

## 5. How productivity can remain unchanged despite major investments – social security

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Modern social security systems are the largest distributive counterpart of the government's capacity to raise taxes. Any welfare state is at root a system in which resources are requisitioned from those in work or on higher incomes, as well as from companies and from the well off, and then redistributed to the elderly, sick and disabled people, those unlucky in seeking work, and families or children in low-income households. Much of this redistribution is achieved through public services, supplied to all citizens by government agencies or by private organizations in ways that are funded, regulated and shaped by government. However, most social security transfer payments across the world are mediated in much less complex ways. Especially in simpler and more 'statist' welfare systems (such as that in the UK), monies are moved from the taxation department to a social security department, whose officials then allocate state benefits directly to eligible individuals or households. In more complex European welfare states such direct government transfer payments are often smaller because the state essentially supplements the social insurance that individuals have themselves taken out with other voluntary or quasi-private organizations, such as insurance funds, trade unions or social housing providers. But even here, the non-governmental providers are almost always organized in government-regulated schemes that are also underpinned in financial and risk-assurance terms by taxpayers. In the USA, welfare provision remains stubbornly partial and fragmented, dashing early post-war expectations of a 'positive service state' (Roberts, 2010).

We begin by considering how the direct delivery of social security benefits is characteristically managed in advanced industrial societies, in a distinctive administrative format that allows societies to pursue national conceptions of 'social justice' while still maintaining the rule of law. The second section looks at the particular set up for social security in the UK, especially three key changes made since 2000 – bringing together benefits administration with the provision of employment services; the rebuilding of services delivery around a phone-based model of communication with

customers; and the transition to much more capital-intensive administrative processes. Section 5.3 examines the record of productivity change in UK social security, looking back two decades. We show that virtually no growth has been achieved, despite a belated but otherwise quite extensive modernization of services. Finally we seek to track down the factors underlying this (basically static) outcome, linking it to the main investment and managerial changes pursued in the recent period.

## 5.1 SOCIAL SECURITY ADMINISTRATION AND THE CONTEMPORARY WELFARE STATE

In *The Road to Serfdom* (1944) the economic philosopher Friedrich Hayek famously argued that vesting the ability to determine people's incomes and their feasible ways of life in a government bureaucracy must inherently undermine the rule of law. It would create a slippery slope leading to an over-powerful (even totalitarian) government, intrusively demanding full information about the life choices and behaviours of a state-dependent population. These people would have to be a compliant population, because their economic and social welfare would now be determined by the decisions (whims) of officials exercising power in discretionary ways. Hayek's (1944) conclusion was that any state attempt to operationalize a concept of 'social justice' must end in undermining autonomous citizenship and the rule of law, and with it any viable concept of democracy. In every advanced industrial country, this conviction has remained an influential but minority position through to the present day. But the Hayekian critique of administrative discretion has generally been rejected as exaggerated or over-fundamentalist. In most OECD countries convincing electoral majorities have been built by political parties (stretching from the political left through to the centre-right) committed to first construct and then maintain and defend an extended social security system. Each country has developed their own strong vision of the type of social justice and welfare state that government should pursue.

In every welfare state, however, the Hayekian critique has strongly shaped how social security administration has been designed, structured and regulated. To minimize or eliminate officials' discretionary power there has been a dominant emphasis upon establishing clear systems of rules governing legal entitlement to assistance, and on enforcing a highly egalitarian, impartial and non-discretionary pattern of implementation. National politicians have retained the powers to set benefit rates and eligibility rules directly through legislation, and social security departments are normally regular 'line' ministries under full political control.

But implementation has been extensively delegated to bureaucracies of various kinds.

There are partial variations around this pattern, especially where social security arrangements are set up as long-term ‘trust funds’, as with the US Social Security Administration (SSA) – its funds cannot be diverted or used for other purposes by the presidential executive. But at the same time, SSA operates under close congressional control. In some European systems too, where state funding inter-leaves with the funded models of voluntary sector social insurance providers, the social security apparatus may operate with a greater degree of independence. But most welfare states are still set up on a ‘pay as you go’ (PAYGO) basis, where the taxes of current workers and companies are used to fund the current outgoings – that is, the pension entitlements of previous generations of workers, and income maintenance for people who are currently unemployed, ill or disabled. If PAYGO commitments are allowed to rise then so must tax payments, and often on a literally massive scale – hence the general political centrality of social security decision-making.

At the same time the ideal of impartial rule of law administration under liberal democracy has meant that politicians are not allowed to intervene directly or individually in the administration of benefits, beyond the normal constituency role of legislators in assisting their voters. Instead a voluminous set of legislation and administrative regulation has been established that seeks to set out in precise detail how people are or are not eligible for benefit, and how much they should consequently be paid. Because social security systems aim to provide comprehensive support for people in need, whose circumstances are very varied, the accompanying rule books quickly mushroom in complexity, with many special conditions and exemptions seeking to cope with apparent anomalies in previous rules. But there is no social security counterpart to the enhanced occupational autonomy of doctors, teachers or even social workers. There is no legitimate space where the individual professional discretion of an official can displace the rule book’s provisions. The embedding of complex rules in ICT systems increasingly fixes the complete legal specification of payments in machine code. Indeed numerous efforts have been made to construct ‘expert systems’ to administer benefits and to minimize the need for human judgement or intervention – so far without much success.

The push for impartiality creates a risk of creating a machine-like benefits system, one that operates in ways that treat often fragile people in considerable need without clear regard to their personal circumstances and situations. Yet officials seeking for information may make mistakes. And like anyone else, benefits agency employees may let their judgements of the claimants they encounter colour the ways in which they respond,

with consequent scope for systemic biases to emerge in the treatment of different kinds of people.

Countries have pursued three basic strategies (that complement each other) in order to counter this effect:

1. *'Humanizing' strategies* for social security were established early on in the 1930s and 1940s. They focus on socializing agency staff into a strong 'public service' ethos, in which officials' values and internal reward systems centre in large part on doing a good job for the citizens they deal with. A strong management overview of how staff treat people, comprehensive training in treating claimants fairly and an organizational culture that stresses a degree of empathy for clients' needs are all characteristic of social security organizations. These elements serve to blur and soften the edges of their legal implementation culture. Compared with tax agencies, for instance, social security staff often interact with households frequently (instead of the tax agency annual interactions). And they also may have smaller individual caseloads to handle. Social security agencies all recognize that poor or disadvantaged households are highly dependent on their decisions for money if they are to survive from day to day: so they recognize an obligation to ensure that their services facilitate solutions instead of compounding clients' problems.
2. *Appeal, redress and legal challenge processes* give a second chance to claimants unhappy with the agency's decision on their case. They have a chance to ask for a second review by a manager, and after that if they are still unhappy to appeal what they believe to be wrong decisions to higher appeal bodies or to the law courts. In Europe the emphasis tends to be on administrative tribunals, which operate less formal independent review processes where ordinary citizens can present their own cases. In the USA the solutions embodied in the Administrative Procedure Act (1946) focused on providing internal review by higher-tier officials across federal government, including within the Social Security Administration. However, US practice has also rather quickly and strongly developed from the 1960s towards the pervasive legalization of social security disputes in more adversarial ways, with agencies facing suits or damages claims in the event of legal mistakes.
3. *Improving 'point-of-service' standards* to approximate those in private sector service organizations has been an important development of the public service ethos under the influence of the 'new public management' (NPM) approach that dominated changes in public administration in many OECD countries from the later 1980s to

the mid-2000s. The 'managerialist' focus here was on moving away from rundown buildings; getting rid of block bookings of face-to-face customers with long queues and wait times; radically modernizing old-fashioned phone-handling procedures; and minimizing the most expensive interactions (face-to-face interviews). Instead service premises could be modernized to private-sector-like standards; clients would be booked only to individual appointment times, with queuing kept to a minimum; modern, high-capacity and web-enabled call centres would be established to handle much larger volumes of phone traffic more efficiently; and the need for face-to-face interactions with 'clients' would be cut to a minimum.

## 5.2 ADMINISTERING SOCIAL SECURITY IN THE UK

In comparative public policy terms the British welfare state has long been something of a halfway house between the more *laissez faire* minimalism of the USA and the generous income-replacement levels provided by social security in the older EU member states. The traditional UK approach to social security is statist, integrated, universalistic and highly centralized (Dunleavy, 1989a, 1989b). It is also characteristically mean in comparison with the level of income replacement made by welfare benefits in other European countries. For many decades the UK old age pension has typically paid no more than a third of median weekly earnings, compared with levels around 60 per cent to two-thirds in Germany, France or Scandinavian countries. Similarly, the UK system provides newly unemployed people with a benefit rate that is just 13 per cent of the average weekly earnings, compared to replacement rates that are more than four times as generous in the same set of European countries.

On the other hand, the UK system still (just) retains the attempted comprehensiveness of the original Beveridge Report dating from 1944, with its aspiration of providing 'cradle to the grave' coverage against ill luck and the adverse contingencies of unemployment, illness, disability and old age. Thus the UK welfare state provides a far more multi-pronged system of social protection than the minimal insurance against unemployment, short illness and the basic State Pension that the Social Security Administration in the USA delivers. Table 5.1 shows that the British system is far more comprehensive than the US welfare state in recognizing an obligation on government to provide money benefits to prevent people from becoming homeless, going hungry or coping with illness, disability or disastrous personal life choices. As a result, Table 5.1 also shows that the annual

*Table 5.1 The main social security benefits in the UK welfare state  
(and those covered for the productivity analysis in section 5.3)*

Category	Annual Spending in 2008 (£ billions)	Proportion (%) of 2008 Benefit Spending	Specific Names of Related UK Benefits Involved Included in Productivity Analysis
Benefits for unemployed people with insurance contributions (i.e., National Insurance in UK)	1867	1.5	Unemployment Benefit to 1996, and contributory Jobseeker's Allowance (JSA)
Benefits for unemployed people without insurance	8759	6.8	Income Support for the unemployed (from 1988 to 1996), thereafter non-contributory Jobseeker's Allowance
Benefits for working age people who are long-term ill	6575	5.1	Incapacity Benefit (before 1995, data include Invalidity and Sickness Benefit)
Other benefits for working age people	932	0.7	Other benefits: Maternity Allowance and Widow Bereavement
Loans to assist working age people on welfare to purchase consumer durables etc.	2399	1.9	Social Fund Grants and Loans (introduced in 1993)
<i>Sub-total: Payments for working age people not in work</i>	<i>20 532</i>	<i>16.0</i>	
Old age pension based on contributions	57 366	44.7	Basic State Pension State Earnings Related Pension Scheme (SERPs) War Pensions (paid separately by the Ministry of Defence)
Assistance for elderly people with low household incomes	7227	5.6	From 1993 to 2000 Income Support for people aged 60 and over; Minimum Income Guarantee up to 2003; from 2003 onwards, Pension Credit

Table 5.1 (continued)

Category	Annual Spending in 2008 (£ billions)	Proportion (%) of 2008 Benefit Spending	Specific Names of Related UK Benefits Involved Included in Productivity Analysis
Additional assistance to elderly people needing help to get around or cope with daily living	4440	3.5	Attendance Allowance
Assistance for disabled elderly people	9809	7.6	Disability Living Allowance (from 1993)
Assistance for people looking after the elderly or disabled	2173	1.7	Invalid Carers' Allowance, later Carers' Allowance
International Pension Credit	200	0.2	Paid to UK citizens living overseas
Sub-total: Payments to elderly people and the disabled	81 215	63.2	
Assistance with meeting local housing rents	15 745	12.3	Housing Benefit (administered by local authorities, repaid from DWP budget)
Assistance with meeting council tax payments	4124	3.2	Council Tax Benefit
<i>Sub-total: Payments for anyone eligible on welfare rolls</i>	<i>19 869</i>	<i>15.5</i>	
<i>Future Pension Forecasts</i>	<i>345</i>	<i>0.3</i>	<i>Future Pension Forecasts</i>
<i>Tax-free payment for each child</i>	<i>6 508</i>	<i>5.1</i>	<i>Child Benefit (paid by HMRC)</i>
<i>Sub-total: Benefits paid and services given to all eligible people, whether on welfare rolls or not</i>	<i>6 853</i>	<i>5.3</i>	
<b>Total benefits spending</b>	<b>128 469</b>	<b>100.0</b>	

*Note:* The italicized benefits are not included in the analysis below.

value of all UK social benefits paid to claimants in 2008 amounted to £129 billion, and total government social security expenditure amounted to almost £137 billion, that is, 12 per cent of the country's gross domestic product (HM Treasury, 2009). The rows in italics towards the bottom of

Table 5.1 show that there has also been a recent growth of tax credits for working families and for children, adding to the substantial payment of universal Child Benefit, until 2012 paid to all households with children (whatever their income levels). All tax credit payments are undertaken by HM Revenue & Customs (HMRC), with credits especially closely linked to the tax system (see Chapter 4). But this still accounts for less than a fifth of UK welfare state spending. The remaining monies (more than four-fifths) route through another integrated large ministry at central government level, the Department for Work and Pensions (DWP). It is on these that this chapter concentrates.

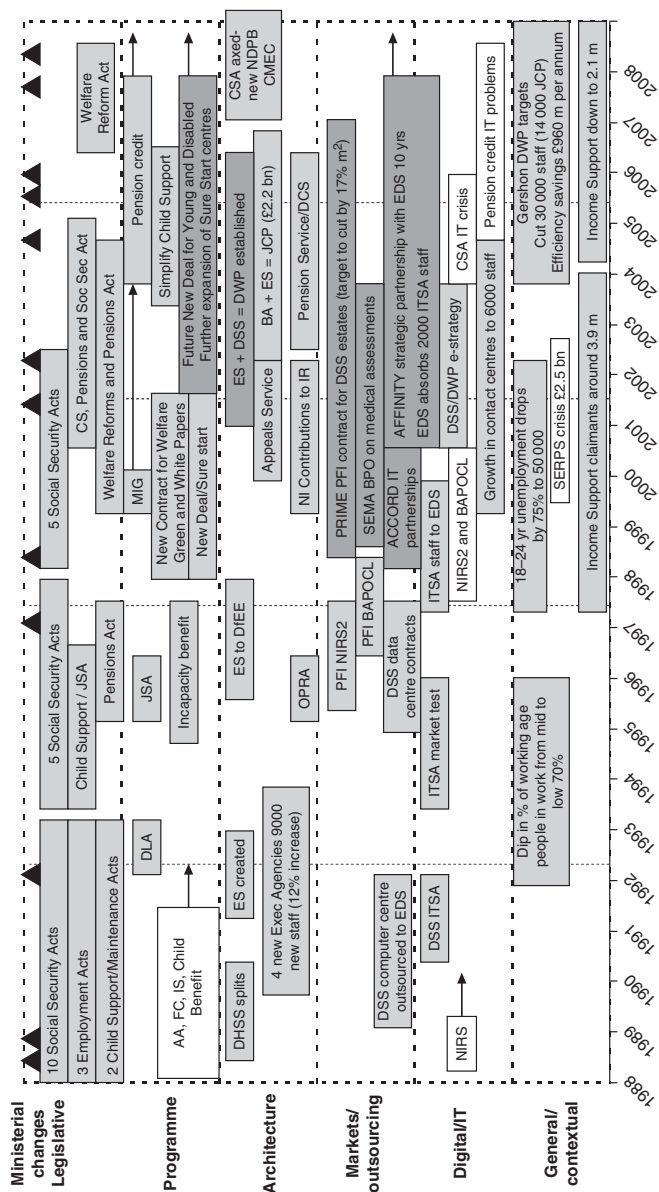
The department is a classic ‘transfer agency’ in terms of the ‘bureaus-shaping’ typology (Dunleavy, 1991, Ch. 7). The total administrative costs for social security in 2008 were £7.5 billion, making this the largest administrative cost borne by any government sector. (The tax department HMRC came second at £5 billion.) Personnel numbers in the DWP peaked at over 131 000 in 2002, more than a quarter of the whole central government civil service. They then fell back to a low of just over 105 000 staff by 2008 – before substantially expanding again in 2009, reflecting the impact of recession in raising unemployment levels and benefit claimant numbers (see page 145). Although this is a massive administrative undertaking, it is worth stressing that running costs in the DWP accounted for only 4.4 per cent of its total budget in 2008, closely in line with bureau-shaping expectations for a welfare state transfer agency.

The policy and organizational context for delivering social security has changed extensively in the period since 1988, when useful data begin to be available. The timeline in Figure 5.1 summarizes some key influences, including the following:

- A rapid succession of *legislative changes* (32 separate Acts in 20 years).
- A frequent turnover of *top ministers* (12 times in the period) despite one single change of government in 1997 from Conservative to Labour (even for the UK, this is an extreme case of short-termism).
- Main *policy programme changes* in this area always centred on the introduction of new benefits and the phasing out of old ones, usually by new ministers.
- *Changes in the macro-organizational architecture* for administering social security benefits, especially the merger of two previously separate networks of offices to form a single Department for Work and Pensions.
- *The extensive use of ICTs and contractors* formed a strong dynamic in the administrative development of social security, with a major outsourcing in 1992, renewed in more comprehensive ways in 1998.



Figure 5.1 Main developments in the administration of UK social protection, 1988–2008



Note: In Figure 5.1, the abbreviations used are: ACCORD consortium of computer firms; AA Attendance Allowance; BA Benefits Agency; BAPOCL Benefits Agency/Post Office Counters Limited, joint programme; BPO business process outsourcing; CSA Child Support Agency; DVEE Department for Education and Employment; DHSS Department of Health and Social Security; DCS Disability and Carers' Service; DLA Disability Living Allowance; DSS Department of Social Security; EDS major computer firm; ES Employment Service; IS Income Support; ITSA Information Technology Services Agency (within DSS); JCP Job Centre Plus; JSA Job Seekers' Allowance; MIG Minimum Income Guarantee; NDPB non-departmental public body; NI National Insurance; NICO National Insurance Contribution Office; NIRS National Insurance Register System; OPRA Occupational Pensions Regulatory Authority PFI Private Finance Initiative; PRIME property sale and re-lease deal; Sema major computer firm; SERPs State Earnings Related Pension Scheme, a top-up pension; STEPS acronym for property transfer consortium.

- *Increased modernization spending* by Labour ministers on PFI new building contracts (around 5 to 7 per cent of administrative costs per year) and consultants (around 2 per cent of administrative costs per year), responding to the previous chronic under-investment under Conservative governments.
- *An attempted transition of DWP administrative processes* from paper-based forms and face-to-face contacts and towards phone-based customer contacts, all underpinned by a massive new investment in IT systems and in new buildings.

The Department of Work and Pensions was itself created in April 2002 by merging together two pre-existing large bureaucracies: the Department of Social Security, a cabinet ministry whose role consisted solely of assessing and paying out claims for welfare benefits; and the Employment Services Agency, a large but discrete part of a separate Whitehall department, covering education and employment policies. We discuss each of these ‘parent’ organizations in turn, before looking at how DWP itself developed after its creation.

### **The Department of Social Security**

The Department of Social Security (or DSS) was formed in 1988 from the de-merger of a previous ‘super-ministry’ that had linked together Health and Social Security for two decades. Under the ‘Next Steps’ reorganization of Whitehall begun in 1988 (see Chapter 4), DSS was internally separated into four main agencies separated on functional lines:

- The largest component was the Benefits Agency, whose job was to pay out social security benefits payments, especially pensions, support for ill and disabled people and ‘safety net’ support for unemployed people not entitled to unemployment pay (run by a separate ministry, see below). Essentially the agency was the ‘operating core’ of DSS in Mintzberg’s (1983) terms (i.e., the part of the organization that really set its identity and carries out its key mission functions). It maintained the department’s local office network. At its peak size it employed nearly 70 000 staff.
- The Contributions Agency had the job of monitoring National Insurance (NI) payments by employees (the UK version of a social security tax), and then passing the right information to Inland Revenue, who actually organized the collection of NI contributions. In 1999, after a series of embarrassing IT contract mistakes, and a

failure of service covering several months, the agency and its 10000 staff were completely transferred away from DSS to Inland Revenue.

- The third main element of DSS was ITSA, the Information Technology Services Agency, which ran the large DSS computer centres and national IT systems. Most of its staff were transferred to private contractors when the department's IT functions were outsourced in 1999.
- Finally, the badly misnamed Child Support Agency (CSA) was created as an executive agency in 1993. It started life as a part of DSS in 1981 when Margaret Thatcher's government began chasing divorced fathers with obligations to make maintenance payments to dependent children. Operating very much as a semi-detached part of the department, from the outset its effectiveness was controversial, with administration costs commonly absorbing more than half of the sums recovered from fathers, and with repeated instances of IT and administrative crises. Efforts were made to refashion CSA's legislative basis and method of operating, and its IT systems were renewed, without much improvement. In 2008 the organization ceased to be an executive agency, converting into the delivery arm of a shortlived body (the Child Maintenance and Enforcement Commission), which was abolished in 2012 and its functions transferred to the Child Maintenance Group (CMG) within DWP itself. CSA lives on in a hollowed-out form (with no autonomy) as the body doing implementation for CMG.

Most of the early DSS period was taken up with the development of its 'Operational Strategy' to computerize social security records and office processes, moving away from a wholly manual set up with paper files and records, where the administration of income support for the unemployed and sickness/disability benefits was handled in hundreds of local offices (Margetts, 1991; Margetts, 1998, Ch. 3). More centralized structures were created for benefits administration, with computer records taking over from paper files. Local offices and paper forms were retained for interacting with customers, but the recording of decisions was moved onto computers. The Department chose as its contractor, EDS, the dominant system integrator firm in the UK at this period. Later the same company supplied the IT system installed for the Child Support Agency.

The strategy was planned to install computer networks and terminals and to last 15 years, but the whole idea of a 15-year computerization strategy was vitiated by the rapid development of IT, including the launch of PC-based systems (Margetts, 1998). Cost overruns also occurred and the efficacy of the new systems was queried by a number of Parliamentary

select committee hearings and National Audit Office (NAO) reports. The Operational Strategy was more or less halted in 1999, after the expenditure of some £1.75 billion over 17 years. Its achievement was clearly to accomplish the long-delayed computerization of the benefits systems, but its legacy in terms of locking the department into outdated solutions and technologies (endorsed by both senior officials and their main contractors) is also hard to underestimate.

When we visited a series of Benefits Agency offices in 1999 on an NAO investigation, its 68 000 staff were equipped with just eight PCs capable of accessing the internet. None of its over 400 local offices had any access to PCs, or any knowledge of websites (Dunleavy et al., 1999, Part 2). The Department did have a small 'posterboard' website (of very low functionality), which was actually built by a couple of low-ranked officials from a Yorkshire office in their spare time. One of their main tasks in 1999 was to receive and collate the more than 200 e-mail queries a month that DSS received from UK pensioners overseas, print them out and then send them to the appropriate paper forms office. The relevant NAO report concluded that the department's websites 'have been relatively static and under-developed, cautiously funded and under-resourced, providing information within conservative and unimaginative designs' (Dunleavy et al., 1999, paragraph 2.31).

The working model of the department varied across its main benefits areas. The administration of pensions was generally a low-cost activity, costing on average around £0.5 to £0.6 per client per week in the late 1990s (Margetts, 1999). This was unsurprising since many pensioners were paid the same basic pension for many years, and rarely moved address. However, paying benefits to working age people who were unemployed, sick or disabled then cost around £5.50 per person per week. These clients had far more changes of circumstances, switches of address and a much higher incidence of new claims to continuing claims, all of which greatly raised costs. Maintaining a comprehensive network of local benefits offices to see clients in person was also costly, but DSS officials (and ministers) saw it as an essential check on who was receiving the higher-risk benefits, like Income Support.

Throughout its period of operation, under the Conservative governments of Margaret Thatcher and John Major, the political salience of the DSS was generally rising, albeit from a low ebb. Influenced by US developments, Tory ministers embraced a shift away from the automatic granting of benefits to unemployed people and towards more of a 'workfare' orientation, in which jobless people were expected to demonstrate that they were active in seeking work. Conceivably benefits could be withdrawn if jobless individuals refused to accept viable work that was

offered to them. Initially this 'stricter benefits regime' stance was criticized by Labour and the trade unions. But in the later 1990s Labour too swung towards a strong endorsement of a humanized workfare look-alike approach – one that promised job seekers much stronger assistance and retraining in looking for work, in return for a responsibility on their part to move off benefits as soon as they could do so. The Blair government was influenced here by the active labour market policies of the Swedish welfare state. But the Labour vision also could not be achieved simply within the confines of the DSS brief, because the new vision was centrally linked to employment policies.

### **The Employment Services Agency**

The Employment Services Agency (ESA) in 1988 formed a rather separate and discrete part of the Department of Employment. Its origins can be traced back to the 1909 decision to create Labour Exchanges where local jobs would be advertised by employers and the government would try to bring a degree of order to chaotic local labour markets. Labour exchanges helped jobless people to more quickly and easily find work by broadening their options and widening their job searches, with staff assistance. Later renamed Employment Exchanges and run by the Ministry of Labour, these local offices also took on the payment of unemployment benefits for jobless people looking for work and who had made the requisite contributions when in work to be entitled to receive benefits – called National Insurance.

Later on the parent department was renamed the Department of Employment, and in 1973 its network of local offices were renamed Job Centres. In 1988 the Employment Services Agency was created as part of the 'Next Steps' agencification process (see Chapter 4), where staff were moved out of main Whitehall ministries and into executive agencies. It was now run on more corporate lines, and operated Job Centres in most towns and cities. Finally in 1995, the Conservative government decided to merge the parent department of the Job Centre service with Education in a short-lived Department for Education and Employment (DfEE, which lasted in this form for just six years).

The Job Centre network was widely rated as a success until the advent of the 1981–85 recession, when it came under acute pressure because of the growth of mass unemployment. The department did succeed in somewhat updating its services and assisting job seekers more, but the linkage with DSS services was always problematic. Unemployment benefits (based on past National Insurance contributions) were paid for up to the first year that people were out of work. Thereafter a jobless person would need

to move onto a different benefit (called Income Support) paid by DSS, transferring across from one local office to another, often several miles apart. Long-term unemployed people, or those who did not have the right National Insurance contributions, would not need to visit Job Centres to receive benefits, and so might not need any assistance with job seeking. Nor was it easy for DSS staff to check if job seekers were actively looking for work. Expertise in assisting with job searches and knowledge of local labour markets also lay with the ESA, and not with DSS staff.

In 1997 the Labour government under Tony Blair came to power pledged to introduce active labour market policies with a much stronger administrative push to get non-working people into employment (UK Government, 1998). Integrating service delivery across the DSS and DfEE boundary line became essential to the government's 'New Deal' programmes for young unemployed people, for lone parents, the long-term unemployed and the disabled – all of which stressed New Labour's 'rights and responsibilities' agenda. The 'stricter' Jobseeker's Allowance (JSA) regime of the Conservatives was now supplemented by 'guaranteed' intensive employment assistance after a particular duration of unemployment (Willets et al., 2003).

There were two possible ways of resolving this conundrum, however: (1) to move the administration of all social security benefits for working age people across from the DSS and into the employment ministry DfEE, thereby downgrading DSS into something like the old Ministry of Pensions that existed in the 1960s; or (2) to move the Employment Services Agency across from DfEE into DSS, thereby creating a beefed up Job Centre operation that would now include not just Income Support for the jobless, but also all the job search assistance and administration of contributory Jobseeker's Allowance. Naturally enough ministers in DfEE fought hard for option 1, while DSS ministers argued strongly for option 2.

In 1999 the civil service began to trial joint workings between the two departments at the local level. Called the 'One' pilot, this experiment rapidly spread to more regions and localities and was quickly judged so successful that the pilot was never formally evaluated, but a decision was made to merge the operations of ESA and DSS for working people. A Whitehall inter-departmental committee spent two years comprehensively examining the whys and wherefores of creating a single new department bringing together all benefits and advice services for working age people in a service to be called Jobcentre Plus (JCP). The new agency would break away from the old, traditional images of 'labour exchanges' and provide a radically improved standard of customer service. A small working party was set up to create a blueprint for Jobcentre Plus, chaired by the Treasury second in command and including DSS and DfEE ministers and senior

officials. Eventually it recommended that JCP should be created within DfEE (option 1 above). However, the Prime Minister deferred a final decision until after the 2001 general election (White and Dunleavy, 2010). After Labour won, the detailed dynamics of his cabinet-making led Blair to decide that option (2) should prevail. ESA would switch across from DfEE (which was now actually abolished in its old form) to DSS, so as to create a new Department for Work and Pensions.

### **The Department for Work and Pensions**

The Department for Work and Pensions (DWP) formally began work in April 2002, but in fact it had already existed in proto-form for more than a year. It was perhaps the best prepared, longest incubated and most expensive departmental merger in UK central government, ever. The centrepiece of the reorganization was the creation of Jobcentre Plus (JCP) services offering unemployed, disabled and sick people of working age a more intensive regime of employment assistance. There were to be frequent checks to ensure that claimants were actively seeking work, or were using training opportunities, and that they were not simply languishing on benefits. Single JCP offices in town centres and accessible locations were created where all claimants had to register in person that they were seeking work and check in every two weeks for follow-on interviews, if they wanted to continue receiving benefits. Once jobless people reached six months and then a year out of work, more intensive interviews and assistance packages were mandated.

All the Job Centre buildings were remodelled nationwide from scratch, getting rid of queuing systems, screens and rundown premises. They were quite rapidly replaced with modern-looking, open plan offices where all claimants had to turn up for precisely timed interviews, and with security guards on hand to protect staff and to ensure that no one was admitted before their appointed time. The old-fashioned cards advertising vacancies were replaced by computerized 'kiosks' showing vacancies on screens and allowing some details to be printed. There were some dedicated phones for ringing up potential employers, but not a single PC was available for use by unemployed people across the 850 local offices, a situation that persisted until 2010 (Dunleavy et al., 2009).

The mature JCP model, which applied throughout the later 2000s, still had very complex processes to administer the benefit, described in detail in Dunleavy et al. (2009, Part 2). Jobless people claiming benefits had to ring up a DWP call centre for around 40 minutes and explain their situation and details to the contact person. They then ended up with a local JCP appointment, where they needed to show up at the Job Centre with

their documentation to establish their identity, and be given advice by a JCP local worker on looking for work. However, the person seeing them face to face did not make a decision on their benefits – instead the JCP staff only completed a computerized form that was next sent on to one of 77 Benefit Decision Centres organized at (small) regional levels. Here the information relayed by the call centre and the local JCP officials was used to make a decision. Information was lost and had to be repeated at each of these stages, and the efficacy of the DWP computer systems and networks was so poor that 40 per cent of the time information did not transfer in a satisfactory or timely way from the call centre to the local JCP offices, or from JCP to the remote decision centres (Dunleavy et al., 2009, Part 2).

In addition, the computer kiosks that seemed such a good idea in 2002 were pretty much obsolescent by 2009. On our visits to Job Centres during late 2008 they were being little used. By contrast in the equivalent Australian service (called Centrelink) there were hundreds of proper PCs available to jobless people for them to search for jobs and e-mail applications. In the UK there were none at all: unemployed people had to be sent to local libraries or other online access centres to do such tasks, making it very unlikely that JCP officials could monitor whether they did or not. Similarly, in the Access Canada service set up in the later 2000s there was a strong emphasis on clients or customers sitting on the same side of the desk as those helping them and looking at the same information on computer screens. But in every JCP office we visited during 2008, staff sat on the other side of desks from claimants, and could not turn their screens to show clients what jobs were on offer or how to operate web-based applications. Yet by this time Britain's largest employer (the NHS) was only accepting e-mail applications for any of its positions.

A large part of the estimated direct costs of integrating the ESA employment services into the new department arose from pay differentials between the two departments, which cost a minimum of £143 million to equalize over the years after 2002 (White and Dunleavy, 2010). In addition, the convulsion of JCP services clearly produced a productivity dip, with staff and managers focusing some of their attention on protecting and enhancing their own positions in the complete reorganization of services for working age people. Using a metric derived from private sector mergers and acquisitions, White and Dunleavy estimate the short-term costs of lower productivity at £166 million. The separate and long-standing Employment Services Agency organizational culture was also imperfectly absorbed in the new hybrid DWP, causing some staff to leave, and others to retire early.

The other two sections of DWP covered pensions and services for the elderly and those for the disabled and carers. They were also affected by



extensive change processes. A 2001 review of strategic options for the new department concluded that it badly needed to modernize its services, and that the key way to do so cost-effectively was to transition away from expensive face-to-face services for elderly and disabled customers, and also to move on from paper form applications. Instead, the DWP's whole ways of communicating with its elderly and disabled customers would be revolutionized, by using phone-based administrative processes. Huge, modern call centres would be built and phone-based applications brought in, especially for modernized benefits.

The new benefit, Pension Credit, was launched in 2003 to replace Income Support and supplementary provision for elderly people with poor National Insurance records and hence only small State Pensions. The new credit aimed to guarantee anyone aged over 60 a defined weekly income. To register, people phoned up a call centre and went through a long-ish conversation with an advisor who filled in a complex form on computer as they spoke. Staff aimed to give callers a decision on their entitlement more or less then and there, at the end of the conversation. Yet when we visited several Pension Credit call centres in 2008 we found that barely one in four of the lowest-income applicants for the new benefit could be given an immediate decision, called 'sunny day' cases by the staff (Dunleavy et al., 2009, Part 3). The vast bulk of cases involved applicants submitting paper documents and additional information about their housing, employment status or bank accounts, which always greatly extended the decision-making process, often for four to six weeks, and caused many applications to lapse and have to be restarted. This was mainly due to the supplementation characteristic of this benefit, which required that a claimant's earnings and savings were first assessed to determine how much extra income they should get. The DWP computer systems set up to optimize phone applications also worked in a very cumbersome way with conventional paper applications – yet a third of elderly people preferred to start their application off in this way, printing off forms from the internet or getting copies from charities. IT limitations also meant that paper forms were no quicker to process than the long call centre conversations. Experienced DWP grassroots staff often evaded the newer, screen-based IT systems that took so long to fill in, in order to complete applications more quickly directly on the older mainframe computers (dating from the Operational Strategy era).

Meanwhile in some other areas of DWP, our visits in 2009 found some administrative functions operating essentially unchanged from 1970s' processes. DWP paid an important benefit for sick or constrained elderly people who needed extra help with day-to-day household activities like washing, dressing, cooking and going to bed. This was called (mislead-

ingly) Attendance Allowance (AA). In a 2003 study of 'difficult forms' for the NAO this form was by far the longest, most complex and most complained about government form (Dunleavy et al., 2003). As result of the NAO study, the AA form was eventually simplified and the number of questions greatly reduced, but our 2009 study (Dunleavy et al., 2009) found that it still took elderly people at least three hours to complete, and was almost impossible for them to fill in without extensive assistance from families, carers or case workers. All AA applications were on paper, even though very sensitive and hard-to-explain matters were involved, and processing and decisions took several weeks.

The DWP decision to remodel the department around phone-based processes was based on analysis of survey responses in 2001–02 that showed that far fewer DWP customers were using PCs or had internet access than in the population at large. As a result, throughout the noughties there were no developments at all undertaken to put core DWP transaction services online. There were two rather separate exceptions, a long way removed from benefits-based transactions. First, the old ESA labour market services had begun to move online in the late 1990s, before the formation of DWP, because there was already an evident demand from businesses and employers to have a web-based job vacancies service. This ESA-initiated project developed rapidly in the noughties. By 2007 the now JCP labour market systems were carrying details of 40 per cent of all job vacancies across the country. At first vying with private sector services, and often criticized by major private competitors at that time, the DWP provision was eventually guaranteed and stabilized against being outsourced by an EU ruling that all member states must deliver web-based employment services for their populations. Later the key JCP site developed fruitful information sharing of huge blocks of vacancies with its main private sector rivals, enhancing their mutual effectiveness (Dunleavy et al., 2007, p. 6).

Second, the DWP's provision of web-based information about benefits slowly improved, from its ineffectual 1999 beginnings (discussed above). A 2002 study by NAO following up on government departments' website provision found that DWP was still lagging behind in terms of its departmental website, with incomplete, inconsistent information presented in complex and inaccessible ways (Dunleavy et al., 2002). The 2003 study of 'difficult forms' followed up by demonstrating that DWP websites still offered a poor access route for citizens seeking information about their eligibility for benefits.

A cabinet sub-committee reviewed the cross-departmental picture of poor website development and in 2007 concluded that a new strategy was needed, focusing on creating two new government 'super-sites'. The ambition here was for the central government to replicate some of the BBC's (British

Broadcasting Corporation) success in building up a well-presented store of information, going beyond news and into information provision more generally. One super-site (called Directgov) would be citizen-facing, and the other (called Businesslink) would be company- and employer-facing. Initially established under the Cabinet Office, the two sites later moved to be sponsored by main departments, Directgov by DWP and Businesslink by HMRC (which Chapter 4 shows is extensively business-facing).

Directgov focused on copying and migrating information for citizen services across from departmental websites in a rewritten and re-presented form. It achieved early success when the Transport Department began using it for its forms for motor vehicles and driver licences (see Chapter 6). The rewriting and re-presenting of DWP's benefits materials proved much more complex and by 2009 was only partly accomplished, with partly inconsistent wording still appearing on the DWP's own websites and on Directgov (Dunleavy et al., 2009, p. 7). By this time, though, DWP assumed departmental responsibility for running Directgov, which subsequently somewhat speeded up the transfer across of information. With the migration of service-related information supposed to be completed in 2011, Directgov's salience as a source of government information had markedly increased over previous failed government portals. Experiments by the Oxford Internet Institute in 2009 found that by using Directgov, nearly seven in ten respondents (amongst internet users) could find out salient details about eligibility for different DWP benefits (Dunleavy et al., 2009).

However, the government super-sites plan had expected Directgov to develop portal-like 'synergies', where citizens looking for one piece of information would also learn about other services and complete online transactions. In fact, these behaviours did not grow much because the UK government had completely failed to anticipate the dominant development of Google and other search engines – where people go directly to the relevant information page for their specific needs, rather than navigating through the still crowded and complex Directgov opening screens (Dunleavy et al., 2007). In 2011 the government announced the supersession of Directgov by a more ambitious Government Digital Service. Instead of just providing passive information sheets (as all the DWP sites did), the new site aimed to actually help people to complete transactions online, something completely infeasible across the board in the DWP services until late 2009, and only slowly developed since then to the time of writing (mid-2012).

The development of DWP's means of communicating with its customers up to and beyond the end of our study period are summarized in Table 5.2, developed from material gathered for a 2009 NAO report on the department (Dunleavy et al., 2009). In the mid-noughties the department's

*Table 5.2 The evolution of approaches to information exchange in the Department for Work and Pensions*

Key Periods	Disseminating Information about Benefits to Potential Customers	Applying for Benefits	Contacts with Customers
Legacy approach before 1999	Paper leaflets Face-to-face explanations in local offices Media campaigns and advertising	Mailed in paper forms Paper forms completed face to face in local offices	Paper letters Face-to-face discussions
Major changes already made from 2000 to 2008	DWP websites developed and online information greatly increased Extensive redesign of leaflets and improved risk assurance on their information being up to date	Phone-based applications developed strongly for all customers Redesign of many paper forms Development of Carer's Allowance electronic claims Some claim forms available online	Phone-based contacts increased with all customers, especially those over 60 Local office access for customers over 60 removed
Immediate challenges from 2009 onwards	Consolidate and improve all online benefits information on Directgov (closing down DWP citizen-facing sites)	Develop the first two major online benefit applications for JSA and State Pension	Develop the first systems for online communications with customers via e-mails, web accounts etc. Develop 'Tell Us Once' procedures
Strategic long-run challenges (to 2017)	Further develop online advertising Develop Web 2.0 applications and facilities	Grow the proportion of online applications (to 40 per cent for JSA by 2011)	Grow the proportion of online communications Develop 'self-service' and online accounts

*Source:* Derived from materials gathered for Dunleavy et al. (2009).

expensive attempted transition to phone-based services was threatened by an avalanche of almost 195 million customer phone calls a year, many generated by the complexity of benefits rules and the opaque language in which they were communicated, and others reflecting payment delays and uncertainties. A quarter of phone calls were judged 'not value-adding' and DWP admitted to a Parliamentary select committee that its contact centres were so overwhelmed that 44 per cent of calls in 2005 were going unanswered. DWP's increasingly effective top management team took drastic action to try to cut the volume of calls – by making more use of postal forms; redesigning paper forms, contact centre phone scripts and web pages to try and get communication with customers right first time; and using intelligent voice recognition (IVR) systems to automate phone call handling (although IVR is much disliked in the UK). These radical efforts succeeded in cutting phone calls by 40 per cent by 2008.

But just as this battle seemed to be won, in late 2008 DWP top managers were shocked to discover from new research on benefits claimants that 51 per cent were already online with broadband internet access. This rate was substantially less than the UK population as a whole, but also a world away from the assumptions that had led the department to make its expensive transition to phone-based services. At the same time, the 2008 recession drastically increased the numbers of unemployed people registering for JSA, and also brought in a new wave of redundancies in sectors of business where people were used to doing things online.

Responding to numerous requests, DWP created a simple online form to pre-populate some parts of the form that call centres normally completed for applicants in a 40-minute phone call. This online facility was a cheap 'quick fix' that was expected to be of minor significance. Yet by December 2008 some 50 000 people a month were filling in and returning the form. The high level of demand led to top managers bringing forward to 2009 an online form designed to replace in full the initial contact centre phone call (Dunleavy et al., 2009, p. 5). Online pension registration was pushed back to later action in the UK – although it was successfully introduced in the USA and Canada in 2009 and expanded rapidly in both countries (Dunleavy and Rainford, 2011).

The DWP's startling conservatism in the face of online services, lagging more than a decade behind developments towards online transactions for UK tax paying, reflected a conflict of values within its organizational culture. The number one value for managers and most staff was maintaining the security, accuracy and integrity of the existing, complex benefits systems. The senior IT staff who were handling rules changes to DWP systems were especially conservative, with a change notification process that never took less than two years to implement any changes, small or

large. Hundreds of minor system changes were under consultation or progressing towards implementation at any one time. This primary preoccupation with maintaining complex systems' basic stability was run close for top managers by a drive to minimize running costs, creating savings in staff numbers, improving efficiency and cutting fraud and error (NAO, 2008b and 2010c). These latter motivations were partially shared and partially rejected by staff, not anxious to see their job prospects worsened and workloads increased. Finally, a relatively strong 'public service ethos' was a core value amongst grassroots staff. At the top management level it focused on 'delivering the best feasible customer experience' (Dunleavy et al., 2009, p. 12). The huge modernization of DWP services, both in the smartened-up Job Centres and in the building and business processes used for the newer phone-based benefits like Pension Credit, testified to the strength of this third impulse. But improving the customer experience was throughout easily trumped by the drives to maintain benefits system integrity and keep costs to a minimum, reflecting strongly conservative influences.

### 5.3 THE STASIS IN SOCIAL SECURITY PRODUCTIVITY

The key past constraint on organizational learning about productivity in government has been the absence of reliable data on output measures. In the UK this information deficit in social security only began to be officially addressed in the mid-1990s. Our main analysis draws on valuable work by DWP's own analysts in cost-weighting outputs in sophisticated ways, and thus covers the period 1998–2008, which provides a useful perspective. But since ten years is still a relatively restricted perspective, we have also undertaken a longer-run 20-year analysis, covering the period 1988 to 2008, seeking to map productivity trends from somewhat cruder data series, assembled in a consistent way from publicly available data from the DWP and the ONS.

Table 5.3 shows that our analysis of the DWP and its predecessors' productivity is based on looking at data for the full range of its services. Because responsibility for the payment of some smaller 'social protection' benefits was transferred from the DSS/DWP to other government departments during the period under analysis, we excluded these benefits from our calculations, to keep our output measure fully comparable over time. Data were assembled on a financial year basis, starting in financial year 1997–98 and running forward for ten years. Again following the recommendations of the Atkinson Review (2005b), our key measures for 14 main areas are the number of applications for that benefit registered in

*Table 5.3 Data and adjustments used for the measurement of productivity in UK social security, 1998 to 2008*

Variable	Evidence Used, and Adjustments Made
Outputs for processing of benefits	Number of new claims, and number of ongoing payments, processed for: Jobseeker's Allowance and its predecessor; Incapacity Benefit; Maternity Allowance; Widow's Benefit <sup>†</sup> ; Social Fund grants and loans <sup>†</sup> ; State Pension; SERPS; Attendance Allowance; Disability Living Allowance; Carers' Allowance; International Pension Credit <sup>†</sup> . Internal data provided by DWP covering 1997–98 onwards For our longer time series (1988 to 2008) we use DWP published data on numbers receiving most of the same benefits. However, we exclude the smaller benefits marked * above, but because we use a 'social protection' measure we must perforce include War Pensions (not administered by the DWP, but by the Ministry of Defence)
Cost-weighting of outputs	Unit costs for each benefit above, provided by DWP internal data
Inputs, for total factor productivity	Deflated total labour and other administration costs obtained from DWP statistical teams. Capital consumption was also provided by DWP staff
Inputs for staff productivity	Number of full-time equivalent (FTE) staff in social security and employment assistance, obtained from DWP annual reports and those of its predecessors. Longer-term data also include staff administering War Pensions

a year (claims), together with the total number of ongoing payments for that benefit per year (load). The logic here is that in terms of administrative costs, new benefits claims are far more expensive to process than ongoing load. Many of the transactions costs of administering benefits lie in judging people's eligibility, checking databases and documentation, coping with missing information and assuring against fraud or error. Especially once the DWP transitioned to using electronic payments to bank and Post Office accounts, the main costs of ongoing payments arose from processing changes of addresses and other altered circumstances.

To cost weight output volumes we again followed the methodology suggested by the Atkinson Review. Output volumes were weighted according to their share of total administrative costs for processing new applications

for benefits (claims) and for the maintenance of existing benefit caseloads (loads). In this chapter we used weights calculated by the internal productivity unit at DWP, which are based on unit costs. The unit costs show how much was spent to produce each benefit payment as a share of total administrative expenditure. Again, in normal years the variations in costs are mostly quite small. However, costs are often higher in the first years of introducing a new benefit, because both the staff and claimants are unfamiliar with how it is supposed to work, and mistakes, operational failures and other 'teething problems' more often occur. As the benefit's operation become routinized, operating costs generally fall, unless an IT glitch develops, or a vulnerability in the benefit processing procedures becomes apparent (e.g., because of a new type of fraud spreading from one region to another). For our longer series covering two decades, we cost weight more crudely using an annual cost per 1000 benefit payments measure derived from the public annual reports of DWP and its predecessor departments.

Are quality controls needed for social security series, and if so what should they focus on? The Atkinson Review suggested that the extent of fraud and error in paying benefits was the most appropriate element to consider in quality-weighting. The National Audit Office has been qualifying the accounts for first the Benefits Agency and later the DWP since the end of the 1980s, on the grounds that the overall rate of fraud and error is too great to allow the accounts to be signed off. However, there has been consistent action by successive top civil servants at the department to counteract the problem. Rates of fraud have fallen by half in absolute number terms in the noughties, and declined from 2.1 per cent of benefits paid out in 2000 to less than 1 per cent by 2009 (Tinkler, 2010). Customer error has shown trendless fluctuation in the same period at between 0.6 and 0.9 per cent, and official error (mistakes made by staff) has grown slightly from 0.4 to 0.6 per cent (albeit with peaks of 0.8 per cent in 2004–05 and 2006–07, mainly around Pension Credit). These variations are so small that in our view they are well within the margin of error in the underlying statistical systems producing them. We would have to quality weight fraud and error very heavily for such variations to affect the over-time productivity trends in any visible way, although levels are much greater in some areas (such as Housing Benefit, not handled by DWP but delivered by local authorities). An NAO study (2008b) (and see World Bank, 2010) compared the fraud and error rates in the UK with those in other advanced industrial societies, and concluded that they are unexceptional in either direction – neither clearly better, nor worse.

A second dimension where quality-weighting could well be applied concerns the quality of DWP customer services. These certainly were clearly increasing in general modernity and point-of-service standards throughout



*Table 5.4 The ratios of complaints to transactions for DWP agencies in 2006 compared with Centrelink, Australia*

Name of Organization	Total Number of Transactions	Total Number of Complaints	Complaints per 1000 Transactions
Jobcentre Plus	48 202 000	40 000	0.83
Pensions Service	8 240 000	41 000	4.97
Disability and Carers' Service	na	8900	na
For comparison: Centrelink, Australia	9 870 000	39 300	3.98

*Note:* Transaction numbers in the first two columns are rounded to the nearest 1000. Centrelink transactions are those listed as individual entitlements in the Centrelink *Annual Report 2006–07* (Table 1, p. 11).

*Source:* LSE Public Policy Group (2008, p. 28).

the noughties, contrasting strongly with the very static and depressing condition of many DSS offices in the 1990s. Similarly, DWP call centre services generally improved, with the exception of some problems around the introduction of Pensions Credit (and to a lesser extent around earlier and later benefits changes). For instance, Table 5.4 shows that in 2006 DWP received nearly 60 times more complaints about its pensions services (mostly about Pension Credit) than it did about Jobcentre Plus. However, the overall DWP rate of complaints even in this peak year was less than two per 1000 customer transactions, lower than that of its Australian counterpart, Centrelink. Many other aspects of quality can only be guessed at – for instance, the peak of missed calls in 2005 did not generate as many complaints.

After reviewing a wide range of evidence we conclude that quality-weighting could enhance the accuracy of the main series below, but that the available data on complaints and problem incidence is not good enough to do this accurately or consistently. Equally, using the arguments made in Chapter 2, we do not believe that much of what the department's top managers regard as quality improvements (such as premises modernization and better point-of-service standards) can be accepted as such. DWP has no competitors and has a highly dependent customer base, making it a monopoly supplier par excellence. Hence, in line with the argument in Chapter 2, we regard the belated modernization of DWP premises and business systems in 2001–07 as largely a catch-up operation, bringing point-of-service standards up to touching distance of private sector service providers, but certainly doing no more than that. Important as these changes were for managers, staff and the continuing public support

*Table 5.5 Staff numbers in the Department for Work and Pensions, and before 2001 in the Department of Social Security, in thousands of FTEs (full-time equivalents)*

Year	1997–98	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07	2007–08
FTE staff (000s)	115.8	118.5	114.6	116.1	124.1	131.4	130.8	126.9	118.3	112.7	105.9

*Source:* Authors' calculations assembled from data for DWP, DSS and relevant agencies.

for the service, it is hard to regard it as anything more than a late, forced accommodation to modern service organization standards, already well established elsewhere in the rest of the economy.

Turning to inputs, for the total factor productivity (TFP) series in the most recent decade we were able to obtain from DWP statisticians good-quality measures of 'total relevant expenditure', that is, the total annual costs of staff salaries, intermediate outputs and contracting, and good-quality numbers on capital stock depreciation. Despite the DSS to DWP transition, data are available on a consistent basis from financial year 1999–2000 (that is, for nine years). They also include one-off investment costs. All these costs were deflated according to specific and sophisticated pay and capital deflators, again provided to us for each year by DWP.

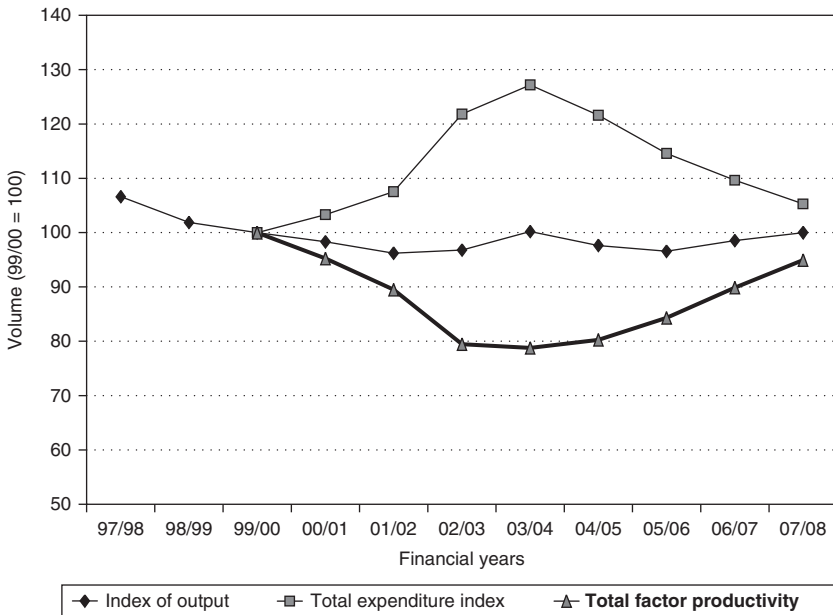
For the labour productivity series, the DSS and DWP staff numbers count is a well-established and reliable annual statistic in this policy area. At various times, this one department accounted for nearly a quarter of Home Civil Service numbers, so that its personnel numbers consequently attracted significant Treasury and parliamentary scrutiny. Table 5.5 shows that the numbers of FTE staff in DWP peaked in 2002–03, some 15000 staff higher than the combined opening numbers of staff in the DSS and Employment Services Agency. They then fell by 25000 by the end of our study period.

Turning then to the substantive analyses, we consider first the main study focus on the last decade, and then discuss the more tentative picture that we can draw for the longer period for two decades after 1988. Third, we compare the pictures offered by the two sets of productivity series.

### **Main Productivity Series for 1999 to 2008**

The total factor productivity (TFP) series shown in Figure 5.2 was calculated by dividing the output index by an index of inputs based upon all

Figure 5.2 Total factor productivity in UK social security, 1997 to 2008

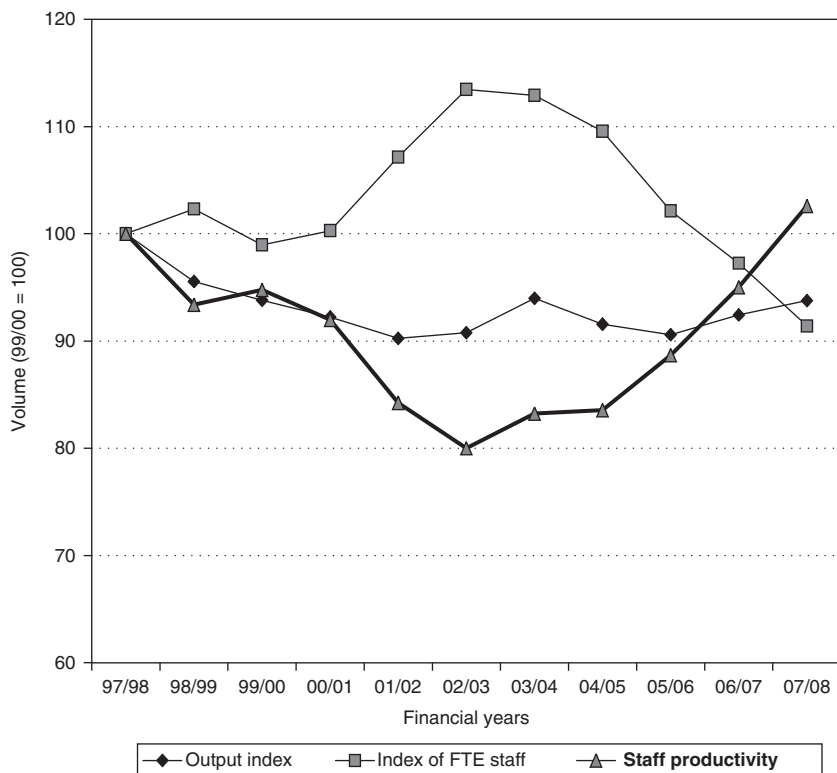


Source: Authors' calculations based on data provided by DWP.

staff salaries, other administration costs and capital depreciation costs, deflated as set out above. The overall outputs curve here declined slightly from 1999 to 2002, and then fluctuated around the new level for the rest of the period. The total inputs costs curve increased to 2003–04, especially sharply in the last two years with the DWP reorganization and launch of new benefits. There was also significant extra spending on consultancy and on new IT systems at this time: the combined expenditure for both headings more than tripled from £94 million in 2001–02 to £306 million in 2003–04 (see section 5.4 below for a fuller discussion). Input costs then fell at a fairly steady rate for the rest of the period, largely under the influence of the departmental merger being consolidated, and DWP offering up large staff reductions during the cross-government Gershon Review (see Chapter 4).

Consequently the overall TFP productivity trend for social security administration shows a decline from 1999 through to 2002, where it bottomed out for two years. There were then steady improvements in the last years of our period, with rises here responding to the decreases achieved in input costs. DWP maintained a consistent quality standard in its services,

Figure 5.3 Labour productivity in UK social security, 1997 to 2008



Source: Authors' calculations based on data from DWP.

so these gains are solid. Given that outputs remained almost stable during this later period, the increase in productivity was wholly attributable to the reduction of overall administrative spending for social security.

Looking at staff productivity, we divided the total cost-weighted outputs index for social security by an index of the number of FTE staff employed. Figure 5.3 shows that the key feature here is the large jump in staff in 2001–03, during and following the DWP merger. Given the static nature of the overall outputs curve, the result is inevitably a large apparent slump in staff productivity in the reorganization years, also evident in the DWP's own official analyses (DWP, 2008) and in a separate analysis by the Office for National Statistics (ONS, 2008b). However, a trend for falling productivity was evident before this acute downwards blip.

The 2002–03 nadir in productivity coincided with the troubled introduction of Pension Credit and a range of other new DWP initiatives, which reflected specific ministerial efforts to achieve greater policy effectiveness. We would normally expect the conjunction of all these reorganization and policy changes to have some significant negative impacts on staff productivity as new systems bedded in; benefits staff gained expertise in how to operate novel benefit procedures; and customers (plus their families and charities or care workers advising them) gained more experience of new application processes. However, a substantial recovery of staff productivity levels occurred from 2004–05 onwards, with a somewhat steeper curve than for total factor productivity.

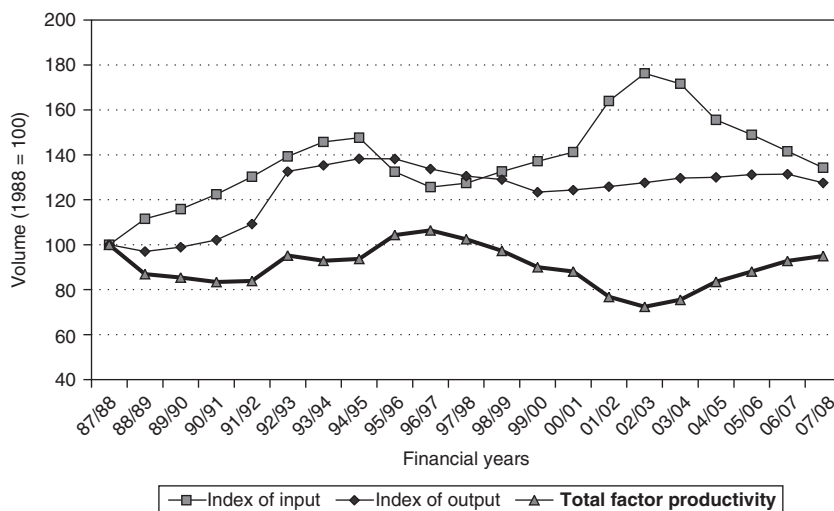
### **Longer-term Productivity Trends, 1988 to 2008**

To get a longer-term picture, we need to shift to data where far more caveats about quality apply. The essential move here is to compute our own cost weights for different main benefits outputs, and use them in a consistent way across the whole two decades period. They are derived from the data published annually by the Office for National Statistics in the Abstract of National Statistics and in DSS/DWP departmental Annual Reports. These estimates are clearly somewhat lower-quality data than the ones used in the previous calculations, because the cost-weighting of benefits activities is based on cruder annual allocations of costs across benefits derived from the departmental reports' costs attributions. In addition, the 'social security' outputs measure used here also includes some benefits not paid by DWP (or DSS before it), most importantly, a diminishing amount of veterans' pensions administered by the Ministry of Defence (specifically the Service Personnel and Veterans Agency within MOD). To maintain consistency we have included the relevant MOD administrative expenditure also in the inputs series used here.

Figure 5.4 shows an especially rapid (step) increase in output volumes in the period 1991 to 1992, a period of economic recession, with a gentle increase in other years before and after this up to 1995. After that date output volumes fell back gradually. Total input costs on this basis grew steadily from 1988 to 1995, increasing by more than 40 per cent in this period. Costs were then pruned sharply for two years, before starting a gradual rise in the run-up to the departmental reorganization. Trends in these series for the decade since 1999 are generally very close to the patterns discussed above.

The TFP curve thus shows two long-term and sizeable dips, plus two recoveries. At the nadir of the first dip, in 1991–92, productivity levels were down by more than a sixth. However, by the end of the first dip, in

Figure 5.4 Longer-term estimates of changes in total factor productivity for UK 'social protection' services, from 1987 to 2008



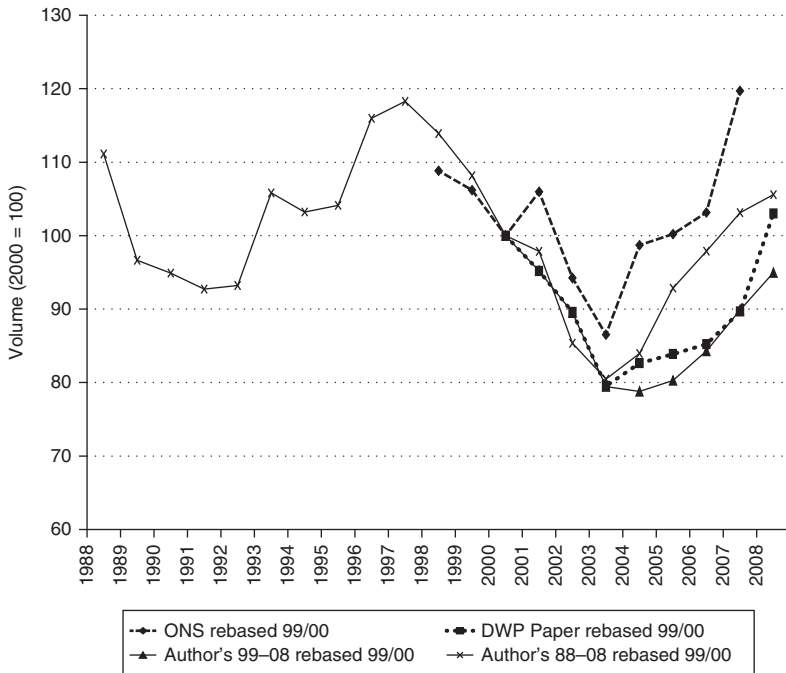
Source: Authors' calculations based on data from National Statistics and DWP/DSS departmental reports.

1996–97, productivity levels were somewhat higher than they had started from in 1988. During the second dip, productivity levels were down by three-tenths in the worst year, 2002–03. By the end of our study period, in 2007–08, total factor productivity levels were still somewhat worse than they had been in 1988. So the net effect of a series of massive organizational changes across 20 years was to leave social security TFP almost unchanged, in fact slightly worse than it was at the start of the period. This is disappointing enough for a period of such high hopes and such energetic reorganization and reinvestment. However, in addition, the long duration and large amplitude of the two TFP dips implies a substantial loss of social welfare caused by failing even to consistently maintain previously achieved productivity levels.

### Comparing Productivity Estimates

To assess the reliability of our 20-year TFP estimate with the ten-year one, we compare both estimates in Figure 5.5. This also includes two other official UK government estimates of social security productivity for the last decade, both using an Atkinson-derived methodology for cost-weighting outputs. The first is from the Office for National Statistics (2008a) focused

Figure 5.5 Comparing four estimates of total factor productivity in UK social security, 1988 to 2008



on all social security benefits (not only those paid by DWP). The second comes from DWP's internal productivity unit (DWP, 2008). To make comparison more straightforward, we have rebased all four productivity series on the same base year, which is 1999–2000.

There is a striking level of broad agreement between the four data series for their common period, 1997–2008. All four estimates show that productivity levels fell appreciably, bottoming out in 2003–04. Taken overall the ONS clearly offers the most benign interpretation of the last ten years' data, identifying the gentlest decline in productivity to 2003 and the strongest recovery since. The other three projections are broadly convergent. Our long-term view agrees closely with the DWP series on the 2008 endpoint, while our short-term series is somewhat more pessimistic on the revival of productivity achieved. Overall, our estimates suggest that total factor productivity in 2008 was no higher than in 1988. In the next section we turn to consider the factors that may help account for this relative stasis.

## 5.4 KEY INFLUENCES BEHIND THE LACK OF PRODUCTIVITY GROWTH

Three factors might help put the long-run lack of change in DWP's productivity into sharper focus:

1. *A high rate of exogenous political, policy and organizational change* can be expected to have adverse implications for organizational productivity in government. We have seen that DWP had a great deal of ministerial alternation in office, including 12 top ministers (Secretaries of State) in twenty two years, from 1988 to 2010, plus extensive changes of junior ministers – none of which is helpful for the long-range growth of productivity. Pursuing greater effectiveness, ministers extensively remodelled benefits rules and introduced new benefits (like Pension Credit), as well as requiring the DWP to undertake new tasks (like the active labour policies demanded from Jobcentre Plus). In addition, each new top minister and junior ministers tended to make a series of smaller initiatives to put their mark on services, especially under New Labour.

Large changes of benefits always create a rise in unexpected implementation difficulties. In machine bureaucracies backlogs of cases can quickly build up. Redress cases (complaints, appeals and interactions related to them) can spiral in a short period. Customer behaviours can also be adversely affected, with many more people complaining more readily when service levels pass tolerable limits. These issues then take time to deal with and to renormalize, especially in an organization without much 'fat' or slack in it. Major policy launches and organizational restructuring tend also to distract senior managers from improving day-to-day operations, perhaps delaying incremental systemic improvements for several years, impeding training and causing other adjustments useful for driving up productivity to be put on hold. All of these factors clearly contributed to slower progress in DWP's productivity over time. There was a departmental and government commitment to 'benefits simplification', but little evidence that it was effective at this time (Work and Pensions Select Committee, 2006b). More useful was improved DWP communications with its customers (especially after 2005–06).

2. *Government-wide pressure for greater efficiency* was clearly important in the Gershon Review period, from 2005 to 2008, when all the DWP productivity series reviewed above bounced back (albeit with some significant differences in timing). The chief impact here was through staffing numbers being reduced by just under a fifth from their peak



levels (Work and Pensions Select Committee, 2006a). (Yet just outside our study period, in late 2008 the upsurge in unemployment claims led Jobcentre Plus to re-contact some 6000 staff who had just left the agency, in the hope of re-employing many of them to cope with the increase in demand.)

3. *Investing in new business processes, increased capital spending and organizational modernization* should also have paid off for DWP in terms of improving productivity. From 1999 onwards DWP spent a lot of money on new IT systems, new buildings and capital investments and new working methods. Each of the many changes made under this heading was necessarily supported by a strong Whitehall business case, in which cost reductions played a key part. All the key modernization changes were advocated partly on the grounds that they would lead to some demonstrable increases in productivity. From the literature reviewed in Chapter 1 we might expect that the use of more and better ICT, improvements in customers contact methods, the introduction of modern management practices, greater use of outsourcing and bringing in consultants to speed up reorganizations would all boost productivity growth. The mix of initiatives in DWP's case was in most respects quite comparable to that in other areas of UK central government. But in fields like tax collection and customs regulation we have seen that total factor and staff productivity trends moved upwards much more strongly over these decades. (The same mix of investments applied in prisons also, again with favourable results; see Bastow, 2012, Ch. 4, and 2010.)

To explore this last issue in more detail, we have again assembled data series for the 1998 to 2008 period, covering the same dimensions reviewed in Chapter 4:

- *Expenditure on ICT* strongly reflects the policy change factors noted above, none of which can be implemented without altering the underlying computer recording and payments systems. While compiling NAO reports in early 1999 and again in late 2008, we visited large DWP field offices in two northern regions and the transitions made in the department's ICT systems across this period were impressive. In 1999 all back offices operated 'dumb terminal' systems, no staff could look at the internet, and the operations were all conducted on mainframe systems from the Operational Strategy period that were slow and problematic. A decade later all staff were connected to high-powered departmental networks with modern PCs. They could look at the internet, and in the call

centres they were using web-based programs to run through a call script using algorithms, and also calling up additional information. However, we did note that the newer IT systems were time consuming to operate, and that around four in ten of the staff preferred to enter information directly into the ‘legacy’ IT systems wherever they could do so. Experienced staff (the minority who were long-term DWP folk) found it quicker to enter data directly into the same ‘OpStrat’ computers of a decade earlier than to use the newer screen-based systems. Managers frowned on this gambit, because it reduced the possibilities of checking on benefits decisions. But they were also dependent upon their most competent staff to meet demanding workload targets, and so could not curtail the practice.

- *Outsourcing via Private Finance Initiative projects* in DWP again focused exclusively on major construction projects. Our two sets of visits to large DWP offices showed huge changes in the department’s built environment. In 1999 thousands of the department’s Newcastle staff still worked in rundown offices, many appearing to be in pre-fab buildings from the early post-war period. A decade later they had all moved into purpose-built, suburban call centres located on modern business parks. Some of the vast new buildings almost resembled ‘Star Wars’ sets in their scale and modernity. Again these substantial transitions were also strongly associated with DWP radically redesigning its work teams and business processes. So we take PFI expenditure as a proxy for the extent of major managerial change.
- *The use of consultants* was again closely bound up with DWP’s major reorganizations. Firms and agency staff were brought in to create extra capacity to do much of the change management workload, while most in-house staff kept ongoing operations on track. Like HMRC, the Department of Work and Pensions also brought in consultants later in the noughties to help implement ‘lean’ approaches to redesigning service pathways.

Assembling relevant data for these factors was as difficult as for the taxation departments, described in Chapters 3 and 4, and following through the merger of DSS and the Employment Services Agency raised some similar issues. Hence a general caveat still applies to data on these three factors, that the information involved was assembled from a range of sources. (And see the Appendix for more details of sources.)

Table 5.6 shows spending on ICT, PFI construction projects and the use of consultants as shares of the total administrative expenditure for DWP and its predecessor departments. The total amount of administrative

*Table 5.6 Expenditure on information technology, PFI construction projects and consultancy as percentages of total administration expenditure in UK social security, 1997 to 2008*

Year	1997–98	1998–99	1999–2000	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07	2007–08
ICT	7.18	6.06	5.47	5.00	4.55	3.91	4.88	6.88	6.44	11.27	11.43
PFI (non-IT contracts)	na	5.11	4.73	4.49	4.50	4.18	4.85	6.64	7.15	6.94	6.88
Consulting	na	na	na	na	1.57	2.07	4.04	2.18	1.69	2.12	na
Total for these aspects	na	11.17	10.20	9.49	10.62	10.16	13.77	15.7	15.28	20.33	18.31

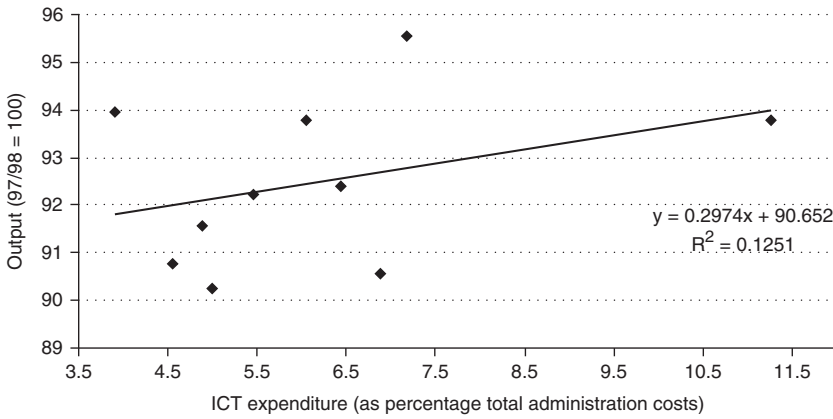
*Note:* Before the financial year 2001–02 data for ICT correspond to spending by the Information Technology Services Agency. From this point onwards ITSA activities were outsourced to EDS via a PFI contract. ICT values after 2001–02 are annual payments for all ICT-related PFI contracts; na = data not available.

spending absorbed on these elements doubled from a tenth of total administrative spending in 2001–02 to a fifth in 2006–07, a major increase in investment and capital intensification. However, in the intervening years this share was less, and it also fell back again slightly in 2007–08. The increases were greatest in ICT, but concentrated in the last two years of our period. PFI spending on building grew less but was more consistently up throughout 2004 to 2008. Consultancy spending showed a large upwards jag in 2003–04, and was slightly higher also in the two adjoining years.

We followed the same procedures here as those discussed in section 4.4 in Chapter 4, lagging ICT, consulting and PFI (construction) expenditure by one year against the cost-weighted output index level and fitting a basic regression line. Again with so few observations we cannot read much into the patterns obtained, but the tables obtained can still provide some insights into how our three factors appear to be associated (or not) with changing productivity levels.

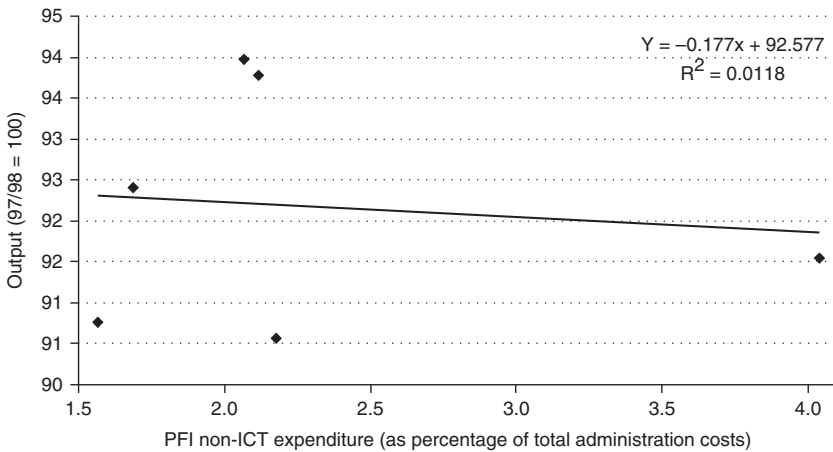
Two of the charts below, Figures 5.6b and 5.6c, strongly suggest that there is no connection between either PFI construction spending or consultancy spending and the index of DWP outputs. Figure 5.6a at first sight seems somewhat different – perhaps an eighth of the variations in outputs might be attributable to IT spending as a proportion of administrative costs. However, the regression line here is strongly shaped by data from the last two years of our study period, when high levels of ICT investment coincided with rising DWP output levels, which were in fact principally

Figure 5.6a Lagged ICT expenditure plotted against outputs for social security



Source: Authors' elaboration based on data from DWP departmental reports.

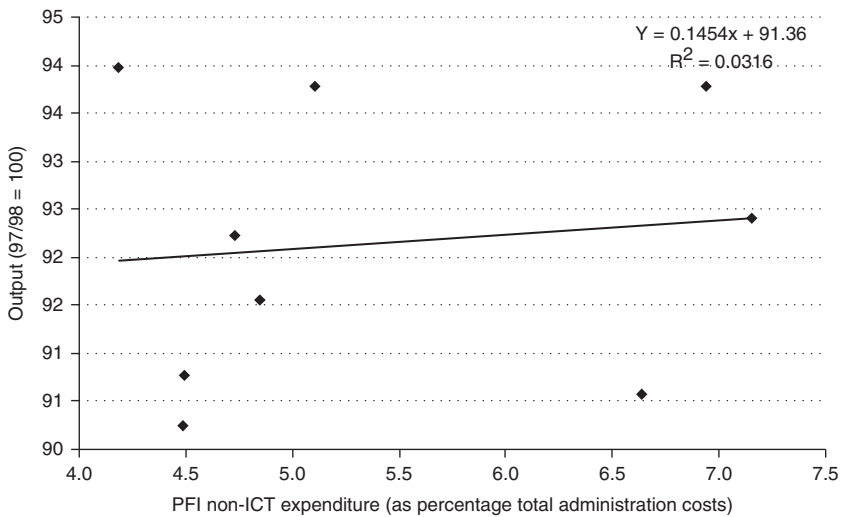
Figure 5.6b Lagged expenditure on PFI construction projects plotted against outputs for social security



Source: Authors' elaboration based on data from DWP departmental reports.

due to the onset of economic recession. So overall, what is most interesting about the DWP explanatory factors is how much weaker they apparently were than was the case for HMRC and Customs. These factors critical to the administrative reorganization of social security seem to be hardly

Figure 5.6c Lagged expenditure on consultancy plotted against outputs for social security

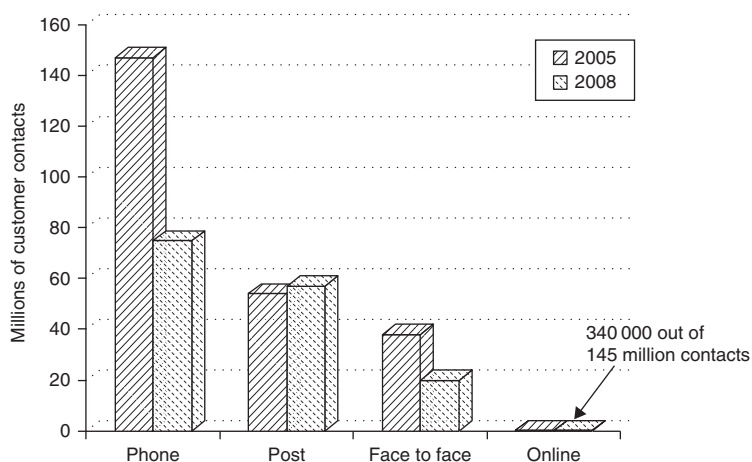


Source: Authors' elaboration based on data from DWP departmental reports.

correlated at all with improvements in outputs. Figure 5.6c plots lagged expenditure on consultancy against outputs for social security.

This result can be best explained in terms of the overall conservatism of the department's efforts at restructuring. From the outset, the DSS/DWP organizational culture was one that clung tightly to its past administrative practices using paper forms and legacy IT processes. This mindset, was hugely strengthened by the dominance of 'mainframe guys' (and they were all men for many years) in its key ICT positions. It was accentuated by outsourcing most IT responsibilities to large and conservative systems integrator firms, especially EDS. Thus many different intellectual and cultural barriers made senior DWP staff unable to grasp the magnitude of the opportunities that they could have taken up at the end of the 1990s to effect more far-ranging changes in how their new department would go about its core mission, as in their conservatism about using the Web (Dunleavy et al., 1999, paragraph 2.31). By 2002 the picture had not shifted much. In particular, at the same time that the almost equally conservative Inland Revenue hierarchy were (slowly) getting to grips with online self-assessment, and that Customs was trying and failing to move VAT transactions online, first DSS and later DWP top officials rejected any idea of developing online transactions. Instead, they persuaded min-

Figure 5.7 The changing pattern of the DWP's customer contacts, 2005 to 2008



Source: Dunleavy et al. (2009, Figure 3, p. 13).

isters to move the department lock, stock and barrel into a phone-based model of customer contacts, and they put on one side any developments at all of online transactions models.

The consequences are rather dramatically captured in Figure 5.7, which shows the mix of DWP communications with its customers in 2005, at the height of the mushrooming growth of partly abortive phone calls to the department unleashed by the initial business process transition. By 2008 the reimposition of tight management of phone calls had succeeded in reducing their numbers by 40 per cent. And, of course, by this time face-to-face contact had been further reduced, except for Jobcentre Plus's surveillance of jobless working age people. But the net effect was chiefly to *increase* once again the importance of paper forms and documentation sent in by post. At the height of the internet boom, the department's online communications accounted for no more than half of 1 per cent of transactions by 2005. By 2008 the online numbers had barely increased, and before fieldwork began for the critical 2009 NAO report DWP still had no benefits transactions being transacted in whole or in part online, nor any publicly announced plans to do so.

The DWP's first hurried efforts to create some online capability, partly in response to the critical NAO report on its customer communications (Dunleavy et al., 2009), also misfired. During 2008 the facility to pre-register an initial JSA application online was no sooner announced than

the take-up grew rapidly to 50 000 users a month. But all that happened to apparently e-applications then was that the details given were recorded in an Excel file, which was downloaded at the start of the next day's business and distributed to the 26 DWP call centres, who would then phone back the would-be claimants involved, but only when they had spare capacity. Because the call centres were often busy, it could be up to three days before people were called back. Since customers expect speedy responses to online submissions, by this stage many people had already begun to worry that their application was lost and so had rung up anyway, thereby starting duplicate applications running. When a more capable JSA online process was started in mid-2009, it had a patchy record. This first online DWP transaction was expected to be used by 40 per cent of jobless claimants by 2011, but its implementation proved problematic. 'By April 2011, 20 months after the option became available, only 17% of new claims for Jobseeker's Allowance were made online' (Public Accounts Committee, 2011b, p. 9). In early months many users found the JSA system crashed or experienced other serious problems, with around a quarter of applications started in this way failing to make it onto the DWP systems as they should.

Organizational conservatism also remained starkly evident in many other aspects of DWP operations. The JSA process with its three stages was estimated by some critics to be costing £450 million extra per year because claimants had to interact twice with JCP, and then a separate set of benefits decision-makers went over the paperwork for a third time (Clory, 2009). The electronic kiosks in Jobcentre Plus shut out job seekers from learning about electronic job search, instead of facilitating it. And as the numbers of jobless increased in 2009, Labour ministers still refused to allow JSA applicants to offer online proofs of looking for work (such as e-mail job application letters). They insisted on low-risk as well as high-risk claimants still showing up every two weeks at massively overcrowded Job Centres, for contact interviews whose length perforce fell from the previous ten minutes to two to three minutes each, arguably a waste of time for all concerned.

However, it is important to note in closing that departmental officials at first strongly contested this narrative and denied that opportunities to save administrative costs have been foregone. They argued that retaining the face-to-face interactions of its staff with working age people was essential for DWP to properly develop 'active labour market' policies. In their view the Jobcentre Plus model contributed to slowing the growth of unemployment in the 2008–10 recession considerably below previously forecast levels, and thus it helped to contain the much larger rise in unemployment payouts that could otherwise have occurred (Sharples, 2010). Moving to more online transactions, in this view, would have perhaps shaved admin-

istration costs, but at the risk of stimulating more jobless benefit claims because of relaxed ‘disciplinary’ effects on those seeking work. The plausibility of this counter-argument is hard to assess, but DWP’s long lags in moving a whole range of transactions with customers (and not just job seekers) online are beyond doubt.

In mid 2010 under new Conservative ministers DWP also completely changed its stance on online applications for benefits, partly responding to new ‘digital by default’ expectations from the Cabinet Office. As part of the shift towards a single universal benefit, the department now announced that it was aiming to move 80 per cent of its JSA customer transactions online by September 2013. But MPs doubted that this represented realistic business planning, as opposed to a target driven by austerity pressures. A leading House of Commons committee noted that:

The Department could not explain the basis of the 80% target at the hearing. Subsequent written evidence from the department stated that 86% of JSA customers already use the internet and 67% have access in their homes, while just over 40% are “ready, willing and able” to use online JSA services. (Public Accounts Committee, 2011b, p. 9)

## Conclusions

Despite extensive efforts at transforming DWP’s business processes, the rather depressing conclusion we have reached is that its productivity remained almost unchanged across 20 years. Even allowing for adverse effects on productivity from frequent policy shifts and organizational restructuring on DWP’s efficiency, there is a clear performance gap. DWP was characterized by a conservative organizational culture, especially in envisioning its major business processes and in all aspects of its IT operations. As a result, its large-scale organizational changes after 2001 were exclusively directed towards an already outdated, phone-based administration model. The department almost completely neglected to develop the potential for ‘digital era’ changes to online transactions approaches.

The parallel here seems to be with those private sector industries in earlier periods where ‘computers are everywhere except in the productivity numbers’ (Solow, 1987). Private companies in the 1980s and early 1990s invested millions of dollars in automation and new IT investments that subsequently could not be traced through into increases in productivity or corporate profitability. Similarly in our study period DWP seems to have managed to modernize its business processes at huge expense but without realizing sufficiently strong benefits to boost its productivity levels. However, recent trends in productivity have been upwards, and the external impetus from the Gershon Review cut staff numbers appreciably.



After a Conservative and Liberal Democrat government took office in 2010 (outside our main study period) a leading Tory politician (the former party leader, Ian Duncan Smith) became the DWP Secretary of State. He had specialized in social security matters for many years while in opposition, and was clearly strongly committed to reforming welfare systems and operations. A key Conservative pledge was to introduce a single universal credit (or benefit for those not working) that is also integrated with the tax system. Implementing this pledge promises to inaugurate a new era of radical change in UK benefits administration from 2015 onwards, a shift in which radically new IT systems and business process capabilities will again be absolutely central. DWP contracts for the IT aspects of the universal benefit/universal credit transition were let in 2011, at initial costs of around £1 billion. Meanwhile, DWP has also planned large staff reductions, and is under intense austerity pressures to cut £2.7 billion from its running costs within a few years, by early 2015 (Public Accounts Committee, 2011b). The usual caveats apply about difficulties in shifting conservative organizational cultures, reorganizations normally depressing productivity, and the past poor record of major IT projects in UK government. Nonetheless, the conjunction of strong pressures suggests that some future productivity gains may still be realized in UK social security administration.