reform” launched with Localis in January. Our estimates were that through a combination of efficiency programmes, taking the Total Place Initiative to the next level, streamlining activity and removing unnecessary regional and quango bodies we could save the taxpayer £15-21 billion in the medium term, or just short of 2% of Gross Domestic Product (GDP), and improve service delivery.

Fundamental to achieving this would be a new and transformed relationship between central and local government. Respecting current statutory duties, and the co-terminus operation with other public agencies, I proposed devolution of regional and national powers to the family of local government in 46 suggested sub-national areas based on city and shire county boundaries. By organising itself around this spatial level, I believe local government can give Ministers the confidence that it has both the structural capacity to take on a range of devolved functions and the scale to drive through significant efficiencies and cost savings.

During the last spending review period, councils made great strides on efficiency – releasing over £4 billion worth of efficiency savings. Under the current spending round, councils expect to free-up a further £5.5 billion by 2011. In Kent alone, for the last four years we have made more than £123 million in savings. Like many other local authorities, our performance has gone above and beyond the Government’s required targets.

However, despite this performance, over the past 30 years, England’s system of government has become more and more centralised. Early findings from the Total Place pilots suggested that councils and councillors were directly responsible for only 5 per cent of the totality of local public services or, put another way, just £350 of the £7,000 spent for every person in the country on these services.

### The bonfire of the quangos

Contrary to Total Place principles, many regional quangos and national agencies have simply duplicated activity in Whitehall and invented their own bureaucracies leading to waste and inefficiency. Strategic Health Authorities currently cost the taxpayer £5.4 billion per annum. Government Offices are collectively responsible for either managing or influencing some £9 billion worth of government expenditure. The running costs of Regional Government Offices are over £143 million - this figure represents a rise of 74 per cent since 1997. Collectively, 9 RDAs cost the taxpayer £2.3 billion per year. Since their inception in 1999, the RDAs’ salary bill has more than trebled from £38m to over £120m. RDA total running costs are over £238 million.

The Conservative Party sponsored Richard Review in 2007 highlighted examples of RDAs wastefulness. For example, RDAs effectively duplicate activity through competing against one another for inward investment. Elsewhere 3,000 business support schemes are run by over 2,000 public bodies and their contractors at a direct cost of £2.5 billion. The report concluded that at least one-third of the money spent on regional business support is lost in administration and that a third of local business schemes aren’t even assessed to measure what they’re achieving.

Estimates of the total cost of quangos vary. According to official government figures quangos are responsible for £43 billion of public money. Even the Cabinet Office acknowledges that this cost has more than doubled in the last ten years. In a period of economic downturn, their intrinsically limited political

accountability is closely connected to a concern that they lack incentives to be efficient with costs and to co-ordinate local service delivery.

I believe many regional and quango health, arts, sport, business support and educational bodies should now be reviewed with an assumption against their continued existence. Given local government's proven capability many of these functions should be transferred back to the local authorities or to democratically-led local partnerships.

*Bold Steps to Radical Reform's* blue-print of a Total Place and post-regional landscape would see most regional and quango functions devolved back to a much more streamlined but locally inspired framework of local authority co-operation. Efficiencies would automatically be delivered through a reduction in overheads.

### Inspection and audit

The current centralisation has also led to an unacceptable level of regulation, process and bureaucracy. According to the National Audit Office the cost of regulation across the whole of the public sector is £8 billion per year. The annual cost of micro-monitoring local government activity is over £2 billion. Such top-down prescription and inspection is wastefully inefficient and time-consuming, as well as greatly inhibiting the scope for local motivation and public service innovation.

The Kent Total Place submission estimates the burden of inspection and regulation on the county council alone to be between £1.2 million and £1.7 million per year, with total costs including health, police and district councils totalling around £6 million annually. Similarly, Leicester and Leicestershire estimate their yearly cost to total over £7m.

A transformed relationship with Government would greatly reduce the need for the range of external bodies undertaking audit and inspection of local public services. Equally, greater funding devolved to local areas could see new lines of accountability directly to Parliament or to local MPs.

### A reinvigorated central-local partnership

Fundamental to the success of Total Place has been the relationship with the Treasury. It is vital this continues to cut through the departmental silos in Whitehall and ultimately places local decision-making and accountability firmly within the locality.

*Bold Steps to Radical Reform* proposed a renewed central-local relationship moving back to the original intention at the core of Local Public Service Agreement 1 (PSA1) - a bi-lateral contract between central and local government based on a small number of agreed outcomes. Area-based funding to local authority-led local partnerships through new pooling arrangements would be a natural progression for Total Place.

A word of caution must also be introduced at this stage. Government promises of new freedoms and flexibilities through PSAs and Local Area Agreements actually came to little in practice. From data sharing to the retention of savings from welfare expenditure as proposed by Kent and others as far back as 2001, these locally driven proposals have borne little fruit. Most recently, the failure from the Government to produce adequate Local Spending Reports as stipulated in the Sustainable Communities Act showed how not all Whitehall Departments have shifted as far as others in recognising the potential to drive

service improvement, co-ordination and savings through the devolution of powers. Ministers must be held to their commitments.

### Conclusion

The road to devolution is paved with good intentions. Total Place now offers a route to change which has cross-party support and we must travel along it quickly. But we must keep our eyes focussed on our ultimate devolutionary destination.

A profound and significant reshaping of the future form and role of government is now inevitable as public expenditure is slashed in the years ahead. We must show how public services can rise to this challenge, joining up services within a "place" or locality to release significant cashable savings and make real service improvements.

Total Place offers huge potential to deliver better local outcomes at lower cost. What local government needs now is the long-awaited opportunity to see the rhetoric around decentralisation of powers and responsibilities turned into practical reality.

# Steps to Reform

Iain Hasdell



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## **What Councils need to be doing now to address the pressing challenges facing local government in the long term**

Local government in the UK is an important part of the overall UK polity. It delivers or procures a vast array of services that range from domiciliary care for elderly adults to domestic waste collection and disposal. It also has vital regulatory roles and unique leadership responsibilities in local communities and economies. In one way or another it is responsible for expending almost 10% of GDP each year, although it has relatively little local control of its own funding.

UK local government is now facing a period of austerity that will last for several years and possibly as long as a decade. From April 2011 onwards local authorities will face the tightest squeeze on their budgets in the post-war era. It is reasonable to assume that local government could face year-on-year cuts of 7% (£2.4billion) or more in the next three years.

Looking further ahead there is considerable uncertainty about what will happen after 2014, but it would be prudent to assume that public expenditure will be flat, or grow very little in real terms, in the period 2014 to 2018. It seems most unlikely that we will see a rapid return to the substantial year-on-year spending increases that local government has enjoyed in the last decade.

In parallel with this deteriorating financial position, the public mood is becoming increasingly sceptical towards local government and its levels of spending, with less than one-third of people agreeing that they receive good value for money from their local Council.

A combination therefore of budget cuts, a lack of local control of funding and low levels of public trust, has the potential to create the perfect negative storm for local government. In this context many implicated local politicians and

senior executives in local government are reassessing their operating models and their business strategies. The majority are doing so in a negative utilitarian fashion that is characterised both by its defensiveness and its focus on front line service cuts.

This new context should instead be treated as a positive once in a generation opportunity to overhaul the current mind set in which most local councils operate in favour of a modern, more enlightened approach. In order to optimise the opportunity UK local authorities will need to reform themselves across at least five dimensions. In so doing they will be moving away from the paradigm that most are at present locked into. So what does this brighter new future for UK local authorities comprise?

**Most of the way forward will involve the improvement of outcomes for citizens through the use by councils of a much more diverse mix of partners**

### Leadership

As the first key ingredient of success local councils will need to urgently improve the leadership role they play in their particular geographic area. This will require much more mature challenge and support to local communities to promote self reliance and to lower dependency on the welfare state. It will involve nurturing neighbourhoods as important

places for active citizenship. It will include brilliant advocacy and influence in the local economy across the public, private and third sectors. The promotion of economic competitiveness will become an even higher priority for councils.

Councils currently also have access to greater capital borrowing powers than ever before. If local government uses these and other powers in more innovative and interesting ways, the potential to encourage the growth of new business is enormous. Local government is more effective and better positioned to do this than central government, and councils should use their powers far more extensively.

### Productivity and cost reduction

Secondly it is imperative that local councils become exemplars of efficiency and effectiveness in all that they do. Local government productivity has fallen in the last decade by just over 3% according to the Government's own figures.<sup>23</sup> This productivity deficit must be reversed. Consequently, dramatic reductions in council cost bases are now overdue.

Some of this can be achieved by efficiency savings that delayer management, reform procurement and commissioning and address non-core activities such as ownership and management of buildings. However most of the way forward will involve the improvement of outcomes for citizens through the use by councils of a much more diverse mix of partners.

Councils will simply have to stop defaulting as often as they do to a role as service provider, whether the domain is internal services such as IT or those outward facing services that are provided for local residents. There has to be a greater recognition that businesses, charities, social enterprises or a combination of providers can deliver better outcomes at lower cost.

### Procurement and commissioning

This takes us to the third of the main strands, namely procurement and commissioning. The enlightened UK councils of the future will put these activities at the heart of their business operating models. They will be brilliantly agile

<sup>23</sup> <http://www.statistics.gov.uk/articles/nojournal/TotalPublicServiceFinalv5.pdf>

at ensuring that internal and external services are commissioned based on a clear understanding of needs (i.e. a service specification), together with a comprehension of the outcomes to be achieved, their affordability and the requirement to constantly maximise value for money.

Those responsible for procurement and commissioning will be continually assessing which service activities of the council, whether externalised or provided by council employees, need to be stopped, started or continued. They will also manage demand rather than purely address need or perceived need and will decide which services must be provided to a very high standard and which can legitimately be provided to an adequate standard.

### **Financial Innovation**

Fourthly, UK councils will need to make much more extensive use of the host of financial tools that they have available to them in order to offset the forthcoming reductions in the revenue subsidies they receive from central government. Such mechanisms include congestion charging, prudential borrowing and trading powers, securitisation, hedging and commercial investment.

The majority of councils are afraid of extensively using such powers in order to balance the books. But if Councils are using such powers in the interests of their local communities and the local economy, then there is no reason why they should be quite so hesitant. In pursuing this agenda councils should re-examine all their investments in the local area. They should cull any that are high risk or costly if they are focussed on low priority issues, and maximise the amount invested on the higher priority aims of the council.

Councils will have to prioritise investments that are likely to encourage new business and make a financial return to the Council in light of current economic circumstances. The enlightened local authority of the future will raise at least 10% of its revenue needs through local revenue raising techniques that are in addition to the current local council tax on residents and business rates.

### **Customer Focus**

The fifth of the five main strands is focused on how local councils deal with customers and citizens. The local authority of the future will have dramatically reduced the cost of its customer and citizen interactions and radically improved the customer and citizen experience.

This will be achieved in part through internal rationalisation and modernisation. Most councils have a multitude of expensive separate customer and citizen enquiry functions buried deep in semi-autonomous parts of the business. There will therefore need to be urgent moves to create single integrated customer and citizen services functions within councils pulling citizens to the front end, actively managing customer and citizen contact and reducing avoidable contact.

All initial contacts will be through the single customer and citizen services function with a high level of first point of contact resolution. There will be major back office integration and effective Council wide CRM and information management systems to enable front office transactions and service fulfilment. This will provide the financial flexibility for the council to invest in more expensive channels including face to face facilities for vulnerable and harder to help customers and citizens.

As a council enters this future state, and the new order is embedded, significant opportunities will then present themselves for the council to become a coherent

and successful portal for a range of services provided by other parts of the economy.

### Conclusion

As the age of austerity begins to impact on local government in the UK there is a danger that the response becomes a reactionary and defensive one. The context of austerity should instead be seen as a positive, exciting burning platform that can allow local councils to modernise, transform and innovate.

They can use this platform to become efficient and productive. They can turn it into an opportunity to enable better outcomes for local residents through the power of their commissioning and procurement roles. They can prioritise local economic competitiveness and become more financially self-sufficient. And they can fundamentally improve the way they deal with customers and citizens.

There never has been a 'golden age' in UK local government. If the will is there, this may just be the start of one.

# Conclusion

In conclusion, these essays have demonstrated that the 'big society' can co-exist with the small state – and that the two are related. But in the first 'International Lessons' chapter we learned that this relationship is not as simple as reducing the size of the state to increase the strength of society. Instead, we learned that the creation of a more effective and efficient state determines both the future size of the state and strength of society, and that reforming the state will have massive implications for the strength of society.

The 'International Lessons' chapter challenged several key aspects of the state in the UK. The US emergent 'welfare state' approach offers a very different paradigm to the UK approach, and posits that there are a number of lessons to be learned in terms of efficiency and good service design– particularly through taking a more 'bottom-up' approach. The Swedish essay challenged conventional understandings of Sweden and the state, and presented lessons about the importance of economic freedom and effective public service reforms such as the schools voucher system in increasing living standards. We also learned about the importance of social enterprise businesses in strengthening society, solving major social problems and removing the dependency on large state handouts. The final essay in this chapter also posed some fundamental questions about the purpose of the state and the importance of solving the root problems rather than the symptoms.

The need to take a longer term view to the role of the state was also echoed in the second chapter 'Lessons from the UK'. In the first essay on the economics of flow, we learned that understanding economic flow and demand can challenge the conventional wisdom that economies of scale are the best way to deliver more cost effective services. The second essay explained that community groups can deliver massive savings to the public purse by solving problems at the root cause, and the third essay outlined the role of local government in supporting such groups and creating an 'enabling state'. All of these initiatives imply a reduction in the size of the state in the long term . However, in the third essay the possibility was raised that extra investment would be needed to invest more into early intervention schemes – but also that front loaded financial products could begin to address some of these issues.

The fourth essay on the role of joined-up services questioned the need for massive amounts of bureaucracy and duplication, and hinted at how genuinely joined up services could encourage shared responsibilities for desirable outcomes and invigorate innovation in service delivery.

In summary, these essays have demonstrated that the 'Big Society' is something that will fall out of a more effective and efficient government, which itself will lead to a smaller state. We have been presented with several ways that

government could be more effective and efficient. Only by firstly addressing this will the size of the state be reduced – and the ‘Big Society’ has a big part to play in making it more efficient. The key challenges for the state are therefore:

- Be more responsiveness to the differing needs of people – this means flexibility in public services and a removal of compliance regimes that inhibit innovation
- Allow service design to emerge rather than rely on overly prescriptive central planning
- Question the conventional wisdom that joint services at larger spatial scales leads to better, cheaper services - and design services around demand and economic flow.
- Recognise that joined up services designed around outcomes at the very local level can deliver better results – and recognise that this is different from economies of scale
- Pursue opportunities to join up public services at community or local level
- Focus on prevention rather than cure, and use innovative financial products, good service design and community groups to achieve it
- Joined up services offer massive potential savings, but they should focus only on delivering better services and not just cutting cost
- Provide opportunities for people to take control of their own lives – through self service, personalisation and community ownership

All of these things are massive challenges in reforming the state to become more efficient. They are all steps that increase the strength of society; but they are also all steps to reducing the size of the state precisely because the state will no longer be needed in the traditional sense.

## **Small State, Big Society: Essays on Reforming the State to Create a Stronger Economy and Bigger Society**

The State faces challenges from many fronts in the years to come. The huge fiscal deficit; low and declining productivity; large scale economic inactivity and massive waste in public services are all symptoms of a failing state. This booklet of essays offers a range of lessons and radical ideas for how the state in the UK could work far more effectively to solve these problems.

With a foreword by Dr Anthony Seldon, and with essays from the USA, Sweden, Bhutan and Britain, we learn that doing more with less is the only way to solve the multi-dimensional problems facing this country. We learn that the state will need to become more flexible, more innovative at tackling the root causes of problems, and must give more power and responsibility to people and communities in order to deliver it. Only if this can be achieved will we simultaneously achieve both a smaller state and a bigger society.

What these essays successfully demonstrate is that the 'Small State, Big Society' approach is not just a good idea – it is an idea that has been shown to work, and one that offers the only real solution to the many challenges we now face. This absolutely must be the shape of things to come.



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