

# 4

## INCREASING EMPLOYMENT OPPORTUNITY FOR ALL

The Government's long-term goal is employment opportunity for all – the modern definition of full employment. It aims to ensure a higher proportion of people in work than ever before by 2010. For the UK to meet the increasing challenges posed by the global economy, it is vital that all groups in society are given the opportunity to participate in a successful labour market. This chapter describes the further steps that the Government is taking to move towards its aim of employment opportunity for all, including:

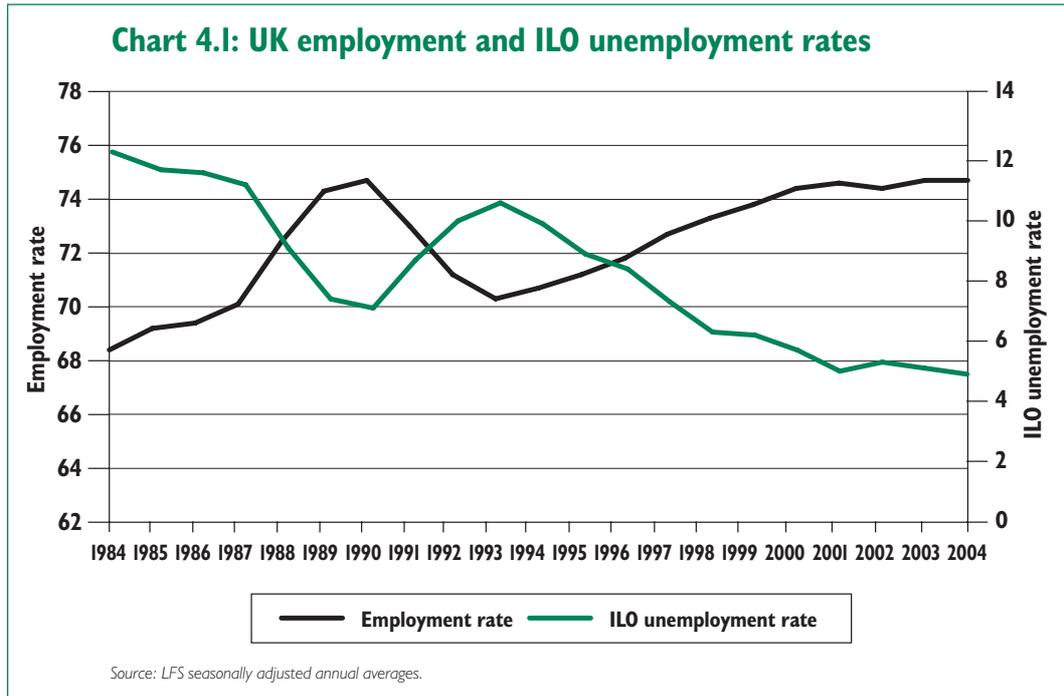
- **a major expansion of the Pathways to Work pilots for incapacity benefits claimants** to an additional 14 Jobcentre Plus districts covering the thirty Local Authority Districts with the highest concentrations of incapacity benefits claimants, thereby extending this groundbreaking approach to around one-third of the country;
- **a package of measures to further help people on incapacity benefits move into work**, including changes to permitted work rules to improve opportunities to move from benefits to full-time employment, and placing employment adviser support within GPs' surgeries;
- **an extension of the £40 per week In-Work Credit for lone parents to six further pilot areas**, to reinforce the gains to work for lone parents in the areas that need it most;
- **a Housing Benefit Reform Fund worth £180m during 2006-08** to enable the roll out of flat-rate allowances and to improve the administration and structure of the Housing Benefit system;
- **piloting a Learning Allowance** that will allow benefit claimants to participate in full-time training; and
- **increasing by £3 per week the income threshold above which the Working Tax Credit is tapered, in line with inflation to £5220 in 2005-06**, so that families whose incomes are rising retain more of their tax credits, ensuring gains to work are maintained.

**4.1** The Government's long-term goal is employment opportunity for all – the modern definition of full employment. 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. This Pre-Budget Report sets out action to build on the successful recent performance of the UK labour market and tackle the long-term challenges of increasing flexibility, reducing inactivity and helping those groups in society which face particular barriers to work.

**4.2** The UK labour market has performed strongly in recent years. Chart 4.1 shows that UK unemployment, on the International Labour Organisation (ILO) definition, has fallen to 4.6 per cent, the lowest of the G7 economies, while the working age employment rate has reached 74.7 per cent. The employment level has risen by almost 2 million since spring 1997. Claimant count unemployment has fallen by more than 780,000 since 1997, and has remained below one million since February 2001.

### Flexibility and fairness in the labour market

**4.3** The UK's strong employment performance is based on a foundation of macroeconomic stability and reforms that have enhanced flexibility in labour, product and capital markets. Box 4.1 summarises the Government's approach to creating a flexible and fair labour market, which will help the UK to prosper in increasingly integrated global markets where investment and production can move quickly between countries.



**4.4** Flexibility allows workers and businesses to adapt quickly and effectively to such changes and to seize opportunities in the global market. The Government's labour market policies ensure that flexibility goes hand in hand with fairness, providing security and support to ensure people can cope with economic change. The tax and benefit system, described in this chapter and in Chapter 5, provides security through financial support for those who need it most, when they need it most. The Government's active labour market policies support people back into work; for example, after a period of unemployment or economic inactivity.

#### Meeting long-term challenges

**4.5** The Government is determined to build on the success of the UK labour market, and meet the long-term challenge of ensuring that all sections of society have the help and support they need to enter the workforce and fulfil their potential. This will be increasingly important to ensure that the UK can prosper in the global economy. The Pre-Budget Report sets out new action which focuses on the challenge of reducing inactivity levels and helping those groups in society which face particular barriers to work.

#### The New Deals

**4.6** The Government's active labour market strategy is to provide the unemployed and inactive with the support and skills they need to move back into work as quickly as possible, with more intensive support provided through the New Deals.

**4.7** The New Deals have been fundamental to the success of the Government's active labour market policy. Since their launch in 1998, over 1.1 million people have been helped into work through the New Deals, including nearly 520,000 young people, and nearly 200,000 unemployed adults aged between 25 and 50. Together, the New Deals for the unemployed have contributed to a fall in long-term unemployment of over three quarters since 1997, including a fall in long-term youth unemployment from 163,300 in 1997 to 38,600 in October 2004. More than 276,000 lone parents have been helped into work through the New Deal for lone parents (NDLP).

**Box 4.1: Flexibility and fairness in the global economy**

As set out in *Long-term global economic challenges and opportunities for the UK*, published alongside this Pre-Budget Report, globalisation can deliver significant potential benefits to the UK. However, global change also creates new challenges. Countries that will succeed in an increasingly open and integrated global economy are those that are flexible, open and outward looking. If markets and individuals do not have the flexibility and adaptability to respond to change, then exposure to overseas competition and new technologies may result in falling relative earnings, periods of unemployment, or a combination of the two, particularly among lower skilled workers.

A flexible labour market does not come at the expense of employment and security. Around the world, flexible economies are also the ones with higher employment. Combining flexibility with fairness – equipping people to cope with change and tackling the insecurities that surround it – is the best route to full employment. Since 1997, the Government has implemented wide-ranging reforms to ensure that the UK labour market promotes fairness and is flexible enough to adapt quickly to changes in global and domestic demand:

- to strengthen skills and human capital and increase the ability of individuals to adapt to change, the Government has introduced a range of measures, which are discussed in more detail in *Skills in the global economy* published alongside the Pre-Budget Report, and in Chapter 3;
- through the introduction of the National Minimum Wage and tax credits, the Government is making work pay and has demonstrated that it is possible to combine flexibility with fair minimum standards; and
- the Government's active labour market policies are supporting people into work, including those who would previously have been adversely affected by the changing structure of economic activity. Too often in the past, many people, particularly those with few skills, were given little help and support to stay in contact with the labour market, and many ended up in long-term worklessness or inactivity.

Such reforms are important irrespective of global economic change; they have helped to deliver record levels of employment in the UK and tackle social exclusion. However, global integration places a premium on a well-performing labour market. The Government will continue to ensure fairness alongside flexibility so that the most vulnerable are supported and are not left behind.

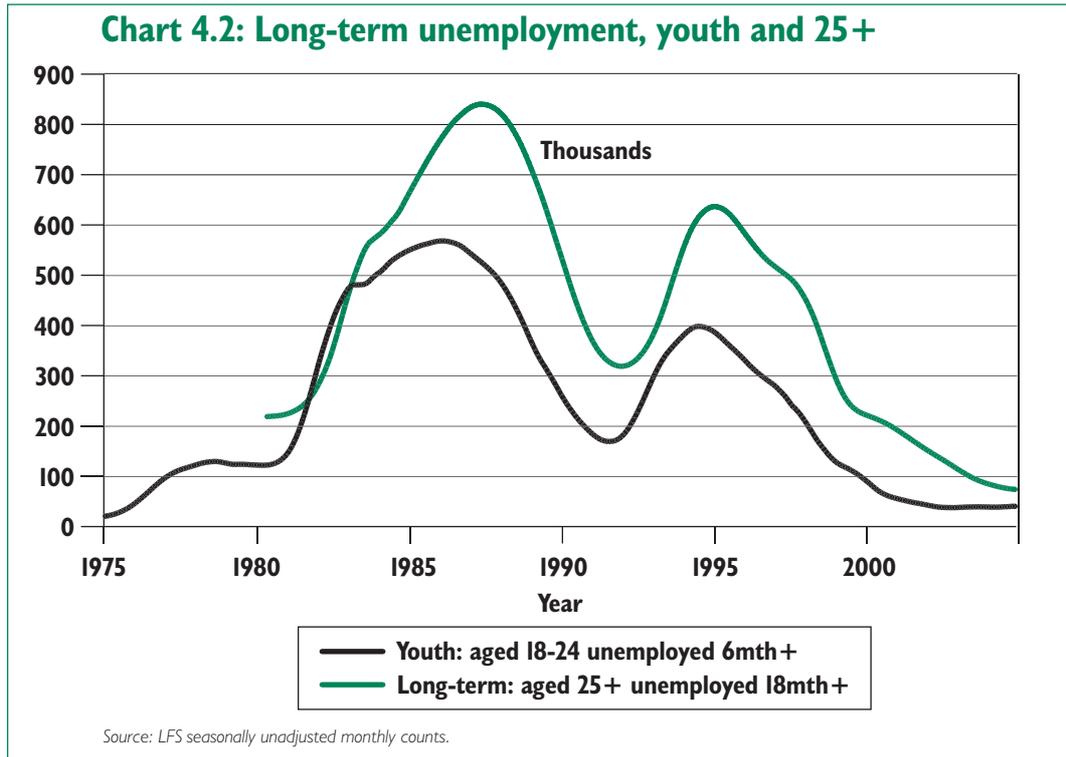
**4.8** Independent research confirms the positive impact of the New Deal. In 2000, the National Institute of Economic and Social Research (NIESR) concluded that, without the New Deal for young people (NDYP), the level of long-term youth unemployment would have been twice as high.<sup>1</sup> More recent studies show that NDYP has reduced overall youth unemployment by between 30,000 and 40,000; that young men are now 20 per cent more likely to find work as a result of the New Deal;<sup>2</sup> and that overall, the social benefits of NDYP outweigh the costs.<sup>3</sup> Independent evaluation of NDLP suggests that *“the programme doubles the employment chances of participants: 50 per cent of participants entering work compared to 26 per cent of non-participants – an additional impact of 24 percentage points.”*<sup>4</sup>

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

<sup>2</sup> *New Deal for Young People: evaluation of unemployment flows*, Wilkinson, D., Policy Studies Institute, 2003

<sup>3</sup> *Active labour market policies and the British New Deal for unemployed youth in context*, in *Seeking a premier league economy*, Blundell, R., Card, D. and Freeman, R. (eds), University of Chicago Press. June 2004.

<sup>4</sup> *New Deal for lone parents: second synthesis report of the national evaluation*, Centre for Analysis of Social Policy, University of Bath (Evans, Eyre, Millar, Sarre), June 2003.



**Skills 4.9** The Government's employment policies are succeeding in getting people into work. However, the UK has a large proportion of low-skilled adults in the workforce compared with other major economies. Enabling people to acquire skills is central to helping them obtain better paid work, and to ensuring that businesses have access to the skilled workforce they need to compete globally. *Skills in the global economy*, published alongside the Pre-Budget Report, and described in Chapter 3, sets out the progress that the Government has already made in improving the skills of the workforce and the future measures it is taking to build on this progress. This chapter describes the Government's approach to helping the longer-term unemployed and inactive gain access to full-time training.

## EXTENDING EMPLOYMENT OPPORTUNITY TO ALL

**4.10** The Government is committed to extending employment opportunity to all, ensuring that support is available to help everyone fulfil their potential. Having achieved significant falls in unemployment, the Government is determined to do even more for those who face the greatest barriers to work. This Pre-Budget Report sets out action to meet the challenge of high levels of inactivity, extending employment opportunity to all groups in society.

### People with a health condition or disability

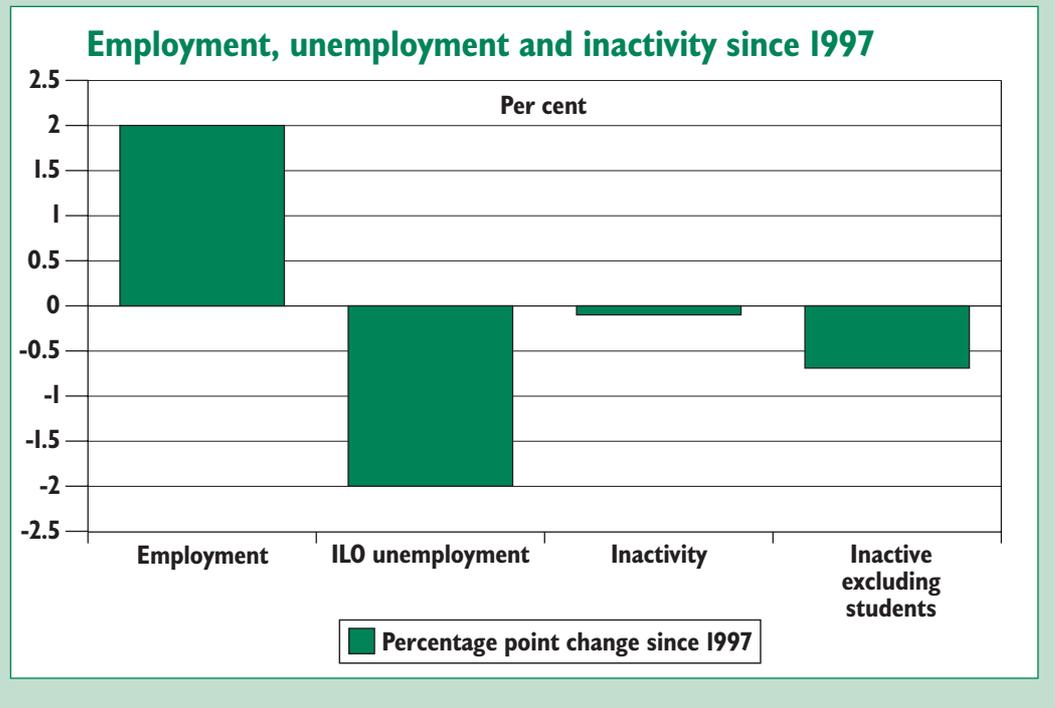
**4.11** The challenge of a high and rising number of incapacity benefits<sup>5</sup> claimants, and the low rate at which people leave these benefits for work, is common to most modern economies. The labour market support extended to people with a health condition or disability to help them into work has historically been much more limited than that extended to many other disadvantaged groups.

**4.12** In the UK, 2.7 million people, or 7½ per cent of the working age population, are claiming an incapacity benefit – a proportion close to the OECD average. The number of incapacity benefits claimants is now three times greater than the number of people claiming Jobseeker's Allowance (JSA), and the total figure represents almost a three-fold increase compared with 1979. However, since 1997 the caseload has stabilised. This reflects both economic success and the extra help and support that the Government has introduced.

<sup>5</sup> Incapacity benefits include Incapacity Benefit, Income Support on the grounds of incapacity and Severe Disablement Allowance.

**Box 4.2: Employment, unemployment and inactivity since 1997**

The UK has combined macroeconomic stability; active labour market policies; a tax and benefit system which ensures that work pays; investment in skills; and a flexible labour market to ensure strong labour market performance. This has meant that the rising UK employment rate of the past seven years has been accompanied by falls in both the unemployment rate and the inactivity rate, as the chart below demonstrates. The decline in the unemployment rate has not been caused by an increase in inactivity; it has, instead, reflected the success of those looking for work in finding it. Furthermore, student numbers have risen as the Government has taken steps to provide access to higher education for all. This has led to an increase in the number of students who are classified as economically inactive. Excluding students, the inactivity rate has fallen by a greater margin, as the chart also illustrates.



**4.13** Nonetheless, the Government recognises that there is much more to do. Evidence suggests that around 90 per cent of new incapacity benefits claimants expect to get back to work. Often these aspirations are not realised due to a range of obstacles to work that are not necessarily related to an individual’s health condition or disability. With prolonged inactivity, skills and expectations can diminish rapidly, and the probability of leaving incapacity benefits declines significantly over time.

**4.14** The Government is committed to ensuring that more help is extended to people with a health condition or disability who are able to work, as part of its welfare to work strategy. Failure in this area represents a missed opportunity, both for the economy and for individuals themselves. Engagement in the labour market increases social inclusion, enables people to fulfil their aspirations and potential, and, in most cases, improves health and well-being.

**The Government’s vision**

**4.15** The Government’s vision is to deliver a fundamental change in the way that people with a health condition or disability, but who want and are able to work, are given support to find, remain and progress in employment. The Government believes that everyone who wants and is able to get back to work should be helped and enabled to do so, maintaining a balance between rights and responsibilities. Moving towards this vision will help to ensure that:

- fewer people develop a health condition or disability at work or while looking for work, thanks to healthy and better managed work and jobseeking environments;
- significantly greater numbers of people who do develop a health condition or disability, are enabled and encouraged to remain in work or in job search by suitable management and adjustment; and
- significantly greater proportions of people who move onto incapacity benefits, return to work or job search.

**4.16** Achieving this vision requires a balanced and principled approach across a number of different fronts, guided by evidence of what works. This means improving the support that people receive so that the welfare system:

- recognises that a person's health condition can affect their ability to work, but does not assume that they are incapable of, or do not want to, work;
- provides labour market support according to a person's individual needs, rather than the type of benefit they are on;
- encourages and supports people to take steps back to work and ensures they have access to a range of employment and health-related programmes of proven quality;
- ensures that incapacity benefits themselves do not constrain people's ability or motivation to move into work; that there are clear financial incentives to move into and stay in work; and that there is minimal risk and uncertainty in doing so; and
- is backed by a collective effort from all stakeholders to recognise the importance of ensuring that people with a health condition or disability are enabled to continue working.

### Pathways to Work pilots

**4.17** The Government's Pathways to Work pilots are a significant step towards achieving this vision and have put the UK at the forefront of policies supporting the active case management of incapacity benefits claimants. The Organisation for Economic Co-operation and Development (OECD) recently described the pilots as a "*radically new approach to dealing with those on incapacity benefits*".<sup>6</sup> The pilots, which began in October 2003, are currently being tested in seven Jobcentre Plus districts.<sup>7</sup> They are reshaping the culture and expectations of being on an incapacity benefit among individuals, the NHS and employers, ensuring a much greater focus on returning to work, while providing greater consistency of support and advice tailored to individual needs.

**4.18** This innovative package of support includes a series of intensive mandatory work-focused interviews for most new claimants delivered by a skilled Jobcentre Plus personal adviser; new rehabilitation services provided jointly by Jobcentre Plus and the local National Health Service to manage the conditions that most often stop people working; improved links with New Deal for disabled people (NDDP) job brokers; improved financial incentives through a Return to Work Credit of £40 per week; and improving employer and GP awareness of the implications of sickness absence.

**4.19** Early evidence suggests that the pilots are having a positive impact on incapacity benefit claimants' prospects of a return to work. In particular:

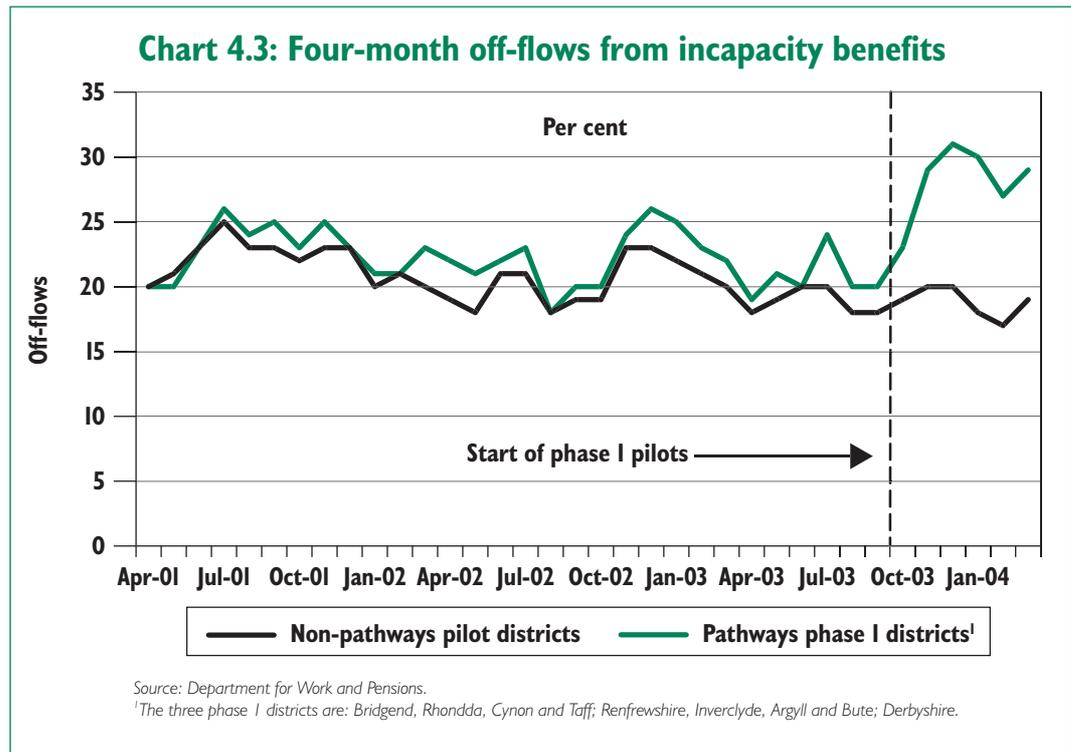
- in the first three Pathways to Work pilot districts, there has been an increase of between 8 and 10 percentage points in off-flows from incapacity benefits after

<sup>6</sup>Economic survey of the UK, OECD, 2004.

<sup>7</sup>The phase 1 pilots started in three Jobcentre Plus districts in October 2003 (Bridgend, Rhondda, Cynon and Taff; Renfrewshire, Inverclyde, Argyll and Bute; Derbyshire). A further four pilots commenced in April 2004 (East Lancashire; Essex; Gateshead and South Tyneside; Somerset).

four months of a claim.<sup>8</sup> This is illustrated in Chart 4.3 which shows the percentage of new claimants in a particular month who have left the benefit four months later;

- in the seven Pathways to Work pilot districts, following the initial work-focused interview at 8 weeks, between 15 and 20 per cent of claimants have taken up elements of the Choices package,<sup>9</sup> with over 10 per cent of claimants joining the NDDP. This compares with 4 per cent of claimants joining NDDP in Jobcentre Plus Pathfinder offices following a work-focused interview and 2 per cent nationally;
- in the seven Pathways to Work pilot districts around twice as many incapacity benefits claimants were helped into a job in August 2004 compared to the same time last year; and
- the pilots are also generating significant interest from existing incapacity benefits claimants in the pilot districts, who are not currently required to take part in the programme.



**4.20** The Government has been learning from the emerging evidence and putting lessons into practice. In the light of the positive first steps, Budget 2004 announced an extension to the provision in the Pathways areas and the Government’s intention to pilot a mandatory work-focused interview regime for some existing incapacity benefits claimants, alongside a new job preparation premium. Following this announcement, the Department for Work and Pensions (DWP) carried out a consultation exercise on these new proposals with key stakeholders, which generated a number of useful suggestions. The new measures will be piloted from February 2005.

<sup>8</sup>There is currently no four-month off-flow data available for the April 2004 Pathways pilots districts.  
<sup>9</sup>The Choices package is a range of provision aimed at improving labour market readiness and opportunities. This includes NDDP and the Condition Management Programmes.

**4.21** The Pre-Budget Report announces that Pathways to Work will continue to provide support in the seven existing pilot locations after April 2006. In the light of the experience from the extension of the mandatory work-focused interview regime in February 2005, the Government will seek to broaden this approach to a further proportion of existing claimants, from April 2006 onwards. The Department of Work and Pensions (DWP) will seek the views of stakeholders during 2005 to ensure that the policy is designed in a way that provides the most effective support possible. The Government recognises that, while a number of longer-term benefit claimants want to work, they may face different and often greater barriers to doing so.

**Extending the Pathways to Work pilots**

**4.22** The Government is determined to go further, both by building on the success of Pathways to Work and by making a number of wider supporting changes, to help push forward the realisation of its vision. **Therefore, additional resources will be allocated to extend the Pathways to Work pilots to a further 14 Jobcentre Plus districts from October 2005 onwards. The expansion means that Pathways to Work will support the 30 Local Authority Districts with the greatest concentrations of incapacity benefits claimants,<sup>10</sup> thereby extending this groundbreaking approach to cover around one-third of the country.**

**4.23** The Pathways to Work pilots are providing a wider framework of support through which to deliver provision such as NDDP more effectively. NDDP, which is delivered through a national network of innovative job brokers, supports Jobcentre Plus in providing help and support for people on incapacity benefits to move into employment and has helped over 45,000 people into jobs since its national launch in July 2001. **The Pre-Budget Report announces additional financial support in 2005-06 to ensure NDDP job brokers can continue to help people on incapacity benefits to move into work.**

**4.24** The Government is continuing to increase the support offered to incapacity benefits claimants and is learning from the Pathways to Work pilots to reshape overall Jobcentre Plus provision. The early evidence from the Pathways to Work evaluation shows that the specialist incapacity benefits personal advisers are highly motivated and much more equipped and confident to engage clients positively in the prospect of a return to work. The Government has extended this support more widely. There are now specialist incapacity benefits personal advisers in all of the integrated Jobcentre Plus offices. Once Jobcentre Plus is fully rolled out in March 2006, there will be specialist advisers in every district.

**4.25** Contact with personal advisers through a work-focused interview can raise an individual's awareness of the employment and financial support available to them. As part of the Pathways to Work pilots, advisers are using mandatory action plans and undertaking the first work-focused interview at the eight week point to create a more positive and focused framework for considering possible returns to work. **This Pre-Budget Report announces that, across all Jobcentre Plus integrated offices, incapacity benefits claimants will similarly be required to complete an action plan and have a work-focused interview at the eight-week point.**

**Permitted work rules**

**4.26** The incapacity benefits permitted work rules enable claimants to undertake some work while continuing to receive benefits. This support helps people who are able to work on a limited basis to take important steps from benefits to work. The Pre-Budget Report announces new measures to improve and simplify permitted work provision. The measures will:

- increase take-up and provide better support on entry to permitted work. **Alongside new guidance and training materials, people undertaking permitted work will be required to sign up to an action plan committing them to consider the prospects of a move into full time employment, with support where necessary;**

<sup>10</sup>This is defined in terms of the working age reciprocity rate for incapacity benefits.

- facilitate progression within permitted work. The **initial period of permitted work will be extended to 52 weeks in all cases and the 26 week point used as an opportunity to ensure an ongoing commitment to, or a revision of, the action plan combined with fresh material on the help available to make the transition to full-time work; and**
- expand elements of the current permitted work provisions for people with the greatest barriers to full-time employment. **People with the most limiting conditions, for example advanced, progressive conditions will be covered by a widened version of the permitted work provisions, and enabled to work for a longer period of time while maintaining their entitlement to benefit.**

**Test trading 4.27** The Pre-Budget Report also announces measures to provide a more attractive stepping stone from benefits to self-employment for incapacity benefits claimants by improving the test trading regulations. The arrangements for incapacity benefits claimants will be brought more in line with those for JSA and Income Support claimants. **From April 2006, test trading will be treated for benefit purposes as training irrespective of whether incapacity benefits claimants choose to take up the training allowance or to remain on benefit.**

**Extra support for GPs 4.28** As described above, the Government's vision can only be delivered with effective support from external stakeholders. GPs have a key role to play in ensuring that their advice supports the recovery and rehabilitation of patients and, where appropriate, encourages a return to work or work-related activity. The Government wishes to support them in this role. **The Pre-Budget Report announces new measures to develop and embed best practice in training material for new and existing medical professionals. Moreover, from 2005, the Government will also pilot improved arrangements on fitness for work advice, including placing employment adviser support within GPs' surgeries and encouraging closer links with existing support to help people manage their condition.**

## Helping the unemployed

**4.29** The JSA regime has been effective in helping the unemployed move rapidly back into work, maintaining low unemployment and reducing the risk of long-term detachment from the labour market. Around 60 per cent of claimants now leave JSA within 13 weeks and nearly 80 per cent leave within six months, compared to 75 per cent leaving within six months in 1997. This has contributed to the fall in the number of JSA claimants from 1,619,000 in May 1997 to 836,700 in October 2004; a decrease of 50 per cent.

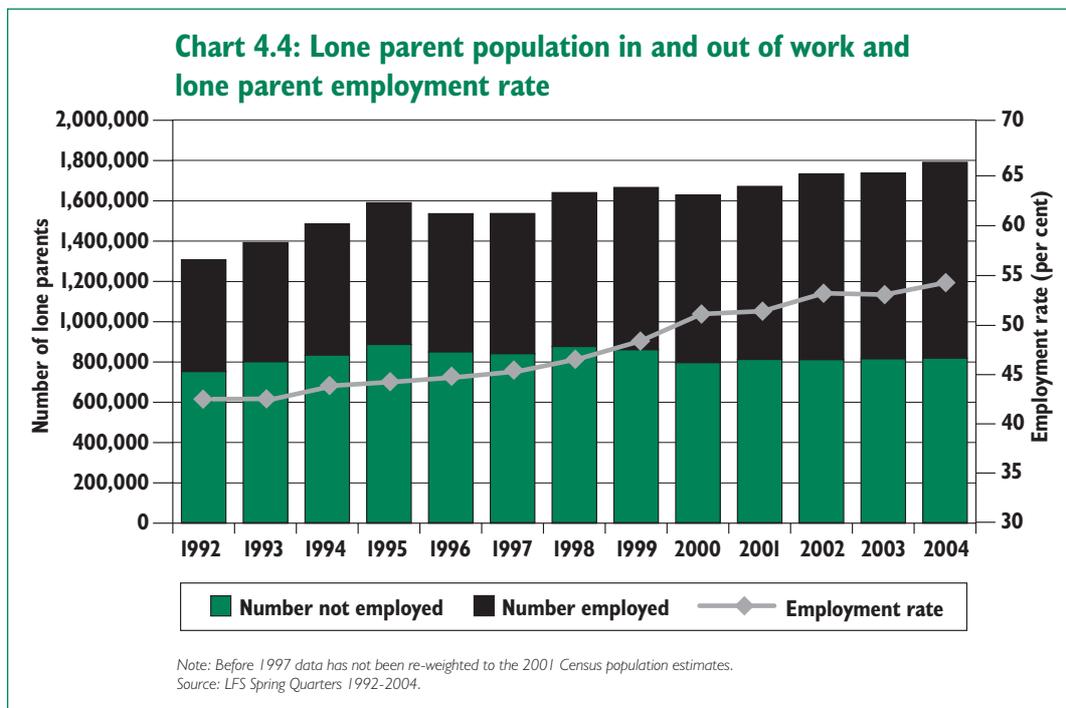
**4.30** The Government is continuing to build on the success of the JSA regime. As announced in the 2003 Pre-Budget Report, from June 2005 the Government will be piloting a mandatory short intensive work-focused course for all JSA claimants, aged 25 or over, at the six-month stage. **In addition, the Government will be looking at a number of ways of improving the efficiency and effectiveness of the JSA regime.** These will be aimed at increasing personal responsibility for job search activity and improving the capacity of local managers and personal advisers to hold jobseekers to account for that activity, while responding flexibly to individual circumstances. Measures tested will also include:

- **a revised and strengthened Jobseeker's Agreement with a clearer focus on the jobseeker's responsibilities and a personal record of job search activity to be reviewed at subsequent interviews; and**
- **new signing regimes for the first 13 weeks of the claim, requiring jobseekers to attend the Jobcentre irregularly with short notice call-in, backed up by a range of regular signing regimes and innovative use of IT.**

**4.31** An effective balance between rights and responsibilities also requires effective penalties for non-compliance. Alongside the intervention regime pilots, the Government will therefore review the current JSA sanctions regime to ensure that the penalties for failure to carry out responsibilities are timely, fair, practical and effective.

## Lone parents

**4.32** The rise in the number of lone parent households in the UK, and the low employment rate for lone parents, were significant factors in the increasing number of children living in workless households in the 1980s and early 1990s. To support its goal of eradicating child poverty, described fully in Chapter 5, the Government has set a target of 70 per cent of lone parents being in employment by 2010. Significant progress has been made toward this target; between spring 1997 and spring 2004, the lone parent employment rate increased by 9 percentage points to over 54 per cent – the highest rate on record. There are now almost one million lone parents in employment, an increase of 40 per cent since 1997 and of nearly 50,000 in the past year. Chart 4.4 shows the rise in lone parent employment since 1992.



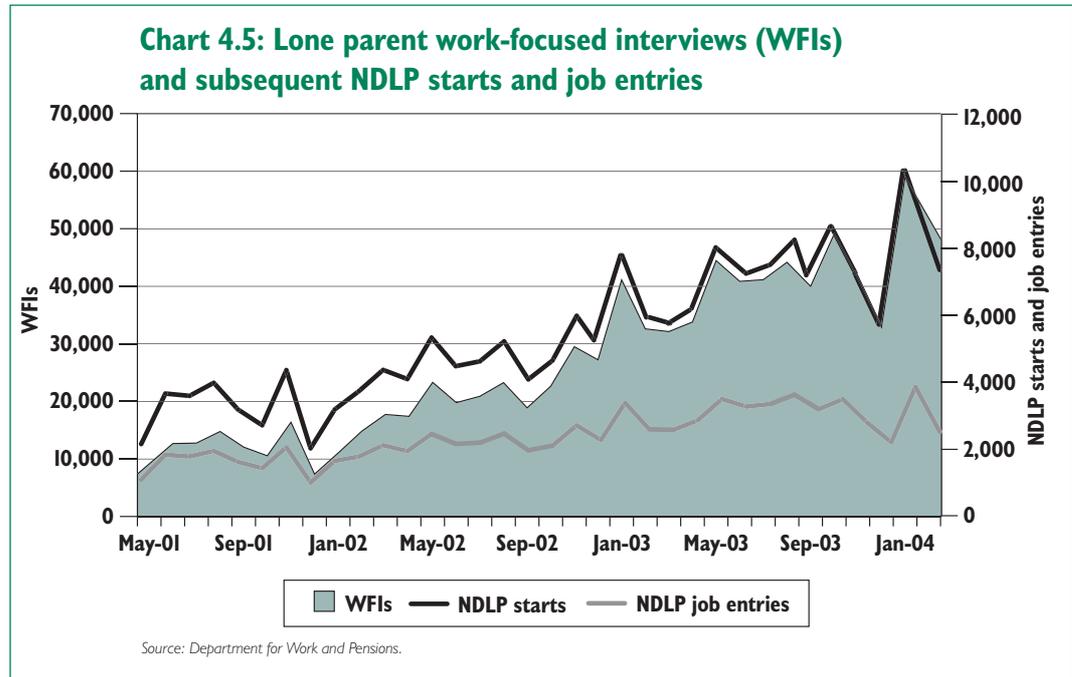
**4.33** The Government's strategy to improve the support for lone parents to find work combines several elements: work-focused interviews to ensure that lone parents are aware of the job opportunities available to them, and compulsory action plans agreed at the interview; ensuring that work pays through, for example, the Working Tax Credit; providing accessible and affordable childcare, through the National Childcare Strategy and Sure Start; and individual help and support through the New Deal for lone parents (NDLP), which has already helped over 276,000 lone parents into employment.

### Work-focused interviews

**4.34** Chart 4.5 shows the impact on job outcomes of the 1.1 million work-focused interviews for lone parents carried out since their introduction in 2001. Independent evaluation evidence<sup>11</sup> shows that lone parent work-focused interviews have substantially increased the numbers of lone parents participating in NDLP. Around 209,000 lone parents have joined NDLP following a work-focused interview, and of these, 88,000 have moved into work.

<sup>11</sup> *Integrated findings from the Evaluation of the first 18 months of Lone Parents Work Focused Interviews*, Insite Consulting (DWP Evaluation Series, W184), March 2004.

**4.35** Work-focused interviews are extremely effective in helping lone parents return to work. Therefore, the Government plans to extend work-focused interview provision once the existing work-focused interview programme is fully rolled out in March 2006.



**In-Work Credit 4.36** The Government recognises that the barriers to work faced by lone parents are more difficult to overcome in some areas of the country than in others and that work incentives can be particularly affected by the higher cost of living in London and the surrounding area. The In-Work Credit – a £40 a week payment for lone parents who have been on Income Support for one year or more – introduced in the 2003 Pre-Budget Report and extended in Budget 2004, is a transparent method of increasing work incentives, and is targeted at those that need it most. **The Pre-Budget Report announces that the In-Work Credit, currently available in 12 pilot areas<sup>12</sup> – will be extended to six further areas in the South East, where the gains to work are weakest.** An additional 84,000 lone parents will become eligible for the Credit from October 2005, so that 40 per cent of lone parents in the UK who have been on benefit for a year or more will now be eligible for the In-Work Credit.

**Support for childcare 4.37** A lack of quality, affordable childcare can represent a barrier to work for many parents. Working parents need to have childcare that is reliable and accessible. Good quality childcare can help facilitate access to work, therefore boosting employment and helping to reduce child poverty. The Government is publishing *Choice for parents, the best start for children: a ten year strategy for childcare* alongside this Pre-Budget Report. This sets out how the Government will work towards its vision of affordable, quality childcare for all who need it, and is discussed in more detail in Chapter 5.

**4.38** The reforms to Housing Benefit outlined later in this Chapter will also help lone parents. **By aligning the definition of eligible childcare in Housing and Council Tax Benefits with that in tax credits, families will receive the full benefit of the WTC childcare element.**

<sup>12</sup> In-work Credit Pilot areas: Bradford; Cardiff and the Vale; Dudley and Sandwell; Edinburgh; Lancashire West; Leicestershire; Leeds; Staffordshire; Central London; North London; South East London; West London.

**Return to work 4.39** Mothers in particular face a number of barriers to returning to the workplace after a prolonged absence. In some professions, a few years without practical experience can cause skill deterioration. More often, however, the experience of raising a family actually enhances skills and capabilities, and the real obstacles are confidence, proper recognition by employers and practical difficulties in returning to work.

**4.40** To break down the barriers to mothers returning to work, **Regional Development Agency-led pilots in London, the East Midlands and the South East will offer integrated programmes of support to provide women returners with advice on career options, access to training, work placements and good quality affordable childcare.** The pilots will utilise strong links with local employers to ensure that the particular needs and advantages of returning women are recognised.

## Partners

**4.41** Since the mid 1980s, there have been significant changes in the way that households organise their work. The decline in male employment and rise in female employment has, by and large, occurred in different households. There has been a shift away from single earning households, and towards a polarisation between 'work rich' dual-earning households, and 'work poor' workless households which experience high levels of child poverty.

**4.42** For this reason, in April 2004, the Government introduced work-focused interviews for partners of benefit recipients. Partners of new or repeat benefit recipients are interviewed after six months, while partners of existing claimants are being invited to interview over the next two years. To coincide with the introduction of work-focused interviews, the Government has re-launched the New Deal for partners, which now offers help and support similar to that offered in the NDLP, including access to a skilled personal adviser, able to help and support partners in overcoming barriers to work.

## Ethnic minorities

**4.43** Despite the overall success of the Government's labour market policies since 1997, ethnic minority groups still have significantly lower than average employment rates, with some groups – such as people from Pakistani or Bangladeshi origins – faring least well. Even highly-skilled people from ethnic and faith minorities have lower than average employment rates. For example, the employment rate for Pakistani graduates is around ten percentage points lower than the national graduate average. The Ethnic Minority Employment Taskforce has taken forward the recommendations of the Prime Minister's Strategy Unit report on the position of ethnic minorities in the labour market, and its first annual report, published in November 2004, set out good progress on implementation.

**4.44** The Government has brought in a range of measures to support activity at local level, including the introduction of specialist advisers in Jobcentre Plus areas with high ethnic minority populations, and a fund of £8 million over two years to support innovative local programmes. In addition, Budget 2004 announced the establishment of 'Fair Cities' initiatives in three areas – Bradford, Birmingham and Southwark – to work with employers and other local stakeholders to develop local strategies to tackle ethnic minority worklessness. Boards and chairs have now been appointed in each area, and their strategies will be in place by April 2005.

**4.45** The Government recognises the need to ensure that New Deal and other mainstream labour market and enterprise support meets the needs of ethnic minority clients, and that proper lessons are learnt from targeted initiatives. The National Employment Panel, working with the Ethnic Minority Business Forum, will report by Budget 2005 on measures to encourage employment, self-employment and the growth of small business for ethnic and faith minority groups.

## Older workers

**4.46** The Government is committed to increasing opportunities for older people to remain in, or return to, work. This is essential to ensure that the labour market and workforce adapt to meet the needs of an ageing population, and that individuals are able to build up an income in retirement that meets their expectations. Furthermore, evidence suggests most early retirement is involuntary, and that remaining in, or returning to, work can increase social inclusion and improve individuals' health.

**4.47** Since May 1997, the employment rate for people aged between 50 and State Pension Age has increased by over five percentage points to 70 per cent, and there are now around one million people over State Pension Age in employment. Through Jobcentre Plus and policies such as the New Deal for people aged 50 and over (ND50+) the Government is continuing to develop its back to work support.

**4.48** As described in Chapter 5, the Government is also increasing the choices people have over when, and how, they move from work to retirement. The Government is also encouraging age positive employment practices and is working with leading business partners to develop a national guidance campaign for employers in 2005 and 2006. In 2006, the Government will bring into force legislation to implement the age discrimination strand of the European Employment Directive.

## Enhancing skills in the labour market

**4.49** The Government's employment policies are focused not only on getting people into work, but also on giving people the support they need for sustainable employment and for accessing better-paid, higher-skilled work. *Skills in the global economy*, published alongside this Pre-Budget Report, and discussed further in Chapter 3, sets out the next stages in the Government's plans for enhancing skills levels in the UK economy. This is central to the Government's strategy for meeting the long-term challenge of ensuring the UK will prosper in the global economy.

### Enhancing skills while claiming benefits

**4.50** Benefit claimants have access to a wide range of support for training, including through the New Deals and Work-Based Learning for Adults. Since October 2003, the Government has been testing the effectiveness of a range of in-work support in the Employment Retention and Advancement Demonstration projects. Evidence shows that, for most people, the best way of finding and staying in work is actively to look for work, rather than to focus solely on training. While benefits claimants are not currently entitled to access full-time education or training outside the New Deals, many participate in part-time training. Advisers need to be able to ensure that this training, too, is properly focused on improving employability and does not get in the way of effective job seeking.

**4.51** The Government believes there is a case for introducing more flexibility for advisers when it comes to allowing the longer-term unemployed and inactive benefit claimants to participate in full-time training, where this would both improve chances of moving into sustained, productive employment and meet the specific needs of local employers. **From April 2006, the Government will therefore test the impact of a Learning Allowance.** This will allow benefit claimants in pilot areas, with the agreement of their personal adviser, to take up full-time training towards a first level 2 qualification.<sup>13</sup> Support will include a £10 per week benefit supplement to cover the additional costs of learning and will be dependent on the participant meeting the conditions of a Learning Agreement agreed with their personal adviser. For jobseekers who do not have a Learning Agreement in place, the benefit rules will be strengthened to ensure that any learning is genuinely part-time and does not prevent job-search activity.

<sup>13</sup> A level 2 qualification is the equivalent of five GCSEs at grade 'A' to 'C'.

## Labour mobility

**4.52** The ease with which people are able to move within and between sectors and regions is a key indicator of the flexibility of the labour market. High geographic mobility means the workforce is able to respond quickly and easily to labour demand, smoothing the economy's response to changing economic circumstances and contributing to the Government's goal of full employment in every region. Low mobility may mean that economic downturns in a particular region are more prolonged than would otherwise be the case.

### Reform of Housing Benefit

**4.53** The structure of the housing market and of Housing Benefit has important consequences for the mobility of labour. Housing Benefit provides help with rent to 3.8 million low-income tenants, both in and out of work. However, the current system of Housing Benefit can be complex, both for claimants to understand and Local Authorities to deliver. This means it can act as a constraint on the ability of individuals to move between regions to seek and take advantage of new employment opportunities.

**4.54** The Government's Housing Benefit reform programme is addressing these difficulties in the following ways:

- administrative improvement through the £200 million Performance Standards Fund;
- structural reform including Pathfinders for flat-rate Local Housing Allowances (LHAs) in the private rented sector, leading to national roll-out, and development of flat-rate LHA pilots in the social rented sector; and
- streamlining and alignment of benefits to make claiming, changes of circumstances and means tests more transparent and more closely aligned with those for other benefits.

### Performance Standards Fund

**4.55** The funding that the Government has introduced to help Local Authorities improve their administration of Housing Benefit has already led to significant improvements. More than 300 Local Authorities have benefited from an additional investment from the Performance Standards Fund. As a result the average time to process a new claim has improved by nearly two weeks compared to 2000-01. The £200 million Performance Standards Fund will continue to provide resources to help local authorities improve their administration of Housing Benefit until March 2006.

### Local Housing Allowances

**4.56** The Government is also making good progress with structural reforms to the Housing Benefit system. The flat rate LHA has been successfully implemented in nine Pathfinder areas,<sup>14</sup> with over 35,000 private sector tenants now receiving the LHA. The Government intends to roll out the flat-rate system throughout the country by March 2008, informed by the evaluation of the Local Housing Allowance Pathfinders. In preparation for full national roll out of the private sector LHA system, the Government will introduce a second round of nine local authorities implementing the Local Housing Allowance from April 2005.<sup>15</sup> These will help to develop best practice before the system is introduced nationally.

**4.57** Tenants in the social sector are entitled to the same standard of service and should have the same opportunity to exercise choice as tenants in the private sector. Consequently, the Government is also committed to developing pilots of the flat-rate LHA in the social rented sector, based on the principles underlying the LHA system, to encourage choice, responsibility and fairness.

<sup>14</sup>The nine existing LHA pathfinders are in Blackpool; Coventry; Lewisham; Brighton and Hove; Edinburgh; North East Lincolnshire; Conwy; Leeds; and Teignbridge.

<sup>15</sup>The second round of LHA pilots will be in Argyll and Bute; East Riding of Yorkshire; Guilford; Norwich; Pembrokeshire; Salford; South Norfolk; St Helens; and Wandsworth.

**4.58** The Government will introduce a £180m Housing Benefit Reform Fund from April 2006 to March 2008 to help DWP to roll out flat-rate allowances and to continue to improve the administration and structure of Housing Benefit.

#### Housing Benefit simplification

**4.59** The Government is also continuing to simplify Housing Benefit and the Council Tax Benefit system in order to make further improvements in administration:

- from April 2005 the Government will change the way in which income from tax credits is taken into account in Housing Benefit and Council Tax Benefit claims in order to help speed up the administration of claims;
- the Government will also align the rules in Housing and Council Tax Benefit to ensure that families receive the full benefit of the childcare element in the Working Tax Credit; and
- from October 2005 all charitable, voluntary and personal injury payments will be ignored when Housing Benefit and Council Tax Benefit is calculated. This will allow charities to donate support to individuals without it affecting their entitlement to Housing Benefit and Council Tax Benefit.

## RESPONSIVE AND FLEXIBLE DELIVERY

**4.60** The Government recognises that each local area and individual may face specific barriers to work which are not easily tackled with a 'one size fits all' approach. While it is important that national standards of service provision are upheld, the Government is committed to ensuring that service providers are given the flexibility and discretion to tailor policies to the specific needs of the community they serve.

### Service provision

#### Jobcentre Plus

**4.61** Jobcentre Plus was launched in April 2002, bringing together the Employment Service with the working age sections of the Benefits Agency to deliver an integrated service. Jobcentre Plus helps unemployed and economically inactive people of working age move closer to the labour market and compete effectively for work, providing a high quality, integrated and accessible service for all of its clients. The nationwide rollout of this new business model represents a £2.2 billion investment in improved service and efficiency. The Government will complete the national rollout of Jobcentre Plus in 2006.

### Local responsiveness

**4.62** As emphasised in a recent Social Exclusion Unit report,<sup>16</sup> despite the success of Government policy in raising the overall employment rate, some local concentrations of unemployment and economic inactivity persist. Those areas with greater concentrations of workless people automatically attract additional labour market support. The Government has supplemented this with a range of further programmes:

- Working Neighbourhoods pilots were introduced in April 2004 in 12 neighbourhoods with very high concentrations of worklessness. The pilots combine more and earlier intensive intervention, community-based delivery and additional resources to help residents overcome barriers to accessing jobs that are often within easy travelling distance of where they live;
- Action Teams for Jobs focus on the long-term unemployed and inactive. They use innovative methods to address specific local barriers to work in 63

<sup>16</sup> *Jobs and Enterprise in Deprived Areas*, Social Exclusion Unit, 2004.

disadvantaged areas of the UK, many of which contain large ethnic minority communities, and have helped more than 105,000 people into work; and

- Employment Zones provide personal advisers with complete discretion over funds to overcome individual barriers to work. They have already helped over 46,000 long-term unemployed people aged 25 and over back into work in 15 areas of England, Scotland and Wales.

**Self-employment 4.63** The Government offers a wide range of support to people moving from benefits into self-employment, including business advice, financial support through tax credits, and a 'test trading' period for those eligible for the New Deals or Work-Based Learning for Adults. The 2003 Pre-Budget Report announced a Small Business Service-led review of routes off benefits into self-employment. The interim report, published in June 2004, set out a number of practical steps, including better joint-working between Business Link operators and Jobcentre Plus, and a leaflet signposting the full range of support available. The Government followed up the leaflet's launch in November 2004 with the development of a wider self-employment communication strategy for disadvantaged groups.

**Building on the New Deal 4.64** The Government intends to build on the success of the New Deal by strengthening its ability to address individual and local needs. *Building on New Deal: Local solutions meeting individual needs*, published by the DWP in June 2004, outlined the Government's proposals. These centre on greater empowerment of local Jobcentre Plus staff, enhancing their ability to respond ever more effectively to the needs of individuals and the challenges of their area.

**4.65** Building on the best of current provision, and learning the lessons from existing flexible delivery models, Jobcentre Plus will test how best to deliver, and will thoroughly evaluate, the new flexible delivery model set out in Building on New Deal in 11 prototype areas from 2005.

## MAKING WORK PAY

**4.66** Through the National Minimum Wage and tax credits, the Government has created a system of in-work support that provides greater rewards from work. Financial support through tax credits is set out in further detail in Chapter 5. The strategy to make work pay has improved incentives for individuals to participate in the labour market, making it more flexible and dynamic. Making work pay tackles two key problems:

- the unemployment trap, when those without work find the difference between in-work and out-of-work income too small to provide an incentive to enter the labour market; and
- the poverty trap, when those in work have limited incentives to increase their hours or to move up the earnings ladder because it may leave them little better off.

**The National Minimum Wage 4.67** The National Minimum Wage guarantees a fair minimum income from work. In October 2004, the rate for adult workers aged 22 and over was increased to £4.85 an hour; the youth and development rate, for workers aged 18-21 or in approved training, rose to £4.10. As a result of these increases, the adult rate of the National Minimum Wage has risen by 35 per cent since its introduction. In October 2004, the Government also introduced a new National Minimum Wage rate of £3.00 an hour for 16 and 17 year old workers. Providing coverage for this age group brings the UK into line with the majority of countries which have a minimum wage system.

**The Working Tax Credit** **4.68** The Working Tax Credit (WTC) provides financial support on top of earnings, improving incentives for households moving into work at low earnings. By July 2004, 2.35 million working families and 250,000 low-income working households without children were benefiting from the WTC. There were 80,000 households 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.

**Tackling the unemployment trap** **4.69** **The income threshold above which the Working Tax Credit is taken away will rise in line with inflation in April 2005 to £5,220 per year.** The increase, equivalent to £3 per week, maintains work incentives for people moving into work and helps those progressing in work.<sup>17</sup> As part of the ten-year strategy for childcare published alongside this Pre-Budget Report, improvements to the childcare element of the WTC are set out in Chapter 5. The reforms will make eligible childcare more affordable for working families on low or moderate incomes and significantly increase the financial gains to work for families with eligible childcare costs.

**4.70** Table 4.1 shows that, since the introduction of the National Minimum Wage in April 1999 and the Working Families' Tax Credit in October 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**

	April 1999	October 1999	April 2005
Family <sup>1</sup>   1 child, full-time work (35 hours)	£182	£200	£258
Family <sup>1</sup>   1 child, part-time work (16 hours)	£136	£144	£199
Single person, no children, 25 or over, full-time work (35 hours)	£113	£113	£167
Couple, no children, 25 or over, full-time work (35 hours)	£117	£117	£198
Disabled person (single), working full-time (35 hours)	£139	£155	£209
Disabled person (single), working part-time (16 hours)	£109	£112	£150

Note: assumes a single earner household, the prevailing rate of the National Minimum Wage and that the family is eligible for the Working Families' Tax Credit or Disabled Person's Tax Credit and the Working Tax Credit/Child Tax Credit.

<sup>1</sup> Applies to one parent families and couples with children alike.

**4.71** The Government's reforms are also tackling the poverty trap, ensuring that workers have improved incentives to move up the earnings ladder. 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.

**4.72** Table 4.2 shows that, as a result of the Government's reforms, nearly 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.

<sup>17</sup> *Choice for parents, the best start for children: a ten year strategy for childcare*, HM Treasury, December 2004.

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

Marginal deduction rate <sup>1</sup>	Before Budget 1998	2005-06 system of tax and benefits
Over 100 per cent	5,000	0
Over 90 per cent	130,000	45,000
Over 80 per cent	300,000	195,000
Over 70 per cent	740,000	275,000
Over 60 per cent	760,000	1,715,000

<sup>1</sup> Marginal deduction rates are for 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 2005-06 system of tax and benefits is based on 2003-04 caseload and take-up rates.

## FUNDING FOR WELFARE TO WORK

**4.73** The Welfare to Work programme is delivered by DWP. It is funded by the one-off Windfall Tax on the excess profits of the privatised utilities together with resources allocated in the 2002 Spending Review. The DWP annual report sets out expenditure plans and outturn information. Table 4.3 sets out that element of the Welfare to Work programme, and other programmes, funded by 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 <sup>2</sup>	2004-05 <sup>3</sup>	2005-06 <sup>3</sup>	TOTAL
<b>Spending by programme<sup>1</sup></b>										
New Deal for young people <sup>4</sup>	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 <sup>5</sup>	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 <sup>6</sup>	0	20	10	5	0	0	0	0	0	35
University for Industry <sup>7</sup>	0	5	0	0	0	0	0	0	0	5
Workforce development <sup>8</sup>	0	0	0	0	0	40	50	150	80	320
ONE pilots <sup>9</sup>	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
<b>Total Resource Expenditure</b>	50	260	480	560	570	700	530	150	80	3,380
<b>Capital expenditure<sup>10</sup></b>	90	270	260	750	450	0	0	0	0	1,820
<b>Windfall Tax receipts</b>	2,600	2,600								5,200

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> Figures are provisional for the years from 2004 – 05 to 2005 – 06.

<sup>4</sup> Includes funding for the Innovation Fund.

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

<sup>6</sup> 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.

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

<sup>8</sup> Includes £219 million funding for Employer Training Pilots.

<sup>9</sup> Funding for repeat interviews. Other funding is from the Invest to Save Budget.

<sup>10</sup> Includes capital spending on renewal of school infrastructure, to help raise standards.