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INCREASING EMPLOYMENT OPPORTUNITY FOR ALL

The Government's long-term goal is employment opportunity for all – the modern definition of full employment. Delivering this requires that everyone should be provided with the support they need to enable them to find employment and develop skills. This chapter describes the further steps the Government is taking towards its aim of employment opportunity for all, including:

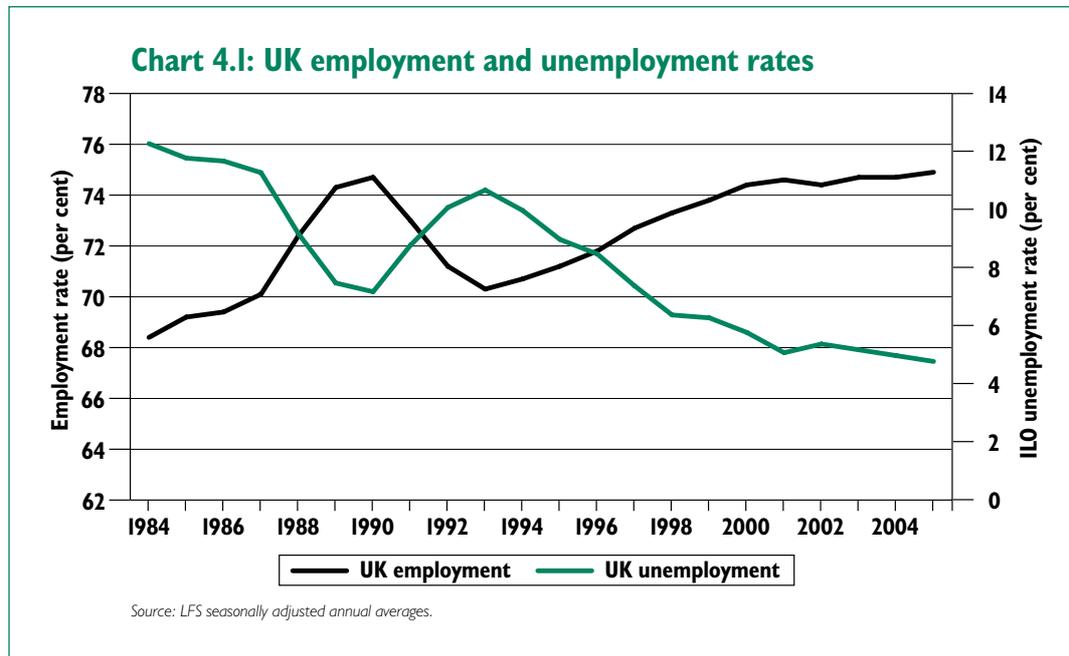
- **extending the support offered through the New Deal Plus for lone parents (NDLP+) pilots**, in the existing five locations for a further two years, to 2008;
- **extension of the NDLP+ pilots to two further Jobcentre Plus districts in Scotland and Wales** from October 2006;
- **outreach support for people who are neither in work nor on benefit** – especially the non-working partners of people in low income families, in groups which face particular barriers to employment, putting into practice a recommendation by the National Employment Panel (NEP);
- **introduction of a Commission of Business Leaders to advise on helping the private sector to tackle racial discrimination** (building on NEP recommendations);
- **providing funding to ensure that all local authorities can take steps to reduce Housing Benefit fraud** by reviewing or visiting at least 50 per cent of their claimants each year, in line with best practice; and
- **raising the earnings disregard in Housing Benefit and Council Tax Benefit in line with inflation to £14.90 in April 2006**, ensuring that claimants gain from increases in the rate of Working Tax Credits.

4.1 The Government's long-term goal is employment opportunity for all – the modern definition of full employment. The strong labour market performance of recent years has helped deliver this, with many of the previously most disadvantaged groups and regions demonstrating the most significant improvements. In an increasingly open and integrated global economy, the countries that will prosper are those with flexible and outward looking economies which can react effectively to changing economic circumstances and which provide help and support to people to find work and develop the skills they need. This Pre-Budget Report sets out further steps to build on the strong performance of recent years and to go even further in tackling the long-term challenges of increasing flexibility, reducing inactivity, and helping those groups in society facing particular barriers to work.

Labour market performance

4.2 The UK labour market has performed strongly in recent years, as Chart 4.1 shows. The number of people in employment totalled 28.8 million in the three months to September (the highest figure since comparable records began in 1971), while the working-age employment rate reached 74.9 per cent and is continuing on an upward trend. While both male and female employment levels have risen over the past year, female employment growth has been particularly strong, and is now at record highs in terms of both the level (13.29 million) and the working age employment rate (70.4 per cent).

4.3 UK unemployment, meanwhile, has fallen (on the conventional International Labour Organisation definition) to 4.7 per cent; down from 7.2 per cent in 1997 and around the lowest rate in 30 years. The UK unemployment rate is now the second lowest of the G7 economies.



Flexibility and fairness in the labour market

4.4 Flexibility describes the capacity of individuals, firms and markets to respond to economic change efficiently and quickly, allowing shocks to be accommodated and adjustment costs minimised. As described in Box 4.1, the Government's labour market policies ensure that flexibility goes hand in hand with fairness, providing security and support so that people can cope with economic change.

Box 4.1: Labour market flexibility – report on progress

Labour market flexibility is central to the performance of the UK economy. A more flexible and efficient labour market has the ability to adapt more rapidly to changing economic conditions, crucially reducing the period out of equilibrium and maintaining economic stability. Backed up by policies which enable people to adjust to change and provide support for those who are not in employment, labour market flexibility implies an economy that is fairer, more efficient and more competitive.

Key measures introduced by the Government to promote labour market flexibility and help achieve economic stability include:

Developing skills: giving employers the opportunity to access free and flexibly delivered training for their low skilled employees through the National Employer Training Programme; the New Deal for skills, with skills coaching in Jobcentres, and the option of financial help for benefit claimants to access training; and the continued reform of financial support given to 16-19 year olds aimed at increasing the number of 19 year olds with the skills needed to succeed. The Government has also published the interim report of the Leitch Review, advancing the evidence base on the UK's existing skills profile and highlighting the need for the UK to raise its ambition if it is to have a world-class skills base by 2020.

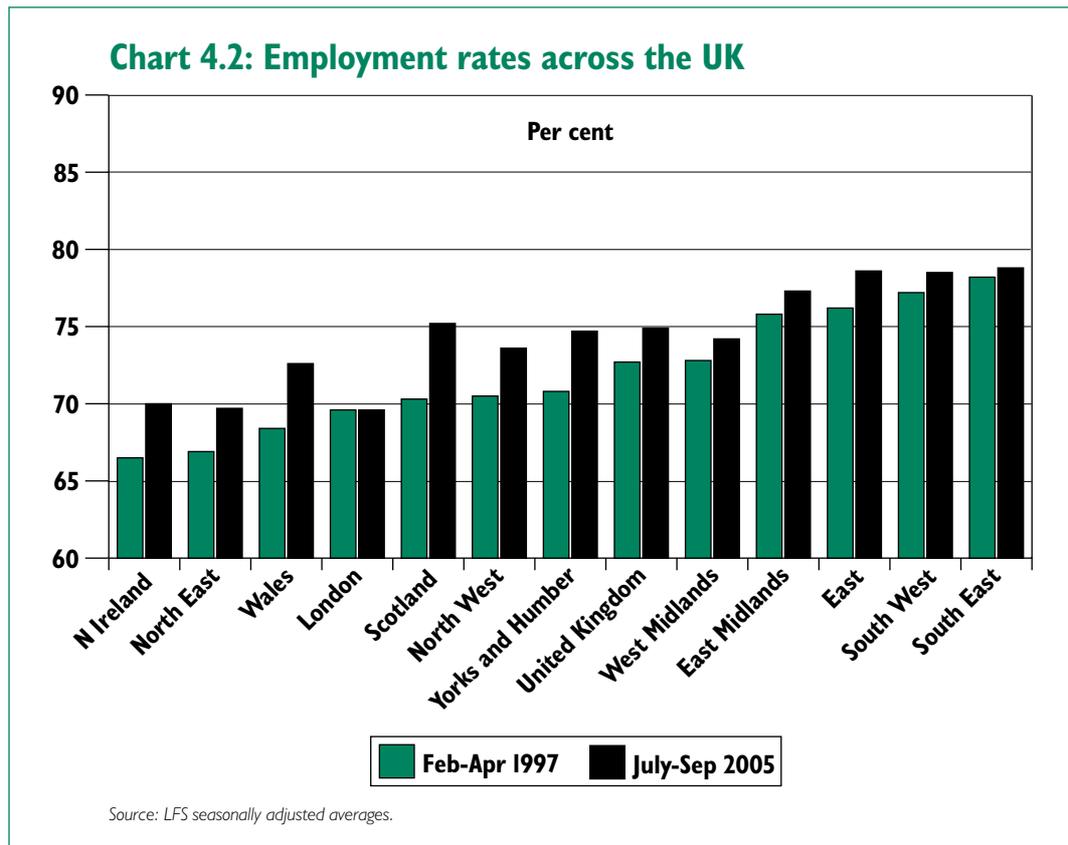
Enhancing wage flexibility: Government evidence to the Pay Review Bodies now considers whether local recruitment and retention issues for each sector should influence pay and has successfully promoted change where appropriate. Civil service departments are exploring the potential benefits of more local pay differentiation in the context of recruitment from local labour markets as part of their pay and workforce strategies and their pay remit business cases.

Improving labour market opportunities: to support more incapacity benefits claimants into work, rolling out the Pathways to Work to four additional districts in October 2005 on the way to extending the pilots to one-third of the country by October 2006; and improvements to the operation of the linking rules from October 2006.

Promoting geographic mobility and economic migration: structural reform and administrative improvements to ensure that Housing Benefit does not constrain the ability of the unemployed to find or take up work; and developing a flexible points-based system to ensure that the UK attracts the migrants needed for the economy.

EMPLOYMENT OPPORTUNITY FOR ALL

4.5 The improving trends in employment and unemployment described in Chart 4.1 have been evident not only at a national level, but also among those groups and areas which have traditionally been the most disadvantaged in labour market terms. As Chart 4.2 shows, employment rates have risen in nearly every region since 1997, with the larger increases generally seen in the regions with the lower initial employment rates. The one region where the current employment rate is unchanged from then of 1997 is London. As a result, London now has the lowest employment rate of any UK region. The Government is examining the particular labour market challenges posed by London, in order to inform future policy development.



4.6 Since the launch of the New Deal in 1998, over 1.6 million people have been helped into work, including more than 630,000 young people, over 240,000 unemployed adults, and more than 410,000 lone parents. The New Deal has been particularly successful in helping to tackle long-term unemployment, which has fallen significantly in recent years, as Chart 4.3 illustrates.

4.7 Independent evidence has demonstrated the positive impact of the New Deal on employment rates and on the economy. In 2000, the National Institute of Economic and Social Research (NIESR) concluded that, without the New Deal for young people (NDYP), the level of long-term unemployment would have been twice as high.¹ More recent studies show that NDYP has significantly boosted exit rates from unemployment in all regions;² that overall youth unemployment has been reduced by between 30,000 and 40,000;³ that young men are now 20 per cent more likely to find work as a result of the New Deal;^{4,5} and that the social benefits of NDYP outweigh the costs.⁶ This section sets out the next steps in extending employment to everyone, whatever their circumstances and wherever they live.

¹ *The New Deal for Young People: implications for employment and the public finances*, NIESR, December 2000.

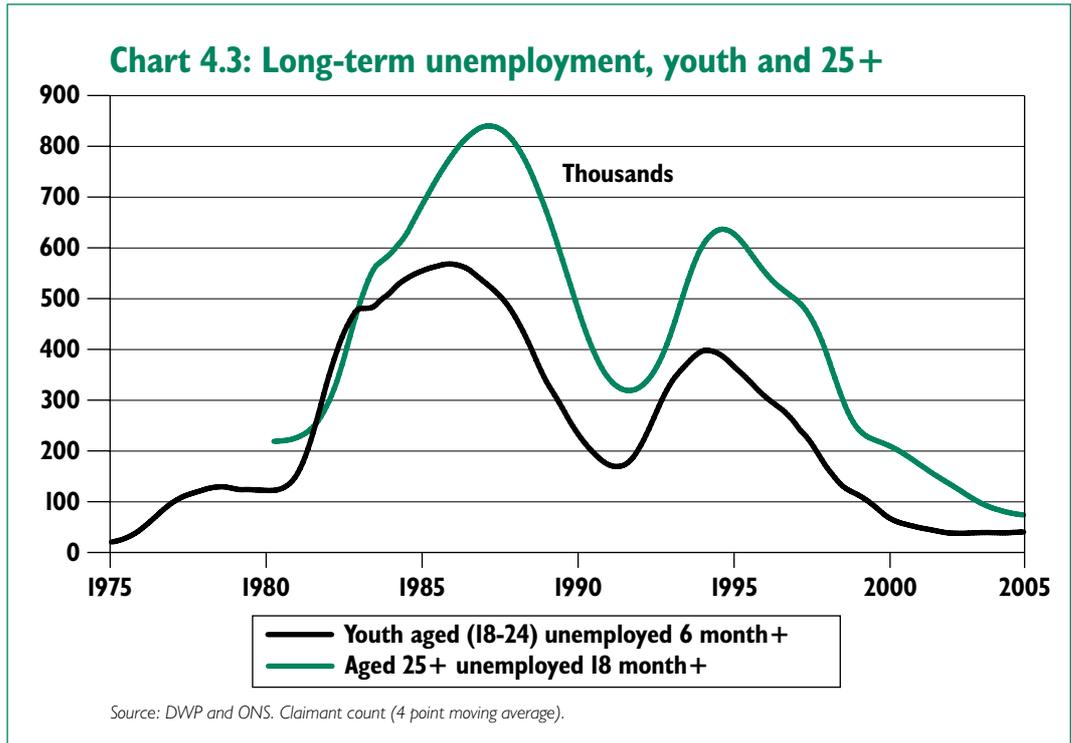
² *How well has the New Deal for Young People worked in the UK?*, McVicar and Podivinsky, Northern Ireland Economic Research Centre, April 2003.

³ *New Deal for Young People: evaluation of unemployment flows*, D. Wilkinson, Policy Studies Institute, 2003.

⁴ *Evaluating the employment impact of a mandatory job search program*, Blundell, R., Costa Dias, M., Meghir, C., Van Reenen, J. in *Journal of the European Economic Association*, June 2004.

⁵ *Active labour market policies and the British New Deal for unemployed youth in context*, Van Reenen, J., in *Seeking a premier league economy*, Blundell, R., Card, D. and Freeman, R. (eds), University of Chicago Press, June 2004.

⁶ *Ibid.*



People with a health condition or disability

4.8 Of the 5.6 million people of working age with a disability, only around half are in employment. Ensuring that many more are able to take up the opportunity to work is a key welfare reform objective, and a commitment underlined by the Government’s aspiration of an employment rate equivalent to 80 per cent of the working age population. This will only be achieved if the barriers to employment for many more individuals in this group are removed, enabling them to find, remain and progress in work and to fully realise their talents and potential.

4.9 During the 1980s and early 1990s, the welfare system did little to support people with a health condition or disability back to work. As a result many people drifted into long-term benefit receipt, even though as many as 90 per cent of people expect to get back to work when they start a claim for incapacity benefits.⁷ As a consequence, the number of incapacity benefits claimants in the UK more than trebled between the early 1980s and mid 1990s, despite ongoing improvements in health.

4.10 For many incapacity benefits claimants, a return to work is, with the appropriate help and support, a real possibility. Since 1997, the Government has therefore reformed the support offered to people with a health condition or disability. Incapacity benefits claimants now receive active encouragement and support via a variety of means to plan their return to work, including:

- Jobcentre Plus ensures that incapacity benefits claimants have access to early and ongoing work focused advice;

⁷ Incapacity benefits include Incapacity Benefit, Income Support on the grounds of incapacity and Severe Disablement Allowance.

- the New Deal helps disabled people to identify and move into employment. By August 2005, the New Deal for disabled people (NDDP) had helped around 75,000 disabled people into work;
- the Working Tax Credit and National Minimum Wage help to ensure that work pays; and
- the Government is tackling discrimination against disabled people and improving their opportunities to participate in society, as discussed in Chapter 5.

4.11 These reforms are changing the attitudes and expectations of incapacity benefits claimants. The longstanding rising trend in the number of incapacity benefits claimants has stopped and the caseload is now beginning to fall. Annual inflows to the benefits have fallen by around 30 per cent since the mid 1990s, and the total number of incapacity benefits claimants in May 2005, at 2.78 million, was over 40,000 lower than the previous year.

Pathways to Work

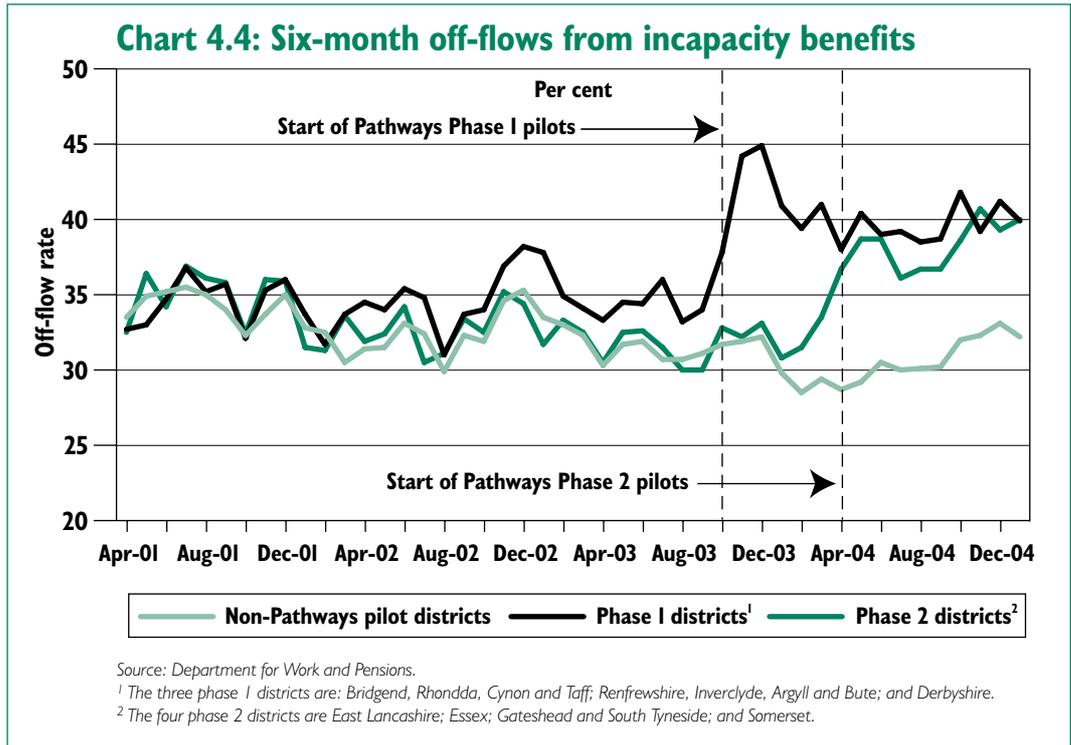
4.12 The Government's Pathways to Work pilots are providing additional support to help incapacity benefits claimants return to work. These pilots are testing a new framework that, alongside wider cultural change, combines ongoing mandatory contact with highly skilled Personal Advisers at Jobcentre Plus, and high quality employment, health and financial support. The OECD, in its latest country report, described Pathways to Work as a "considerable success"⁸ and evidence shows that the pilots are resulting in significant improvements in the employment prospects of incapacity benefits claimants. In particular:

- there has been an increase of around 8 percentage points in the off-flow from incapacity benefits after six months of a claim (Chart 4.4);⁹
- by August 2005, there had been over 19,500 job entries through the Pathways to Work pilots;
- following the initial Work Focused Interview (WFI), over 20 per cent of claimants have taken up elements of the Choices package,¹⁰ with around 7,500 referrals to the new Condition Management Programmes;
- around 10 per cent of participants in the pilots are longer-term claimants who were not required to participate in the programme, but volunteered to take part after hearing about the support on offer. In February 2005 the Government extended a mandatory WFI regime to some existing claimants, alongside a new Job Preparation Premium of £20 per week to encourage steps towards finding work; and
- early evaluation evidence shows that both incapacity benefits claimants and Jobcentre Plus Personal Advisers value the pilots. The Government is committed to learning from and using the evaluation evidence progressively to improve the design and delivery of the programme.

⁸ *Economic Survey of the United Kingdom*, OECD, 2005.

⁹ The off-flow rates presented are produced from the Working Age Statistical Database (WASD). WASD does not include a proportion of short-term incapacity benefits claims; therefore the off-flows presented will be lower than actual rates. However, trends over time will be consistent.

¹⁰ The Choices package is a range of provision aimed at improving labour market readiness and opportunities. This includes NDDP and the Condition Management Programmes.



4.13 Building on this success, and following the Government’s announcement in the 2004 Pre-Budget Report, Pathways to Work was introduced in four additional Jobcentre Plus districts in October 2005, and will be extended to one third of the country by October 2006.

Incapacity benefits reform **4.14** The Government recognises that the structure of incapacity benefits may itself be a hindrance to an individual moving into work. The DWP Five Year Strategy of February 2005 outlined how, building on the support available through Pathways to Work, the Government intends fundamentally to reform incapacity benefits, so as to focus on and work with people’s positive aspirations. More details will be set out in a Green Paper on Welfare Reform, and stakeholders will have the opportunity to comment on the proposals and inform the policy approach.

Lone parents

4.15 Helping people into work is the best route out of poverty both for the individuals concerned and for their families. To support its commitment to eradicate child poverty by 2020, the Government has set a challenging target of achieving a 70 per cent lone parent employment rate by 2010. Achieving this target would also contribute towards the Government’s aspiration of an employment rate equivalent to 80 per cent of the working age population.

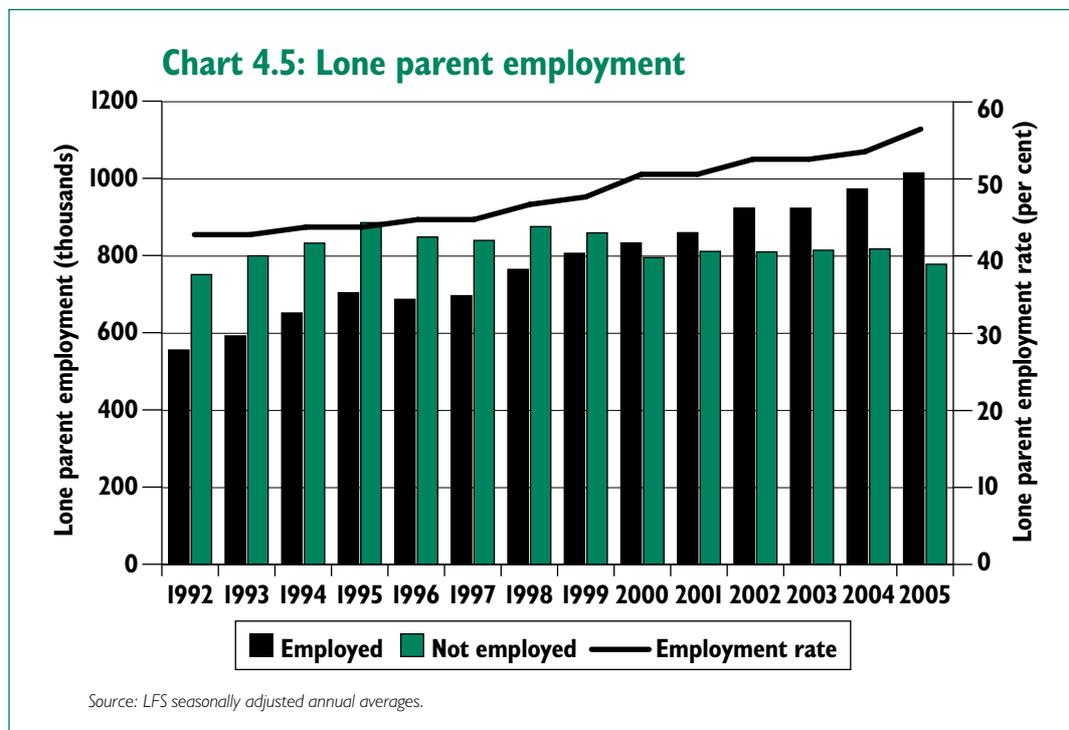
4.16 Between the early 1980s and the mid 1990s the proportion of children living in workless households in the UK increased from 13 per cent to around 20 per cent. This was due in part to the increase in the lone parent population over this period; it was also a reflection of there having been insufficient active support for lone parents on benefit to find, remain and progress in work. Since 1997, therefore, the Government has put in place a comprehensive package of support combining:

- high quality and affordable childcare;
- increased work focused advice through Jobcentre Plus so that lone parents are

aware of the opportunities available to them;

- individual support through the New Deal for lone parents (NDLP), which has helped 410,000 lone parents into work; and
- policies to make work pay, described in more detail later in this chapter.

4.17 As a result of this approach, and as shown in Chart 4.5, the lone parent employment rate now stands at 56.6 per cent – the highest rate on record and an increase of over 11 percentage points since 1997. For the first time, more than 1 million lone parents are in employment; an increase of over 41,000 in the year to May 2005. More lone parents are now in employment than are not in employment; and the number of lone parents claiming Income Support has, since 1997, fallen by around a quarter of a million. However, the Government recognises that more still needs to be done to help lone parents find, and remain in, work.



New Deal Plus for lone parents

4.18 Since April 2005, the Government has been piloting an integrated package of support – the New Deal Plus for lone parents (NDLP+) – in five areas of the country.¹¹ The pilots bring together a range of support to help lone parents overcome the barriers that may be faced when attempting to move back into employment, including:

- NDLP, to assist lone parents to move into employment by addressing the barriers to work they may face. Evaluation evidence demonstrates that NDLP doubles the employment chances of those who participate, compared with non-participants;¹²
- ongoing support from a Jobcentre Plus Personal Adviser prior to and during the transition into work;

¹¹ Leicestershire; Bradford; London SE; North London; and Dudley and Sandwell.

¹² Welfare Reform and Lone Parents Employment in the UK, CMPO Working Paper No. 72, Gregg and Harkness, 2003.

- financial support, including: the In-Work Credit (described in paragraph 4.20); the Work Search Premium, a £20 a week payment for lone parents who have been on benefit for more than 12 months and who agree to undertake more intensive steps to find work; and the In-Work Emergency Fund (IWEF) to help lone parents meet unexpected costs during the first two months of starting employment;
- childcare support through Extended Schools Childcare, Childcare Tasters and support from a Childcare Partnership Manager;
- training opportunities, including flexible training provision and the payment of a training premium for NDLP participants; and
- opportunities for taking steps to move closer to work to build confidence, such as mentoring.

4.19 The NDLP+ pilots are testing a more progressive model of active engagement for lone parents on benefit, based on clearer guarantees of advice and support. The package builds on the proven success of NDLP, Work Focused Interviews and Tax Credits, and offers a step-change in the level of service offered. Early feedback from the pilots shows that both Jobcentre Plus Personal Advisers and lone parents are reacting positively to the support available. This Pre-Budget Report announces that the Government will:

- extend the support offered through the NDLP+ pilots in the existing five locations for a further two years, to 2008; and
- extend the NDLP+ pilots to two further districts in Scotland and Wales from October 2006.

In-Work Credit 4.20 Since April 2004, the Government has been piloting the In-Work Credit (IWC), a £40 a week payment for lone parents who have been on Income Support for more than 12 months, for the first 12 months back in work. In October 2005, the IWC was launched in six further areas¹³ in the South East of England, extending the support to a further 84,000 lone parents and taking total coverage to 40 per cent of lone parents who have been on benefit for over a year.

Work Focused Interviews 4.21 Work Focused Interviews (WFIs) – one-to-one discussions delivered through Jobcentre Plus by skilled Personal Advisers, and focused on helping the individual into work – ensure that lone parents are fully informed of the help and support available to them. WFIs are extremely effective in helping lone parents return to work; independent evaluation¹⁴ shows that take up of the NDLP rises by more than 14 percentage points among lone parents required to attend a WFI. Since October 2005, lone parents who have been claiming income support for 12 months or more, and who have a youngest child aged 14 years or over, are required to attend an interview once every 3 months to help them prepare for the transition to work when their child reaches 16.

¹³ Surrey and Sussex; Essex; Kent; Berkshire, Buckinghamshire and Oxfordshire; Bedfordshire and Hertfordshire; and Hampshire and the Isle of Wight.

¹⁴ Integrated findings from the evaluation of the first 18 months of lone parent work-focused interviews, DWP, March 2004.

Retention 4.22 Once a lone parent has been successful in finding work, it is important that they receive appropriate support and encouragement to retain and progress in their job. While the probability of lone parents leaving work has fallen since 1992 from 14 per cent to around 10 per cent in 2003, lone parents are still more likely to leave their job than are non-lone parents and single childless women.¹⁵

4.23 Since October 2003, the Government has been testing a new strategy, the Employment Retention and Advancement (ERA) pilots, for people in low-paid employment or who have moved into work from benefits. Alongside financial incentives to encourage retention in work, ERA is also testing the effectiveness of continued support, for up to 33 months, from a dedicated Advancement Support Adviser. The Government is committed to reducing the risk that lone parents alternate between work and benefits. **To ensure that lone parents are helped into sustainable employment, the Government will now explore ways to incentivise Personal Advisers to continue to support lone parents when in work.**

Unemployed people (Jobseeker's Allowance claimants)

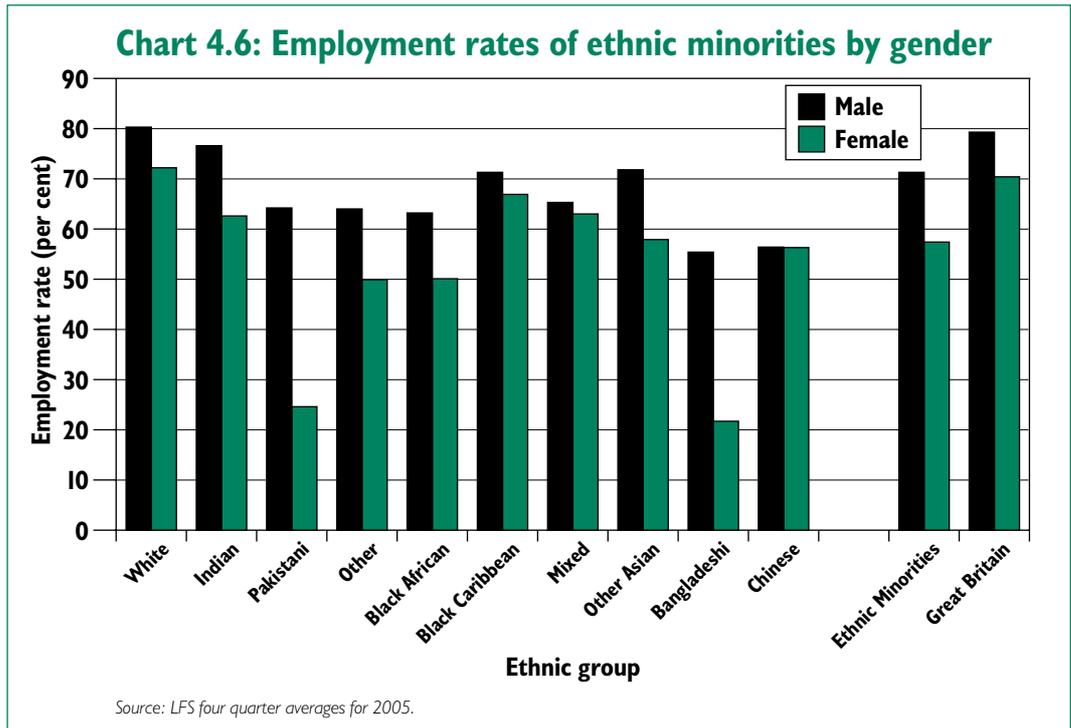
4.24 For the majority of jobseekers, unemployment is a short-term, transitional state; 80 per cent move off benefit within 6 months. Jobseeker's Allowance (JSA) is designed to provide financial support in a way that encourages a speedy return to work through independent jobseeking. The intervention regime supports, monitors and enforces independent jobseeking for short-term claimants, and provides more intensive support for the minority who fail to find work quickly. The regime has directly contributed to a fall in the claimant count from 1,619,000 in 1997 to 890,100 in October 2005.

4.25 The Government has been reviewing the intervention regime and the application of sanctions for failure to carry out the required jobseeking. This work has demonstrated the importance both of regular monitoring of worksearch in maintaining the speed of return to work, and of having effective sanctions available to enforce jobseeking. The Government has already taken steps to increase the frequency of interviews. All claimants who reach three months of unemployment now have to participate in a series of weekly signings. For the small proportion of claimants over 25 years old who reach six months unemployment, Jobseeker Mandatory Activity pilots will be introduced in twelve areas from April 2006, with mandatory participation in a three-day work course and three additional follow-up interviews. The Government is also currently examining the scope for strengthening the focus on monitoring and enforcing jobseeking responsibilities.

Ethnic Minorities

4.26 The gap between the employment rate of ethnic minorities and the employment rate overall has been narrowing in recent years. The ethnic minority employment rate is now just under 60 per cent and, since spring 2003, the gap has closed by 1.5 percentage points to 15.4 per cent. However, while some ethnic minority groups are doing well in the labour market, the achievements of others fall short of what their abilities and qualifications would lead them to expect. While Indians and Black Caribbeans have employment rates close to the national rate (at 70 per cent and 68 per cent respectively) Bangladeshi and Pakistani groups have the lowest employment rates (at 41 per cent and 45 per cent respectively). Three out of four women in these latter two communities are not in employment, as Chart 4.6 shows. Despite increasing educational achievement, ethnic minority groups still face disadvantages in the labour market.

¹⁵ 'Lone Parents cycling between work and benefits', DWP Research report 217, September 2004.



4.27 Since 1998, the success of the New Deal in helping the long-term unemployed has also benefited ethnic minorities. Over 144,000 ethnic minority people have found work through the different New Deal programmes. In addition, between April 2003 and October 2005, an outreach service, delivered by the private and third sectors (voluntary and community sector and social enterprises), has helped nearly 7,000 people into jobs. This year the Fair Cities programme began to open up access to employment opportunities for disadvantaged ethnic minorities in three locations: Bradford, Brent and Birmingham. The first Fair Cities ‘graduates’ will start employment in December in sectors as diverse as hospitality, healthcare and the police.

4.28 Although these programmes have gone some way towards narrowing the gap in employment rates between ethnic minority groups and the rest of the population, progress has been slow. One factor may be that, employment support is not reaching some people, such as those whose partners are working and who have no contact with Jobcentre Plus. These people are unlikely to take advantage of the help offered by the New Deal, outreach programmes or the Fair Cities initiative. In some cases, they may also need additional support to help overcome barriers posed by a lack of childcare support, English language skills, or access to the informal social networks which can be instrumental in helping people find work.

4.29 Budget 2005 accepted the findings of the National Employment Panel’s (NEP) report ‘Enterprising People, Enterprising Places’. The Government accepted the report’s main recommendations and the Chancellor asked the Secretary of State for Work and Pensions to lead the response across government. Good progress has been made already, including:

- as announced in Budget 2005, the Government will introduce new centres of vocational excellence in entrepreneurship;
- Regional Development Agencies have been asked to assess the needs of ethnic minority business through their Regional Economic Strategies; and
- a framework for testing how far we can incorporate the promotion of race equality into government contracts.

4.30 In this Pre-Budget report, the Government is introducing two further measures based on the NEP's recommendations:

- **new private and third sector led employment teams will be introduced to deliver outreach support for people who are neither in work nor on benefit; especially the non-working partners of people in low income families, in groups which face particular barriers to employment.** The teams will be based in areas of disadvantage and high ethnic minority populations. They will work with the local community, employers, providers and faith groups to deal flexibly with barriers to work and provide appropriate support including – where needed – improving language skills and childcare support; and
- **a new Commission of Private Sector business leaders will be asked to advise on helping the private sector to tackle race discrimination in employment.** The Commission will report to the Chancellor in early 2007.

4.31 These measures will form part of a wider drive towards quicker progress in tackling labour market disadvantage for ethnic minorities and ensuring equal employment opportunity for all communities.

Partners

4.32 During the 1970s and 1980s, there was a significant change in the way in which households organised their work. Between 1971 and 1991 the working age employment rate of women increased from 56 per cent to 66 per cent, while that of men decreased from 92 per cent to 80 per cent. By and large, these shifts occurred across different households, leading to a polarisation between 'work rich' dual-earner households and 'work poor' workless households. The number of workless households in the UK more than doubled between 1975 and 1990, contributing in the process to higher levels of child poverty and social exclusion.

4.33 In April 2004, the Government introduced mandatory Work Focused Interviews (WFIs) for partners of benefit claimants, to ensure that they could benefit from the help and advice on offer. Between April 2004 and September 2005, over 62,000 WFIs have been attended. At the same time, the Government also relaunched the New Deal for partners (NDP), which provides support and encouragement to partners of benefit claimants to acquire the skills and confidence they need to move into work. The NDP includes assistance with job search, advice on training and skills, and the identification and provision of support for registered childcare. Since April 2004, more than 2,900 job entries have been recorded by partners of benefit claimants who have either attended a WFI or joined NDP.

SUCCESSFUL DELIVERY

4.34 Through its network of new offices and call centres and its front line Personal Advisers, Jobcentre Plus delivers an integrated and accessible work focused service to all of its working age clients. Jobcentre Plus also has contracts with a range of service providers to deliver in-depth work focused support and training across the country through the New Deal, and through programmes tailored to meet the particular needs of harder to help client groups.

4.35 In recognition of the particular needs faced by many people living in the most deprived areas of the country, the Government has supplemented mainstream provision through a range of targeted initiatives such as Action Teams and Working Neighbourhoods pilots.

4.36 The Government is committed to improving service delivery by working with local government and other local partners on a shared agenda to ensure that services meet the needs and aspirations of local communities. The Department for Work and Pensions and Jobcentre Plus are supporting local authorities and other local partners in their development of strategies to tackle worklessness and poverty through Local Area Agreements and Local Public Service Agreements.

Contestability of labour market support

4.37 Since 2000, the Government has been systematically testing the impact of opening up the design and delivery of labour market support to competition with private and third sector organisations. Thirteen Employment Zones have been providing support to unemployed adults, young people who have already been through the New Deal and lone parents. Since 2004, the impact of multiple Employment Zones providers in a single district has also been tested. Independent evaluation of the first wave of Employment Zones showed that job outcomes were 10 percentage points better than outcomes for comparable participants in the New Deal for adults. Evidence on the extension of Employment Zones to new customers and to a multiple provider model will be published in early 2006.

4.38 Private sector and third sector organisations can bring a distinctive approach to service delivery, based on their specialist knowledge, experience and skills. These sectors have made a key contribution to the delivery of the New Deal for disabled people job broking service, Action Teams and Working Neighbourhood pilots. As described in Chapter 6, the third sector is already playing an important role in delivering public services, but has the potential to contribute even more. The Government will continue to identify ways of working with the private and third sectors in the delivery of a wider range of programmes.

HOUSING BENEFIT REFORM

4.39 The ease with which people are able to move location or commute is a key determinant of labour market flexibility, allowing workers to take advantage of a broad range of employment opportunities, and contributing to the Government's goal of full employment in every region.

Housing Benefit

4.40 The structure and delivery of Housing Benefit has a large part to play in ensuring labour mobility and participation. Housing Benefit provides help to 4 million low-income tenants, both in and out of work. It can, however, be complex both for claimants to understand and for local authorities to deliver. The Government's Housing Benefit reform programme is therefore addressing these difficulties in three ways: by introducing administrative improvements; structural reform; and the streamlining and alignment of benefits.

4.41 Government support to help local authorities with their administration of Housing Benefit has already led to considerable improvements. By the first quarter of 2005-06, the average time to process a new claim had improved by 21 days compared to the first quarter of 2002-03. Over the same period, the 60 worst performing authorities reduced their average clearance times for new Housing Benefit claims by 48 days. As announced in Budget 2005, the Government will from 2006, introduce improved IT links between local authorities and the Department for Work and Pensions to provide faster and more accurate processing of Housing and Council Tax Benefit.

4.42 Spending on Housing Benefit has been rising in real terms since 2000-01. There have been a number of reasons for this, including above inflation increases in private sector rents. While ensuring that tenants continue to receive an appropriate level of benefit, the Government will take steps to maintain overall Housing Benefit spending at a more stable level, building on progress to date in reducing fraud and error. **From April 2006, the Government will provide funding to ensure that all local authorities can take steps to reduce housing benefit fraud by reviewing or visiting at least 50 per cent of their claimants each year, in line with best practice.**

Structural reform **4.43** The Government is also making progress with structural reform of Housing Benefit. The flat-rate Local Housing Allowance (LHA) was first introduced in 9 pilot areas between November 2003 and February 2004 and in a further 9 areas from April 2005.¹⁶ These pilots will inform the Government's plans for further reform within the context of the wider Welfare Reform agenda.

MAKING WORK PAY

4.44 The Government believes that work is the best route out of poverty and is committed to making work pay, by improving incentives to participate and progress in the labour market. Through the Working Tax Credit and the National Minimum Wage, the Government has boosted in-work incomes, improving financial incentives to work and tackling poverty among working people.

The National Minimum Wage **4.45** The National Minimum Wage guarantees a fair minimum income from work. In February 2005, the Government accepted the Low Pay Commission's recommendations to increase the adult rate to £5.05 an hour from October 2005 and, subject to the Low Pay Commission's review early next year, to £5.35 from October 2006. The youth rate, for workers aged between 18 and 21, has also risen, to £4.25 from October 2005 and to £4.45 from October 2006.

The Working Tax Credit **4.46** The Working Tax Credit (WTC) provides financial support on top of earnings for households with low incomes. In April 2005, 2.2 million working families and over 280,000 low income working households without children were benefiting from the WTC. Some 90,000 households were benefiting from the disabled worker element of the WTC, more than double the number who received support through its predecessor, the Disabled Person's Tax Credit. **To ensure that people claiming Housing Benefit or Council Tax Benefit gain from the increases in the rates of WTC, the earnings disregard in Housing Benefit and Council Tax Benefit will also be raised in line with inflation, increasing to £14.90 in April 2006.**

¹⁶The first nine LHA pathfinders were introduced between November 2003 and February 2004 in Blackpool; Coventry; Lewisham; Brighton and Hove; Edinburgh; North East Lincolnshire; Conwy; Leeds; and Teignbridge. The second round of LHA pilots were introduced from April 2005. These are in Argyll-Bute; East Riding of Yorkshire; Guildford; Norwich; Pembrokeshire; Salford; South Norfolk; St Helens; and Wandsworth.

Tackling the unemployment trap **4.47** The unemployment trap occurs when those without work find the difference between in-work and out-of-work incomes too small to provide an incentive to enter the labour market. Table 4.1 shows that, since the introduction of the National Minimum Wage in April 1999, the Government has increased the minimum income that people can expect when moving into work, thereby reducing the unemployment trap.

Table 4.1: Weekly Minimum Income Guarantees (MIGs)

	April 1999	April 2006	Percentage increase in real terms ²
Family ¹ with one child, full-time work	£182	£265	22%
Family ¹ with one child, part-time work	£136	£206	27%
Single person, 25 or over, full-time work	£113	£172	28%
Couple, no children, 25 or over, full-time work	£117	£203	45%
Single disabled person in full-time work	£139	£214	29%
Single disabled person in part-time work	£109	£155	19%

Assumes single earner household, the prevailing rate of NMW and that the family is eligible for Family Credit/Disability Working Allowance and Working Tax Credit/Child Tax Credit.

Full-time work is assumed to be 35 hours. Part-time work is assumed to be 16 hours.

¹Applies to lone parent families and couples with children alike.

²RPI growth is taken from HM Treasury's economic forecasts.

Tackling the poverty trap **4.48** The poverty trap occurs when those in work have limited incentives to move up the earnings ladder because it may leave them little better off. Marginal deduction rates (MDRs) measure the extent of the poverty trap by showing how much of each additional pound of gross earnings is lost through higher taxes and withdrawn benefits or tax credits.

4.49 The Government's reforms are ensuring that workers have improved incentives to progress in work. Table 4.2 shows that, as a result of these reforms, about half a million fewer low income households now face MDRs in excess of 70 per cent than in April 1997. The increase in the number of households facing MDRs of between 60 and 70 per cent is primarily due to the introduction of tax credits, which have extended financial support so that far more families benefit, including low income working people without children.

Table 4.2: The effect of the Government's reforms on high marginal deduction rates

Marginal deduction rate ¹	Before Budget 1998	2006-07 system of tax and benefits
Over 100 per cent	5,000	0
Over 90 per cent	130,000	30,000
Over 80 per cent	300,000	160,000
Over 70 per cent	740,000	225,000
Over 60 per cent	760,000	1,720,000

¹Marginal deduction rates are for heads of working households in receipt of income-related benefits or tax credits where at least one person works 16 hours or more a week, and the head of the household is not a disabled person.

Note: Figures are cumulative. Before Budget 1998 based on 1997-98 estimated caseload and take-up rates; the 2006-07 system of tax and benefits is based on 2003-04 caseload and take-up rates.

FUNDING FOR WELFARE TO WORK

4.50 The DWP delivers the Welfare to Work programme. This programme is funded from the one-off Windfall Tax on the excess profits of the privatised utilities along with resources allocated in the 2002 Spending Review. Table 4.3 sets out that element of the Welfare to Work programme, and other programmes, funded from the Windfall Tax.

Table 4.3: Allocation of the Windfall Tax

£ million	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04 ²	2004-05 ³	2005-06 ³	TOTAL
Spending by programme¹										
New Deal for young people ⁴	50	200	310	300	240	260	170	0	0	1,530
New Deal for 25 plus	0	10	90	110	200	210	150	0	0	770
New Deal for over 50s	0	0	5	20	10	10	10	0	0	60
New Deal for lone parents	0	20	40	40	40	80	60	0	0	280
New Deal for disabled people ⁵	0	5	20	10	10	30	30	0	0	100
New Deal for partners	0	0	5	10	10	10	10	0	0	40
Childcare ⁶	0	20	10	5	0	0	0	0	0	35
University for Industry ⁷	0	5	0	0	0	0	0	0	0	5
Workforce development ⁸	0	0	0	0	0	40	50	150	80	320
ONE pilots ⁹	0	0	0	5	5	0	0	0	0	10
Action Teams	0	0	0	10	40	50	50	0	0	150
Enterprise development	0	0	0	10	20	10	0	0	0	40
Modernising the Employment Service	0	0	0	40	0	0	0	0	0	40
Total Resource Expenditure	50	260	480	560	570	700	530	150	80	3,380
Capital Expenditure¹⁰	90	270	260	750	450	0	0	0	0	1,820
Windfall Tax receipts	2,600	2,600								5,200

¹ In year figures rounded to the nearest £10 million, (except where expenditure is less than £5 million). Constituent elements may not sum to totals because of rounding.

² Windfall Tax expenditure on welfare to work programmes is reduced from 2003-04 onwards as Windfall Tax resources are exhausted. Remaining in-year expenditure will be topped up with general Government revenues.

³ Figures are provisional for the years from 2004-05 to 2005-06.

⁴ Includes funding for the Innovation Fund.

⁵ Includes £10 million in 1999-2000, an element of the November 1998 announcements on welfare reform.

⁶ Includes £30 million for out-of-school childcare. The costs of the 1997 Budget improvements in childcare through Family Credit are included from April 1998 to October 1999, after which the measure was incorporated within the Working Families' Tax Credit.

⁷ Start up and development costs. Other costs of the University for Industry are funded from within Departmental Expenditure Limits.

⁸ Includes £219 million funding for Employer Training Pilots.

⁹ Funding for repeat interviews. Other funding is from the Invest to Save budget.

¹⁰ Includes capital spending on renewal of school infrastructure, to help raise standards.