



HM TREASURY

**DWP** Department for  
Work and Pensions

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# Full employment in every region

December 2003

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### **HM Treasury contacts**

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For further information on the Treasury and its work, contact:

Correspondence and Enquiry Unit  
HM Treasury  
1 Horse Guards Road  
London  
SW1A 2HQ

Tel: 020 7270 4558

Fax: 020 7270 4574

E-mail: [public.enquiries@hm-treasury.gov.uk](mailto:public.enquiries@hm-treasury.gov.uk)

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# FOREWORD

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The UK labour market has made good progress in recent years. We now have one of the highest employment rates in our history and, for the first time in nearly half a century, the highest employment rate and lowest unemployment rate of the major industrialised countries.

This achievement has not happened by accident. It has been built on economic stability and radical welfare and labour market reform. Not only has growth in the UK proved more resilient in the face of global slowdown, but the strength of our labour market is shown by the continuing growth in employment.

We have achieved a lot – by international standards the UK is already closer to providing employment opportunities for all than most other countries – but there is still more to do.

Even in the most diverse and dynamic labour markets there will always be some people who are not engaged with the labour market and who need extra support to help them move into work.

We need to build on the successes of the last six years and extend employment opportunities still further.

This paper identifies areas where we must make more progress. For example, further extending employment opportunities to lone parents, people on sickness and disability benefits and those who have been on benefits for a long time. We also need to tackle particular challenges facing some ethnic minority groups, people with no qualifications and other groups amongst whom economic inactivity is relatively high such as people living in big cities or rented accommodation.

Our strategy builds on existing policies to secure social justice for those who too often have been left behind, and to enable them to realise their full potential, to the economic and social benefit of the whole community. We are determined to achieve our goal of full employment in every region and nation of the UK – a labour market that works for the many, not the few.



The Rt Hon Gordon Brown, MP



The Rt Hon Andrew Smith, MP



# INTRODUCTION

**1.1** This paper sets out the Government's strategy to achieve full employment in every region by tackling areas of disadvantage and concentrations of worklessness.

**1.2** The Government believes that, for those able to work, employment is the best route out of poverty. Employment offers each individual the chance to fulfil his or her potential. It empowers people and builds self respect, independence and confidence, and – by benefiting both individuals and families – it delivers these benefits across generations.

**1.3** Employment opportunity for all is a precondition of a fair society; social justice and full employment go hand in hand. Effective labour market policy, by boosting both output and employment, helps ensure that the gains of economic growth accrue to the many rather than the few.<sup>1</sup> Labour market policies which balance rights and responsibilities, such as the New Deal and the Jobseeker's Allowance regime, have enabled the labour market to function better and are likely to have increased its flexibility.<sup>2</sup>

**Progress since 1997** **1.4** Since 1997, the Government has set out to give people the help and support they need to move from welfare to work, and to achieve the goal of full employment in all regions of the UK. **Chapter two** describes the progress that has been made, and the UK labour market performance in both a historical and international context.

**1.5** Thanks to a rise of nearly 1.7 million people in work since spring 1997, the UK now has over 28 million people employed and one of the highest employment rates in its history. The UK employment rate is the highest in the G7, and the unemployment rate the lowest. Furthermore, while the downturns of the 1970s, 1980s and 1990s were characterised by substantial rises in unemployment, joblessness in the UK (unlike in many of its counterparts) has not risen during the recent global economic slowdown.

**1.6** This success has been built on a macroeconomic framework based on the principles of transparency, responsibility and accountability, and designed to maintain long-term economic stability. Large fluctuations in output, employment and inflation add to uncertainty for businesses, consumers and the public sector, and can reduce the economy's long-term growth potential. Stability allows businesses, individuals and the Government to plan more effectively for the long term, improving the quality and quantity of investment in physical and human capital and helping to raise productivity.<sup>3</sup>

**1.7** A sound macroeconomic framework is, however, a necessary but not a sufficient condition to achieve – in what is an increasingly competitive global economy – a Britain where there is opportunity and security not just for some, but for all.

**1.8** The Government's success therefore reflects also a policy framework which encourages both entry to and progression in work, and greater local and regional flexibility. The achievement of full employment and high levels of growth and prosperity depend upon regions and localities becoming better equipped to adapt to change. Labour market flexibility helps deliver the right workers to the right jobs, helping business become more productive and enhancing the country's ability to cope with economic shocks.

<sup>1</sup> *Towards Full Employment in the European Union*, page 3, HM Treasury, DTI, DWP (July 2002).

<sup>2</sup> *Budget 2003. Building a Britain of economic strength and social justice*, page 84, HM Treasury (April 2003).

<sup>3</sup> *Ibid*, page 20, HM Treasury (April 2003).

- I.9** The policy framework underpinning the welfare to work agenda comprises:
- active labour market policies: tailored and appropriate help and support for those without work, to prevent long-term detachment from the labour market;
  - policies that make work pay: improved incentives through reform of the tax and benefit system and the introduction of the National Minimum Wage; and
  - policies that reduce barriers to work: for example, education, skills and training policies which help create an adaptable, flexible and productive workforce.

**I.10** Economic stability therefore delivers an increasing number of job opportunities; higher skills levels give people access to a greater range of jobs; financial incentives make work pay; and active labour market policies help the unemployed and economically inactive re-enter the labour market.

**I.11** The way in which employment policy is delivered has also been transformed over the past six years with the creation of Jobcentre Plus and the launch of the Welfare to Work programme.

**I.12** The creation of Jobcentre Plus marked a shift away from a system that encouraged welfare dependency, to one which provides people much more effectively with the help and incentives they need to move into work. It provides both tailored worksearch support and benefits delivery, offering each individual a personal adviser in a modern environment.

**I.13** The Government's New Deals, meanwhile, offer work search support, experience and training in formats tailored to the needs of different groups. Flexible enough to meet individual needs, the programmes are delivered by the public, private and voluntary sector, allowing the development of best practice.

**I.14** The result is a dynamic, diverse and flexible labour market; key to achieving and sustaining high levels of employment. UK labour market flexibility has improved markedly since 1997, and the Government is continually working to enhance this further.<sup>4</sup>

**I.15** Alongside the considerable success of recent years, however, major challenges remain. UK employment is near record highs and unemployment is at its lowest in a generation. Employment has risen and unemployment fallen in every region of the UK (with the gains in employment being greatest in regions with the weakest starting positions). At the same time, however, the benefits of this improvement have not been felt by all groups or across all areas to the same degree, and, at a local level, there remain severe concentrations of worklessness.

**Achieving employment opportunity for all**

**I.16** Differences in labour market performance are evident not only between geographical areas, but also between different groups of the population. As **Chapter three** describes, despite the recent strong performance of the economy and the labour market, there remain some groups which face particular barriers to entering, remaining in and progressing in employment. These groups include:

- disabled people;
- lone parents;
- ethnic minorities;
- people aged over 50;
- people with low or no qualifications; and
- people living in the most deprived areas.

<sup>4</sup> See *UK Membership of the Single Currency: An economic assessment of the five tests*, page 135, HM Treasury, (June 2003).

**I.17** The Government is determined to ensure that the labour market works effectively for everyone in all parts of the country, and that no-one is excluded from the labour market because, for example, they are disabled or have children to care for.

**I.18** While unemployment has fallen substantially over recent years, levels of inactivity have remained roughly stable. Chapter three also outlines the way in which the Government aims to ensure that all individuals who are able to work benefit from the support available to help them do so. Reducing economic inactivity is central to raising the levels of employment in the most deprived local areas.

**Achieving  
employment  
opportunity in  
every region**

**I.19** While most areas of the country have an employment rate higher than the EU and OECD average, there remain differences in employment rates between regions, and even greater differences within regions. Some cities, in particular, are characterised by concentrations of worklessness despite high numbers of vacancies.

**I.20** Some of this variation reflects different concentrations of groups characterised by low employment rates, as described in Chapter three. Over and above this, however, there may also be regional or local effects.

**I.21** As **Chapter four** describes, the Government has developed specific approaches for particular geographical areas so that targeted, bespoke resource can help tackle area specific problems. By devolving more power to frontline staff, and by building partnerships between Government departments, agencies, and the private and voluntary sector, the Government is building local solutions to local problems so as to more effectively deliver employment opportunity to all.

**Meeting the  
challenge**

**I.22** As underlined in **Chapter five**, the Government continues to look for ever more effective ways to build on the success of the New Deals and mobilise the investment in Jobcentre Plus. In seeking to meet its commitment to employment opportunity for all, the Government has set itself a considerable challenge. It is a challenge which the Government is determined to meet.



# 2

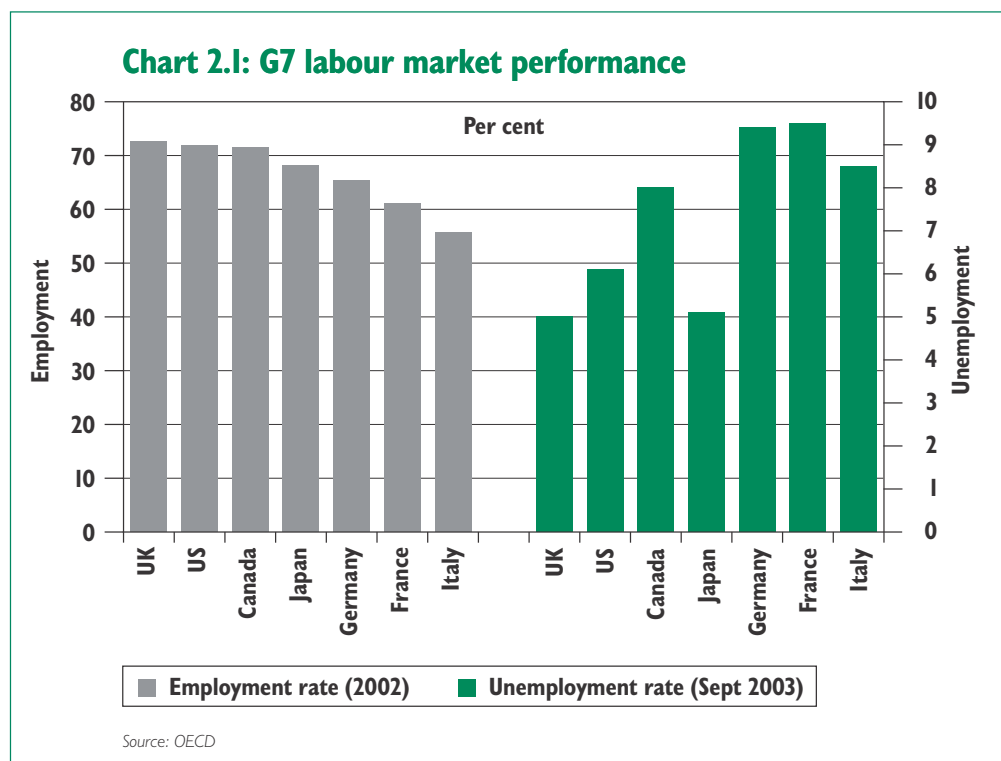
## PROGRESS SINCE 1997

**2.1** The Government's central economic objective is to achieve high and stable growth and employment. Based on a macroeconomic framework designed to maintain long-term economic stability, the UK labour market has weathered the recent global uncertainty better than most countries, and the success of the UK's labour market policies is now internationally recognised.

**A framework for macroeconomic stability**

**2.2** The UK has, however, had a long history of macroeconomic instability – of boom and bust. The 1997 OECD Jobs Study identified this as a key weakness of the UK labour market. The Government's macroeconomic policy framework has, since 1997, accordingly been based on the principles of transparency, responsibility and accountability, and designed to ensure lasting economic stability so that businesses, individuals and the Government may plan effectively for the long term. The Bank of England has operational independence to meet the Government's symmetrical inflation target, while fiscal policy is underpinned by two strict fiscal rules<sup>1</sup> which ensure sound public finances over the medium term.

**2.3** This framework has successfully delivered stability and growth, proving flexible and responsive in the face of global weakness and uncertainty. The UK is the only one of the major G7 countries that has not seen output fall in the recent global slowdown. As Chart 2.1 illustrates, it has the highest employment rate in the G7 and the lowest unemployment rate.



**2.4** In stark contrast to the past, the UK labour market has been strong enough to prevent unemployment rising. By comparison, the previous three global downturns of the mid 1970s, early 1980s and early 1990s were characterised by substantial rises in unemployment.

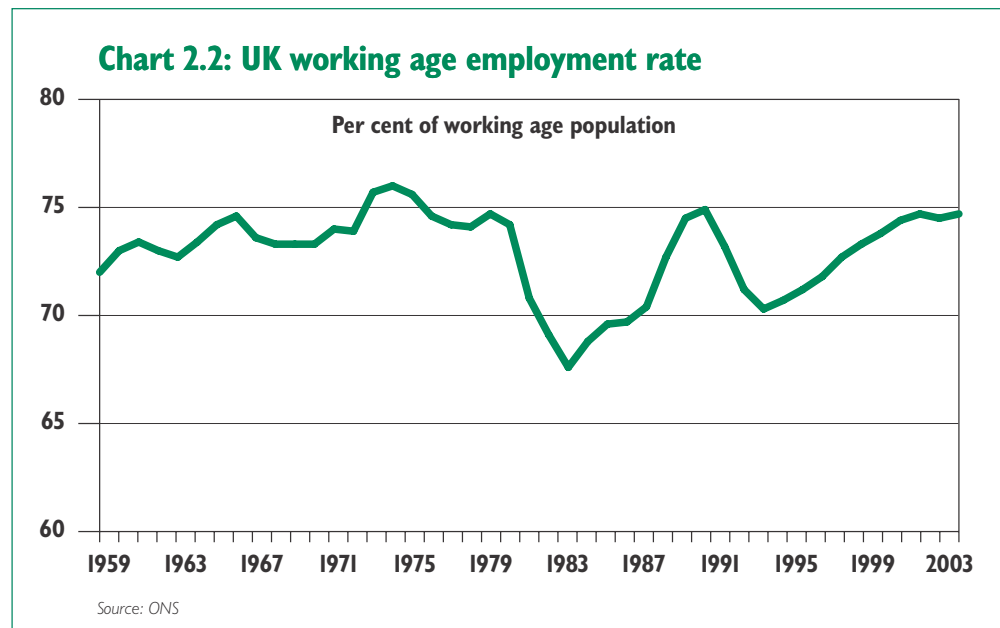
<sup>1</sup> The 'golden rule', that over the economic cycle, the Government will borrow only to invest and not to fund current spending; and the 'sustainable investment rule', that public sector net debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level.

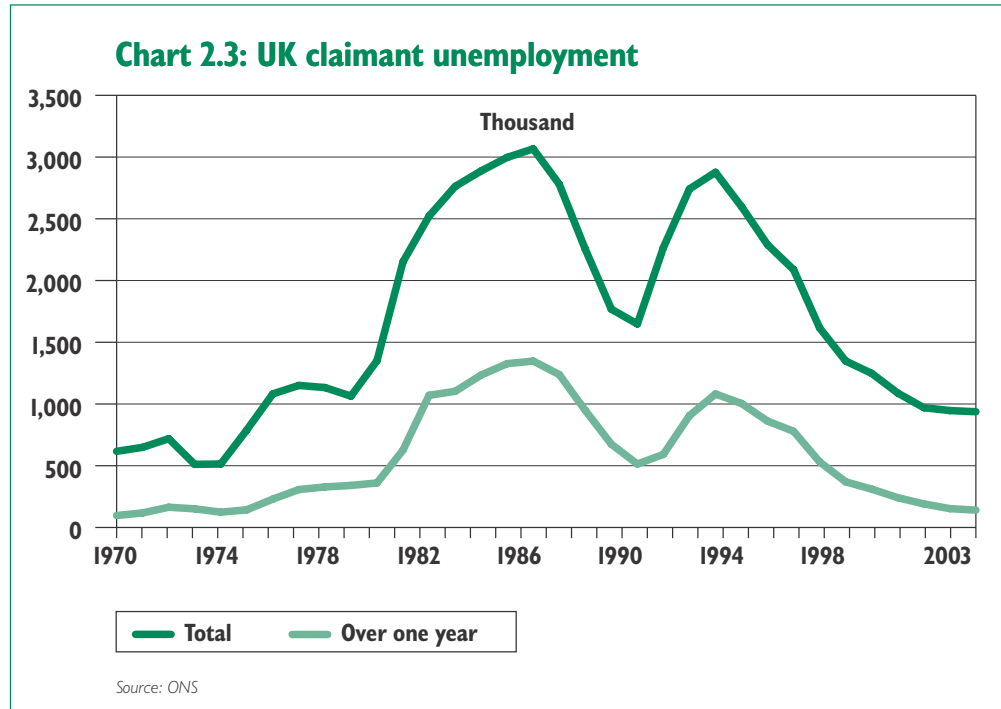
**2.5** Since 1997, however, the UK has seen rising employment. There are now half a million more people in work than two years ago, and over 600,000 more than three years ago. In the US, Germany and Japan, by contrast, employment has fallen.

**2.6** The UK now has one of the highest employment rates in its history (Chart 2.2). Total employment is currently at record highs, having risen by nearly 1.7 million since spring 1997. The UK is well on course to reach its ambition of sustaining a higher proportion of people in work than ever before.

**2.7** The unemployment rate, meanwhile, has fallen in the UK at the same time as it has risen in Europe, US and Japan. Claimant count unemployment in the UK has fallen by more than 700,000 since 1997, to levels last seen a generation ago, and since the start of 2001 has remained consistently below one million – the first time this has happened since 1975 (Chart 2.3).

**2.8** This chapter sets out the Government’s framework for employment policy since 1997. The strategies the Government has implemented have ensured macroeconomic stability and delivered structural improvements to the labour market.





## THE POLICY FRAMEWORK

**2.9** The strong labour market performance of recent years reflects a conscious effort to build macroeconomic stability, combined with a new approach to welfare.

**2.10** The Government’s labour market policies are founded on five pillars:

- macroeconomic stability, to allow individuals and businesses to plan ahead with confidence, as described above;
- a flexible regulatory framework for the labour market, but one which sets clear minimum standards of employment;
- tax and benefit policies that ensure that work pays;
- education, skills and training policies aimed at creating an adaptable, flexible and productive workforce; and
- active labour market policy, particularly aimed at preventing people from drifting into long-term unemployment or inactivity and becoming detached from the labour market.

## Flexibility

### A dynamic labour market

**2.11** The UK labour market is dynamic, with between 6 and 7 million people moving into a new job each year; equivalent to between a fifth and a quarter of the workforce. On average over 10,000 vacancies are notified to Jobcentre Plus (which accounts for only around a third of total UK vacancies) each working day.

**2.12** It is inevitable and desirable that people will change jobs during their working lives, so at any one time there will always be some people who are not in employment. The aim should, however, be to minimise the number of people who drift into long-term unemployment or prolonged inactivity, which represents an unacceptable waste of resources and carries high social costs.

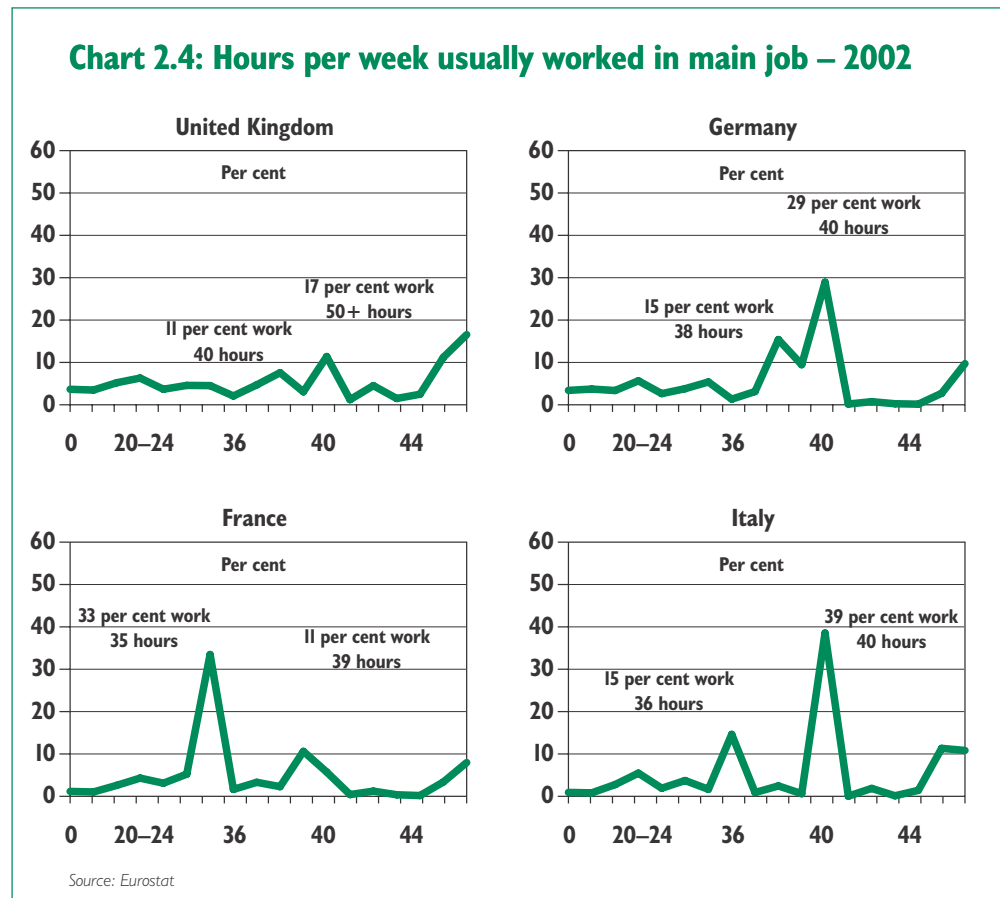
**2.13** Reforms introduced by the Government have ensured that the labour market remains dynamic and flexible and can adapt quickly to changes in global and domestic demand – key to achieving and sustaining high levels of employment. The Government has since 1997 worked to enhance both flexibility and fairness in the labour market by:

- ensuring that people are equipped to adapt to changing economic circumstances;
- providing adequate rewards from work while promoting stability in workers’ incomes; and
- creating the institutional and structural flexibility needed to deliver high and sustainable employment.

**2.14** The EMU study by HM Treasury, ‘EMU and Labour Market Flexibility’, found “a range of evidence which taken together points to an improvement in the functioning of the UK labour market since 1997... Macroeconomic stability has undoubtedly contributed to these favourable outcomes, but another important element has been that the institutional environment has fostered labour market flexibility”.<sup>2</sup>

**A diverse labour market**

**2.15** The UK labour market is also characterised by diversity. Employment opportunity is facilitated by a variety of patterns of employment. Although, for example, the overall average number of hours worked is at roughly the EU average, the range of part-time jobs available in the UK is much wider than elsewhere (Chart 2.4). This gives workers and employers greater choice and flexibility.



<sup>2</sup> EMU and labour market flexibility, HM Treasury (June 2003).

**2.16** Part-time working is popular with workers and employers and is widely used in the UK. It enables people to combine work with family responsibilities, education or leisure. Nearly a quarter of all employment is part-time and fewer than 8 per cent of part-time employees would prefer to work full-time. Such flexibility has not been achieved at the expense of job stability; the UK also has high levels of permanent employment.

**Clear minimum standards** **2.17** The UK has a strong tradition of social protection. This has been achieved by striking a fair balance between security, dynamism and diversity. The Government is committed to continuing this good record.

**2.18** The National Minimum Wage was introduced in April 1999, to ensure fair minimum standards of pay. In October 2003 the minimum wage was increased to £4.50 an hour, for adults aged 22 or over, benefiting 1 million to 1.2 million workers, and, subject to consideration of the Low Pay Commission's review early next year, will be raised further to £4.85 in October 2004. Independent research has established that the minimum wage has benefited the low paid without adversely affecting their employment prospects.<sup>3</sup>

**2.19** In addition, the Government has taken action to strengthen laws that protect people from discrimination.

**2.20** The impact of intervention in the labour market on employment opportunities, especially among disadvantaged or vulnerable groups, is an important policy consideration. Well designed legislation offers clear benefits; excessive regulation on terms and conditions of employment can, however, have negative impacts such as an increase in the duration of unemployment spells or reduced diversity of working patterns. Budget 2003 set out the Government's key principles of labour market intervention.<sup>4</sup>

## Making work pay

**Tackling the unemployment and poverty traps** **2.21** A flexible and dynamic labour market requires work incentives that make it worthwhile for all individuals to participate in the labour market. The Government's strategy to make work pay is designed to tackle two 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 are discouraged from working longer hours or from taking a more highly paid job because it may leave them little better off.

**2.22** The Government has taken steps to make work pay at all levels of the labour market, and particularly for those on low incomes. The National Minimum Wage has raised wages for low paid workers, while the 10 pence starting rate of income tax has halved the marginal tax rate for nearly 3 million low earners since its introduction in 1999 and reforms to National Insurance Contributions (NICs) mean that nearly 1 million low-income earners were taken out of paying NICs, while retaining entitlement to contributory benefits.

**2.23** In addition to this support, the new tax credits – the Working Tax Credit and the Child Tax Credit – have helped to improve work incentives for families with children and people with disabilities. Some 5.9 million families are now benefiting from tax credits.

<sup>3</sup> *The Fourth Report of the Low Pay Commission*, March 2003.

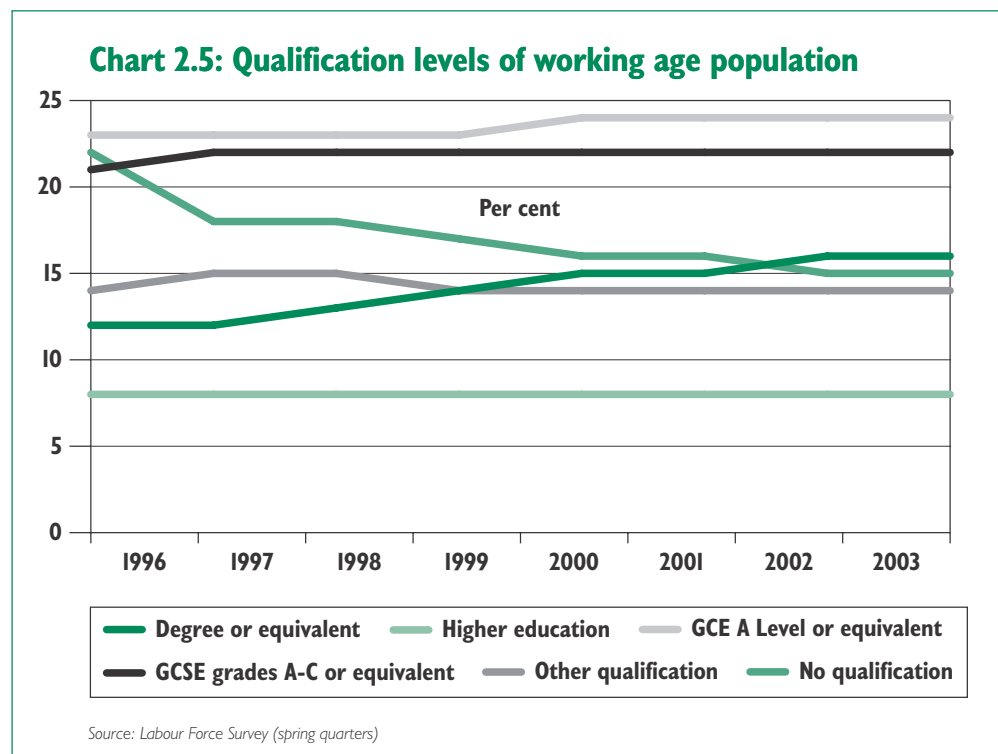
<sup>4</sup> *Budget 2003, Building a Britain of economic strength and social justice*, page 81, HM Treasury (April 2003).

**2.24** As a result of the reforms to personal taxes and benefits since 1997, a single earner family on around half average earnings with two young children is, from April 2003, £3,430 a year better off in real terms than in 1997. A disabled couple, where both are working part time and both earning £7,000 a year, receives £62 a week more than under the previous system.

### Education, Skills and Training

**2.25** The quantity and quality of skilled labour are important determinants of economic performance. Increasing the skill and qualification levels of the population increases the earning potential of individuals and the range of jobs they can do. In turn, an increasingly skilled, flexible workforce raises the productive potential of the economy as firms produce a more diverse and better range of products and services.

**2.26** The working age population is becoming better qualified, and the proportion of the population with no qualifications is declining. Young people are spending longer in education and entering the labour market with more and better qualifications than their parents and grandparents, with the result that average qualification levels are rising. In 1996 a higher proportion of people of working age – over a fifth – had no qualification, than had degrees. Now the reverse is true, and the proportion of the population with no qualifications has fallen sharply to 15 per cent (Chart 2.5).



**2.27** Learning increases access to better jobs. It is possible for people with no qualifications to move into work and to move into higher level jobs, but employment rates are much lower for those without any qualifications or who lack basic skills, and the range of opportunities much narrower.

## Active labour market policy

**2.28** Macroeconomic stability, a flexible regulatory framework, making work pay, and increasing skills and qualifications, are important pillars of a strong labour market. Experience over the past 20 years shows, however, that economic growth and a flexible labour market will not automatically of themselves lift everyone out of unemployment or inactivity.

**2.29** To achieve the goal of full employment, governments must also play an active role; providing not only security when people are out of work, but also labour market support to help individuals move into work. The UK has been extremely successful in this regard, as noted in international comparisons by the OECD.<sup>5</sup>

**2.30** The Government's priority in 1997 was to tackle long-term unemployment, especially among young people (aged 18-24). The New Deal approach has subsequently been extended to other groups; both to the unemployed in older age groups, and to individuals on inactive benefits (such as lone parents, or sick and disabled people) who had previously been offered little or no personalised support to help them into work.

**2.31** The delivery of welfare to work policy has also been transformed so as to render it more responsive and effective, by the creation of Jobcentre Plus – combining both benefit and work search advice and support. Both the New Deals and Jobcentre Plus are described below.

**The New Deals 2.32** The New Deals are at the heart of the Government's approach. They build on the Jobseeker's Allowance (JSA) intervention regime and were introduced in a number of stages:

- the New Deal for young people (NDYP) was introduced in April 1998 to end long-term youth unemployment. It provides support for all people aged 18-24 who have been unemployed for 6 months or more;
- building on the successful elements of NDYP, the New Deal for those aged 25 and over (ND25+) was developed, and enhanced from April 2001, to provide assistance on a similar basis to people aged 25-49 who had been unemployed for 18 months or more; and
- for those aged 50 and over, the New Deal for the over 50s is available on a voluntary basis for all people who have been out of work for six months or longer. From April 2004 the successful mandatory Intensive Activity Period element of the ND25+ will be piloted for people aged over 50 who have been claiming JSA for 18 months.

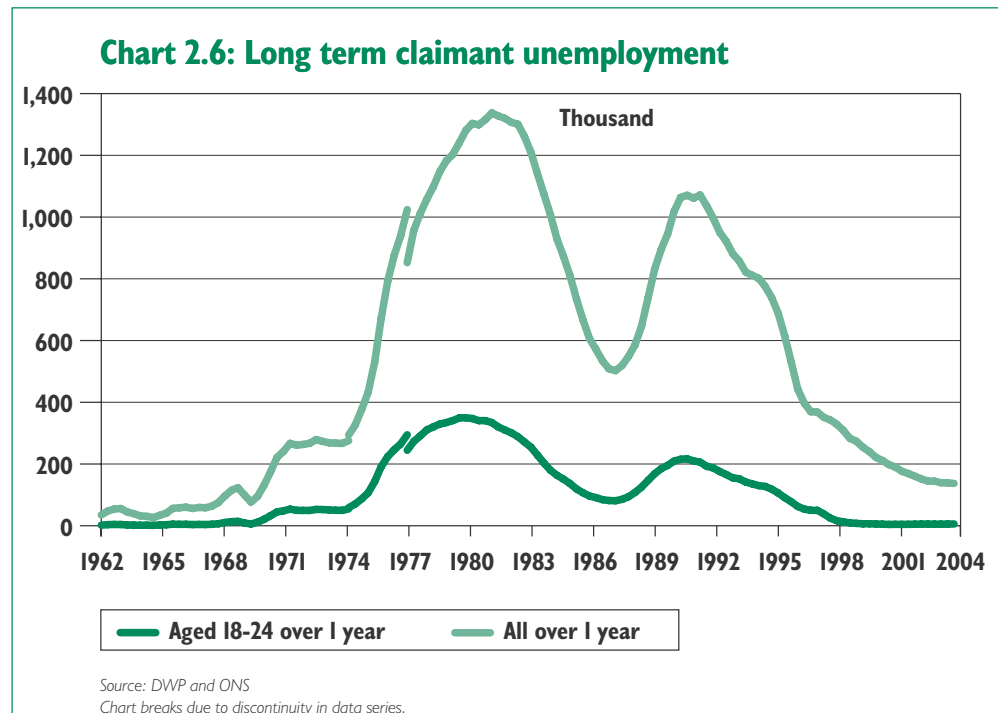
**2.33** The results have been dramatic (Chart 2.6):

- youth long-term claimant unemployment has been virtually eradicated. The UK currently has just 6,000 young people aged 18-24 who have been unemployed for a year or more, compared to more than 300,000 at the peak in the mid 1980s; and

<sup>5</sup> "In Denmark, Ireland, the Netherlands, the United Kingdom and the United States, sharp declines in beneficiary totals followed the introduction of activation policies. In Denmark and the United Kingdom, the unemployment beneficiary total by 2001 was one and a half to two times lower than the trough levels in the late 1980s." OECD Employment Outlook 2003.

- adult long-term unemployment has been reduced by around three quarters since 1997. There are now fewer than 135,000 adults who have been unemployed for a year or more, compared to one million at the peak in the mid 1980s.

**2.34** Independent research confirms the positive impact of the New Deal. In 2000, the National Institute of Economic and Social Research (NIESR) found that, without the NDYP, the level of long-term youth unemployment would have been twice as high.<sup>6</sup> A study by the National Centre for Social Research also concluded that NDYP has had a significant impact on the employability of young people.<sup>7</sup> Evaluations of the NDYP<sup>8</sup> which allow for substitution and displacement effects and for the impact on equilibrium wages, suggest that unemployed young men are about 20 per cent more likely to get jobs as a result of the policy.



**2.35** The benefits of the New Deal have been felt right across the country. Charts 2.7-2.9 show that, in almost every local authority, of those who join the claimant count:

- virtually all people aged 18-24 leave the register within a year;
- more than 80 per cent of people aged 25-49 have left within a year;
- more than 70 per cent of people aged 50 & over have left within a year;
- more than 95 per cent of people aged 25-49 have left within two years; and
- more than 85 per cent of people aged 50 and over have left within two years.

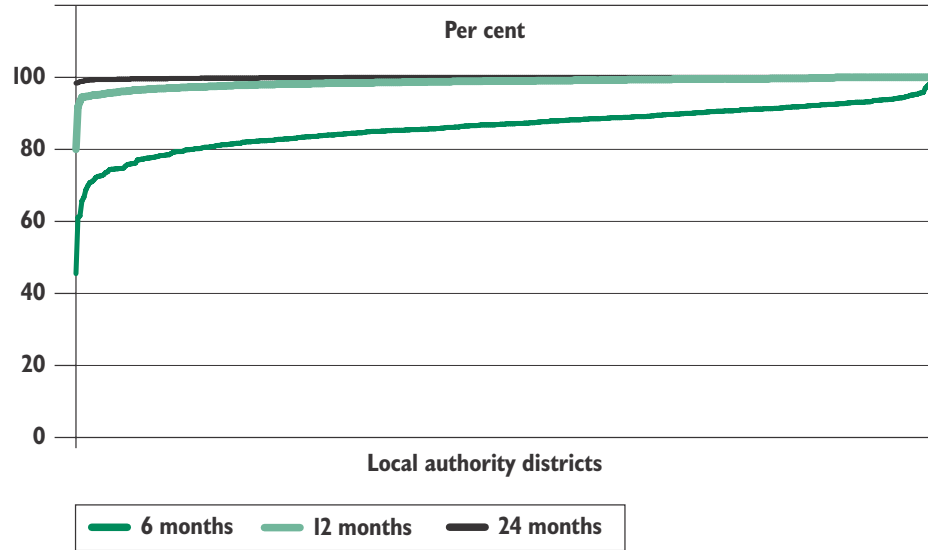
<sup>6</sup> *The New Deal for Young People: implications for employment and the public finances*, NIESR (December 2000).

<sup>7</sup> *New Deal for Young People: national follow through*, National Centre for Social Research, (April 2000).

<sup>8</sup> Van Reenen, 2001, Blundell et al, 2002, cited in *The Labour Market under New Labour: the State of Working Britain*, edited by Dickens, Gregg and Wadsworth (2003).

**Chart 2.7: Rate of off-flow from unemployment by local authority district: people aged 18–24**

Proportion of Jobseeker’s Allowance inflow leaving within 6, 12 and 24 months

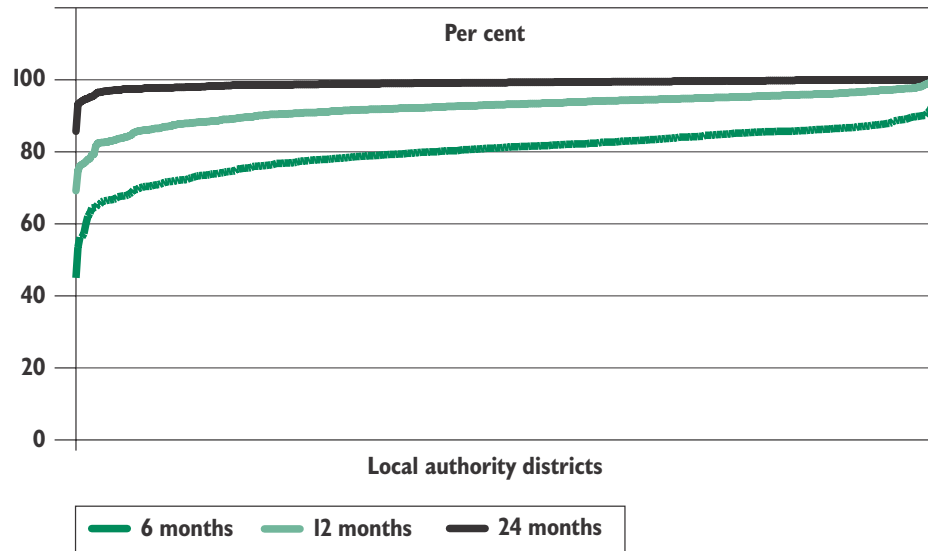


Local authorities ranked from lowest to highest off-flow rate for each duration

Source: ONS

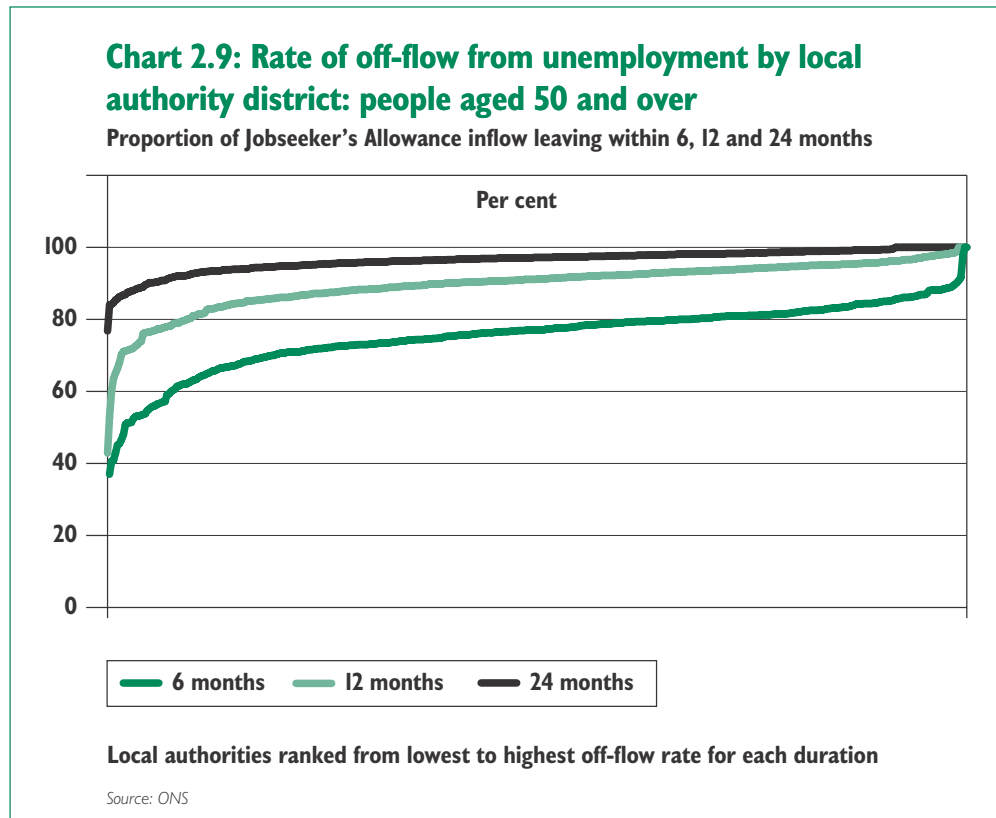
**Chart 2.8: Rate of off-flow from unemployment by local authority district: people aged 25–49**

Proportion of Jobseeker’s Allowance inflow leaving within 6, 12 and 24 months



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Source: ONS



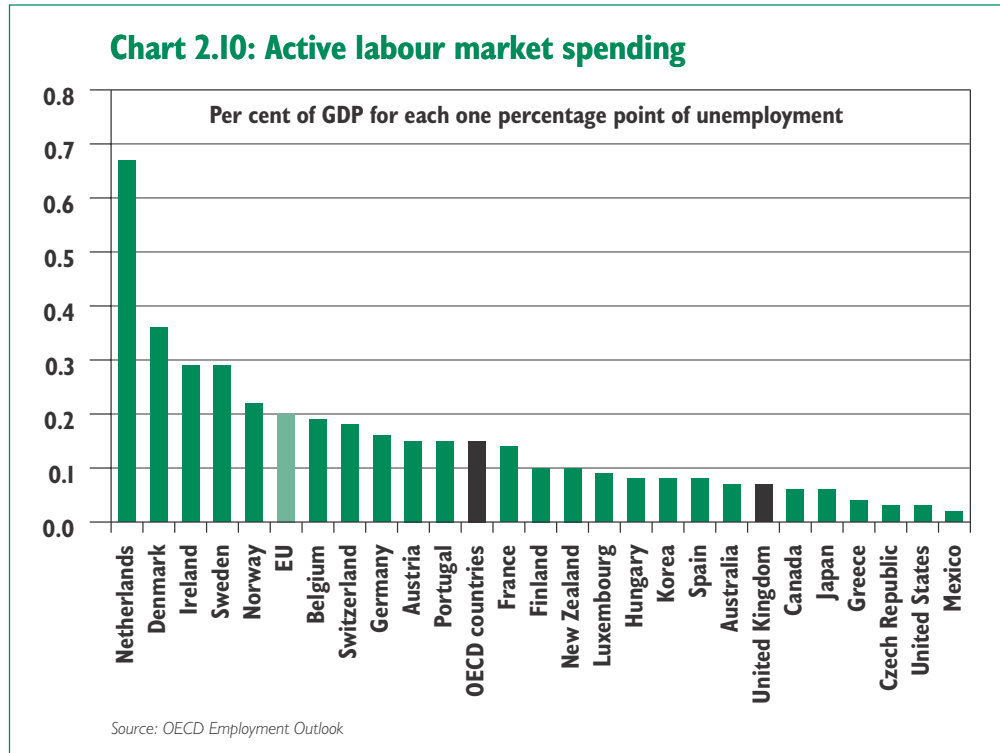
**2.36** The New Deal is very cost effective. This set of policies is among the most effective of their type in the world, the amount spent on active labour market policies as a percentage of GDP (for each percentage point of unemployment) is among the lowest in the OECD (Chart 2.10). More recent research also shows that active labour market policies can, by increasing employment, have a marked positive impact on output and public finances.<sup>9</sup>

**2.37** The result of this policy framework is a highly flexible labour market – the key to achieving and sustaining high levels of employment. Macroeconomic stability and a flexible regulatory framework deliver job opportunities; financial incentives make work pay; rising skill levels give people a greater choice of jobs to consider; and active labour market policies help the unemployed and inactive to enter or re-enter the labour market.

**Jobcentre Plus 2.38** At the heart of the Government's agenda for helping people back into work is Jobcentre Plus. Launched in 2002, Jobcentre Plus brings together benefit and labour market advice for all people of working age – providing an active work focus for people on inactive benefits as well as for those who are required to seek work on JSA. Instead of writing off people on inactive benefits as incapable of or uninterested in work, Jobcentre Plus ensures that all working age benefit claimants have the opportunity to return to work, and receive the support they need to do so. Already there are over 250 offices that have been rolled out across the country. The integration programme of around 1000 offices will be completed in 2005-06.

**2.39** By 2005-06, Jobcentre Plus will have evolved into a network of high quality integrated offices, concentrating on delivering face-to-face services to priority customers, primarily through personal advisers. Initial and routine contact will, in most cases, be made by telephone, allowing for most routine claims for benefit, changes of circumstance and enquiries to be made in this way, alongside existing vacancy taking and job search calls.

<sup>9</sup> *Evaluating labour market policies aimed at reducing the number of benefit recipients*, DWP In House Report Number 124, October 2003.



**2.40** Further customer contact will be enabled through online services including web based benefit application, jobsearch and enquiries. This will all be underpinned by the transformation of the benefits service, automating routine transactions and the delivery of a single customer view across all benefit applications. Jobcentre Plus will work with partners in the public, private and voluntary sectors to provide a high quality, work focused, service to all its customers. Jobcentre Plus will also offer a wider and improved set of services to employers through its National Sales Force; this will in turn help to influence employers to widen the pool from which they recruit.

**2.41** It is important to ensure that Jobcentre Plus targets its efforts on those who need it most. The target structure in Jobcentre Plus has accordingly been changed so that the highest weighting is given to priority client groups such as lone parents, people living in the local authority districts identified as having the lowest employment rates, or residents of wards which have both high levels of worklessness and a high number of people from ethnic minorities.

## WORKING IN PARTNERSHIP

**Across government** **2.42** Delivering the welfare to work agenda cannot be accomplished without a coordinated effort across Government departments and agencies. For example:

- the Department for Work and Pensions (DWP) and Jobcentre Plus work closely with the Neighbourhood Renewal Unit and the Social Exclusion Unit on the development of policies and services to deal with local concentrations of unemployment and inactivity; and

- the Ethnic Minority Taskforce oversees work across DWP, the Department of Trade and Industry, the Department for Education and Skills, the Office of the Deputy Prime Minister and the Home Office to implement the wide-ranging recommendations of the Prime Minister's Strategy Unit report 'Ethnic Minorities in the Labour Market', as the Government works towards ensuring that no-one is disadvantaged in the labour market as a result of their ethnic background.

**At regional and local level** **2.43** Also important is close coordination at regional and local level, so that services are delivered in a way that meets the particular needs of individual areas. Jobcentre Plus therefore engages in the work of Local Strategic Partnerships in England, Community Planning Partnerships in Scotland, and Communities First in Wales. The aim is to coordinate action across a wide range of public sector and voluntary sector organisations in their area, and help to maximise the access that workless people have to employment opportunities that come up in their communities.

**2.44** Jobcentre Plus will engage actively in the work of the Regional Skills Partnerships (RSP), announced in the Skills White Paper<sup>10</sup> and to be led by the Regional Development Agencies in partnership with others. This cohesive delivery between key players builds on the work of the Framework for Regional Skills and Employment Action (FRESA) partnerships. RSPs will seek to identify likely skills shortages at regional and local level, and then work out how to fill them by helping those not in work to access new employment opportunities, as well as by increasing the skills of those already in work.

**With the private and voluntary sectors** **2.45** The public sector cannot and should not do everything. Jobcentre Plus works closely with a broad range of private and voluntary sector providers to deliver its programmes. Over a third of its £1bn programme expenditure is spent on provision delivered through over a thousand contracts, much of this through the voluntary sector.

**2.46** The work of Action Teams for Jobs, for example, has been undertaken by private sector providers in 25 out of 63 areas across the country. The New Deal for disabled people allows customers to choose among a variety of private and voluntary sector job brokers in competition with services provided in some areas by Jobcentre Plus. Employment Zones, delivered by private sector providers, work with the long-term unemployed in 15 areas of the country and are being extended to new groups, notably lone parents.

**2.47** The result is a platform that is designed to tackle cycles of worklessness, which has delivered to date, and which will do so even more effectively in the future. This approach involves establishing a relationship between the citizen and the welfare state which is active, not passive; which is based on responsibilities as well as rights; which provides support that extends beyond simply the provision of benefits; and which delivers individual services to address the needs of different groups in a dynamic and diverse labour market.

**2.48** Notwithstanding its strong labour market performance of recent years and its considerable policy successes, the UK still faces substantial challenges in realising its goal of employment opportunity for all. The social and economic benefits of rising employment have not benefited all groups or all areas of the country to an equivalent extent.

**2.49** The next two chapters consider the scale of this challenge, and the steps which the Government is taking to meet it; Chapter 3, with respect to those groups of people who remain disadvantaged in the labour market, and Chapter 4 from the perspective of variations between and within regions.

<sup>10</sup> *21st Century Skills; Realising our potential*, DTI, DfES, DWP, HM Treasury (July 2003).

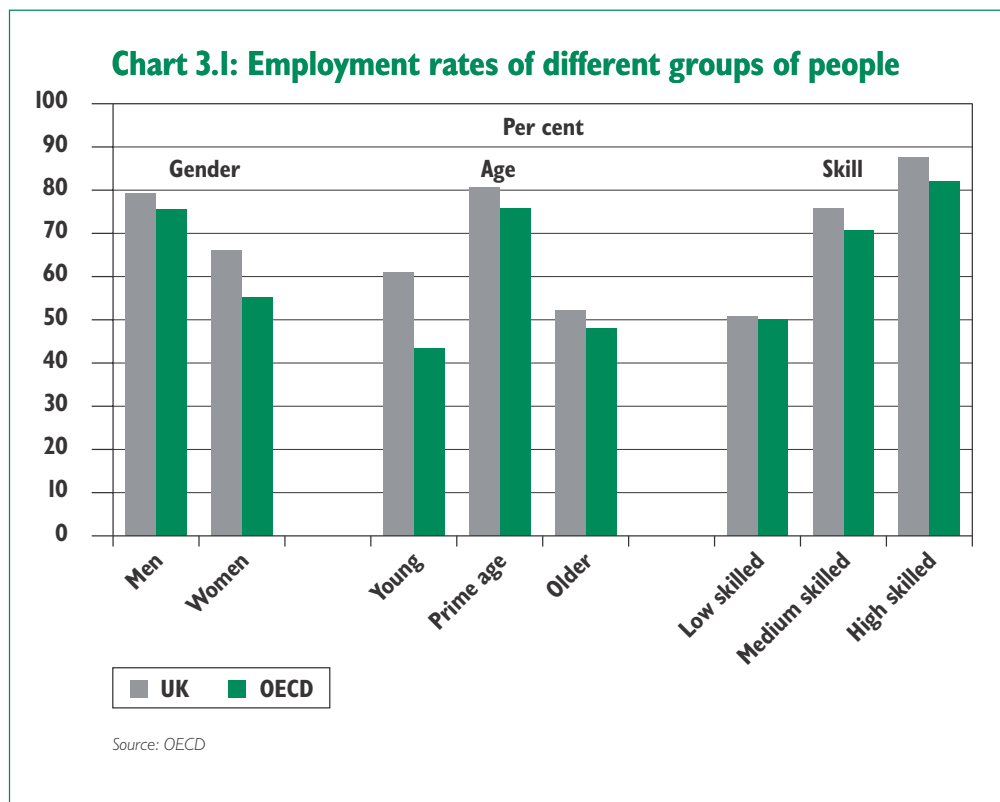
# 3

## ACHIEVING EMPLOYMENT OPPORTUNITY FOR ALL

**3.1** As described in Chapter two, both by international standards and on a historical comparison, the UK labour market is performing well in terms of high levels of overall employment and low levels of unemployment. Challenges, however, remain: in particular, that of extending employment opportunity to those groups of people who remain disadvantaged in the labour market.

**3.2** This chapter describes the ways in which the Government is setting out to meet this challenge and underlines the extent to which the task is considerably more complex than that solely of reducing the overall level of unemployment.

**3.3** The UK's high level of employment relative to many other countries is evident not only in terms of the population as a whole, but also for different groups of people. As the OECD 2003 Employment Outlook showed, the UK has employment rates above the OECD average for women, men, older workers and workers at all skill levels (Chart 3.1). This good performance is also apparent across the country; 90 per cent of local authorities in Great Britain have employment rates above the OECD average.



### THE CHALLENGE

**3.4** Notwithstanding the UK's overall impressive labour market performance, there are groups for whom progress has been slower, and who continue to face barriers to entering and progressing in the labour market. While, for example, the UK employment rate is among the highest in the OECD, its employment rate for disabled people is among the lowest.

**3.5** Furthermore, while the number of people without work in the UK is relatively low, the number of households in which no-one works is comparatively high. This concentration of worklessness is a contributing factor to the UK's relatively high levels of child poverty, and the Government has set itself a target<sup>1</sup> to reduce the number of children in workless households.

**3.6** Recognising that some groups of people are likely to suffer relative disadvantage in the labour market, the Government has set Public Service Agreement (PSA)<sup>2</sup> targets to raise employment among these groups and reduce the difference between their employment rates and the national employment rate. These groups are:

- disabled people;
- lone parents;
- ethnic minorities;
- people aged 50 and over;
- people with the lowest qualifications; and
- people living in the 30 local authority districts (LADs) with the poorest initial labour market position.

**3.7** While the last of these focuses on location – the subject primarily of Chapter four – all of the disadvantages noted above have a geographical dimension, since disadvantaged groups tend to be concentrated in the most disadvantaged areas.

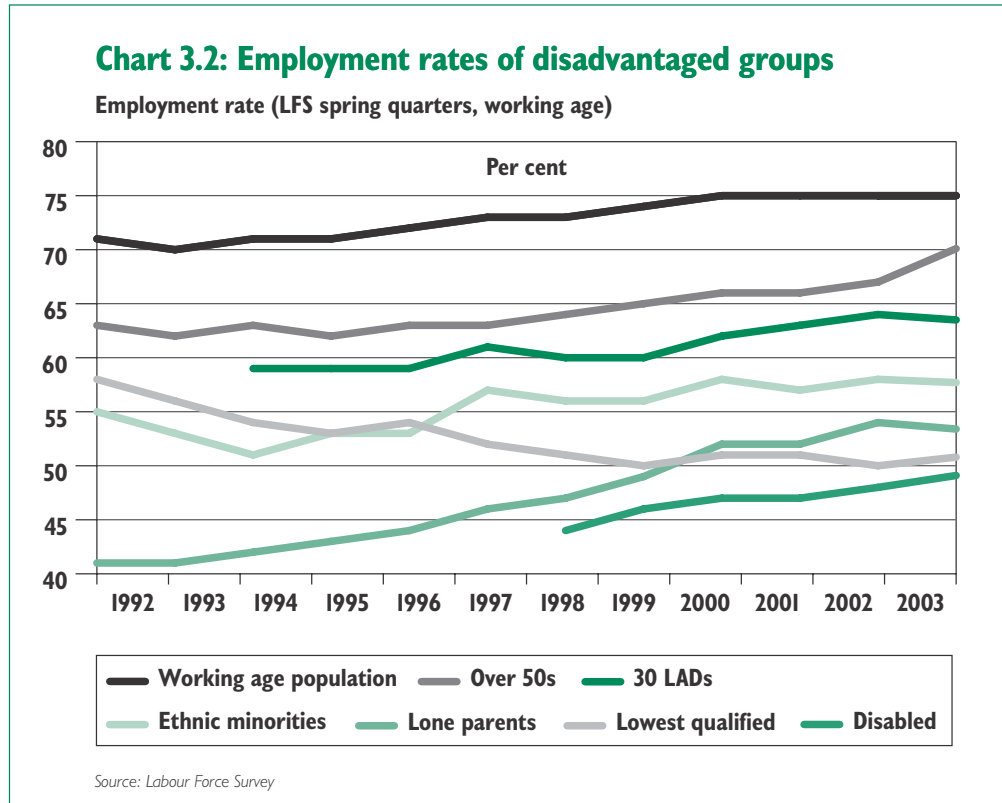
## Recent developments

**3.8** Since the recession of the early 1990s there has been an improvement in the labour market position of most disadvantaged groups. As Chart 3.2 shows, employment rates have risen for all of the disadvantaged groups except for the shrinking group of those with no qualifications.

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<sup>1</sup> DWP 2002 Spending Review PSA target 5.

<sup>2</sup> Public Service Agreements set out each department's aim, objectives and key outcome-based targets.

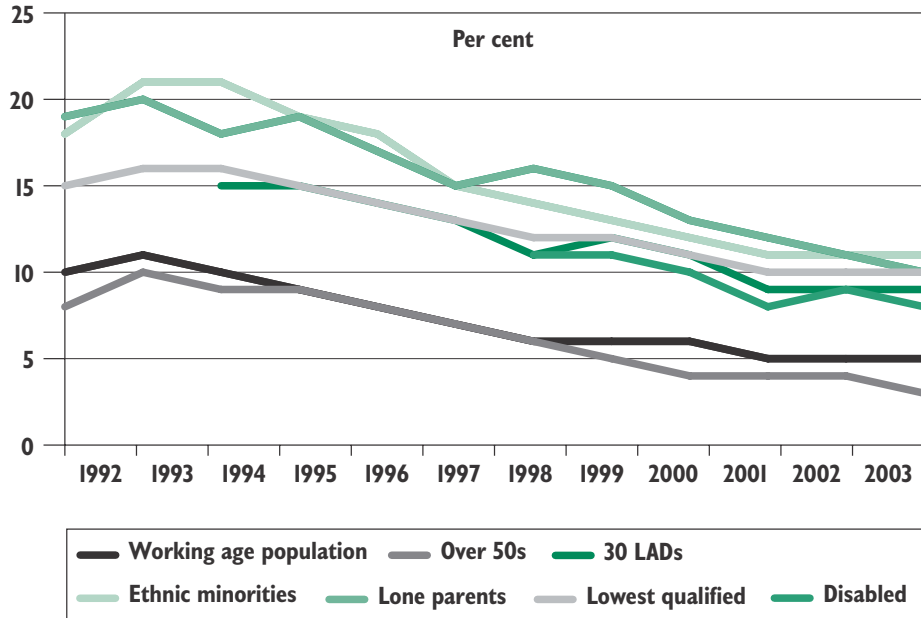


**3.9** Furthermore, growth in employment for these groups has, since 1997, generally been greater than the growth in overall employment. This has been particularly marked for people aged 50 and over. The smallest improvement has been among ethnic minorities, where growth has been similar to the overall increase in employment rates.

**3.10** As Chart 3.3 illustrates, the rise in employment for these groups has been accompanied by a fall in unemployment. Nevertheless, with the exception of those aged over 50, these disadvantaged groups still have unemployment rates above the overall UK rate.

**Chart 3.3: Unemployment rates of disadvantaged groups**

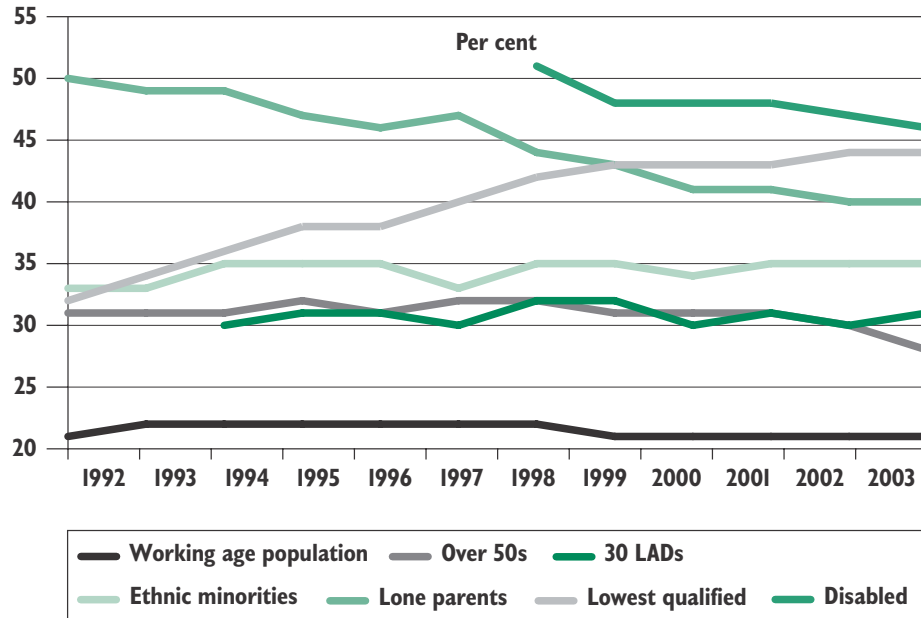
Unemployment rate (LFS spring quarters, working age)



Source: Labour Force Survey

**Chart 3.4: Inactivity rates of disadvantaged groups**

Inactivity rate (LFS spring quarters, working age)

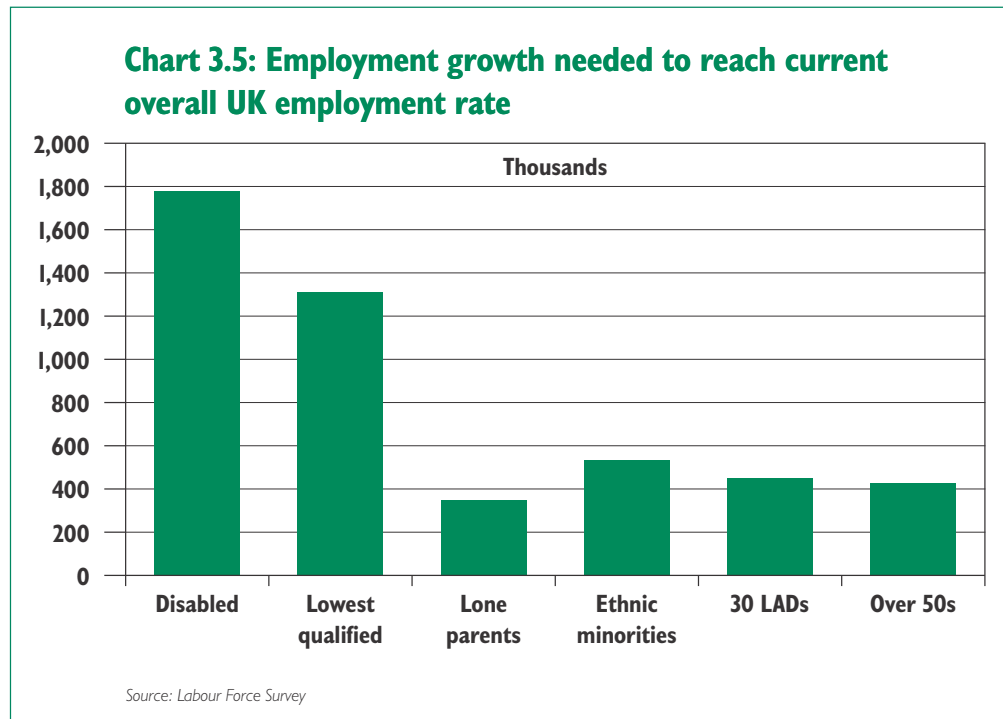


Source: Labour Force Survey

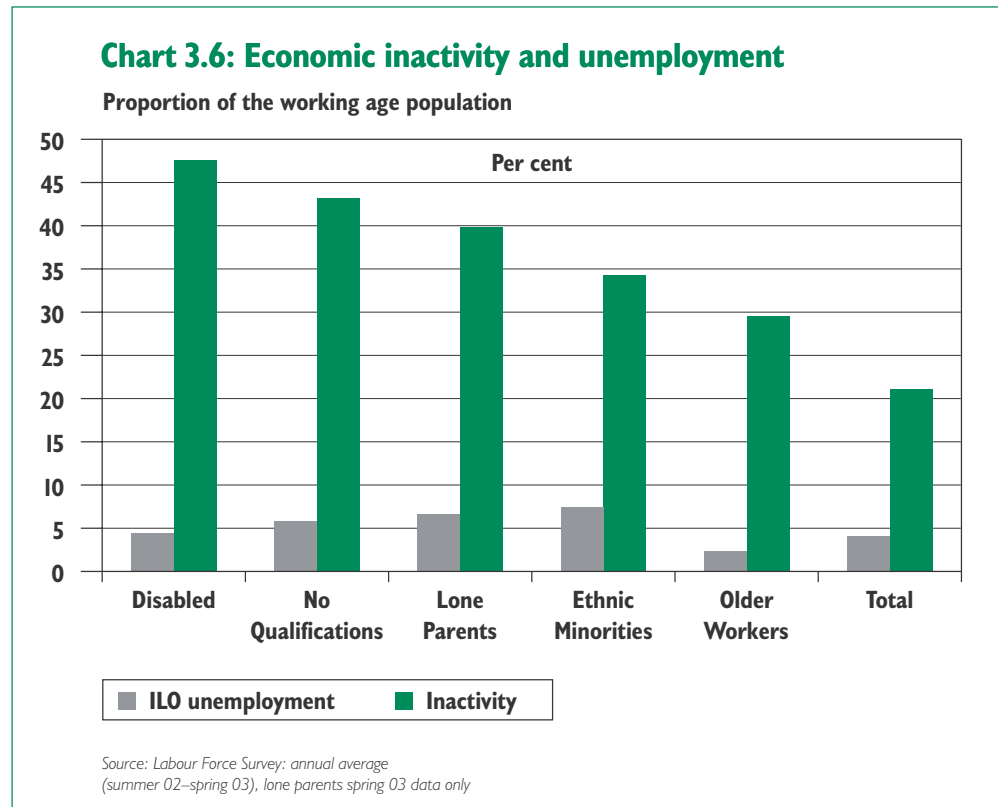
**3.11** Rising employment has not, however, been accompanied by a substantial fall in inactivity (Chart 3.4). Economic inactivity has been relatively stable over the past decade despite a period of economic growth and rising employment. The exceptions to this are lone parents, among whom inactivity has fallen, and people with low or no qualifications, among whom inactivity has risen (although as noted above, the size of this group is falling rapidly).

### THE SCALE OF THE CHALLENGE

**3.12** Chart 3.5 illustrates the increase in employment needed for each group to match the current overall UK employment rate (almost 75 per cent). There are, of course, substantial overlaps between the different groups.



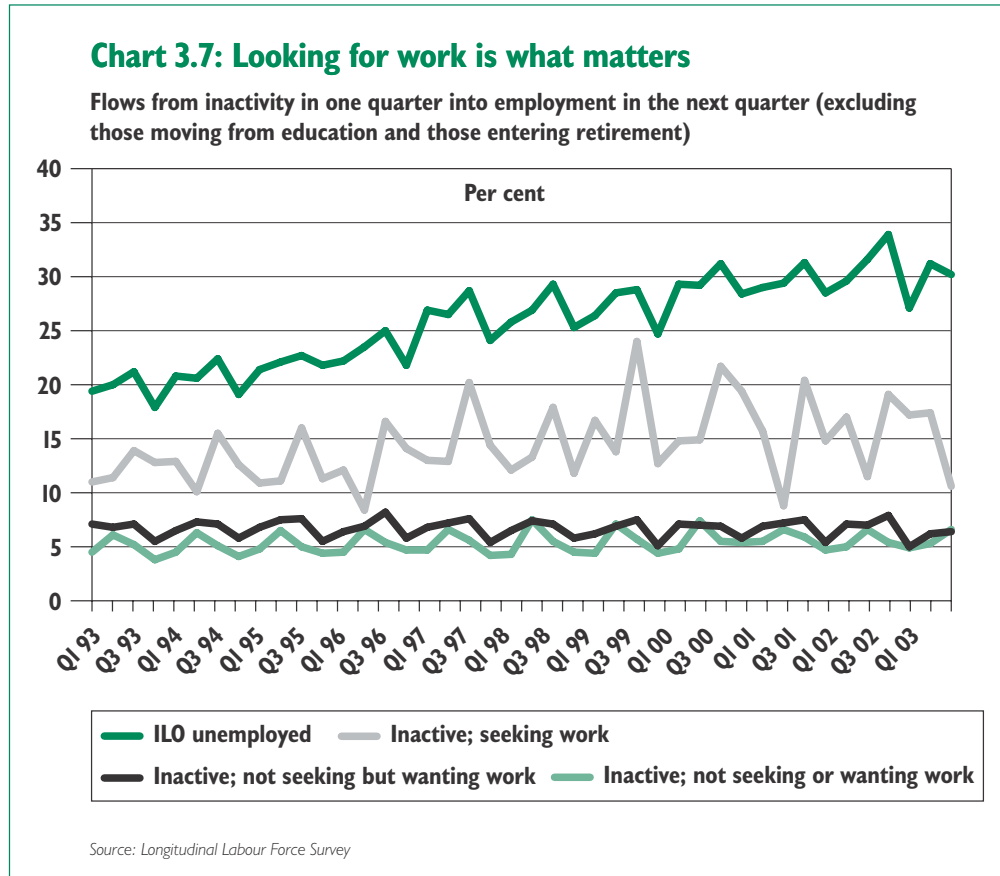
**3.13** With unemployment falling and little change in inactivity rates, the key challenge in raising employment – both at the level of the population as a whole, and among disadvantaged groups – is to find ways of reaching people on inactive benefits and supporting those who are able to work back into employment (Chart 3.6).



**3.14** As discussed in more detail in Chapter four, a lack of jobs is not the problem. It is unlikely that an increase in demand alone would succeed in drawing inactive people back into the labour market. This means that it is essential to continue to push ahead with reforms at a national level, complemented by targeted local and individual measures to address the particular problems that individuals in disadvantaged groups face.

**3.15** The Government's approach is twofold:

- first, to encourage people to look for work. People do not move into employment unless they are looking for a job (Chart 3.7). Obvious as this may appear, recognition of this has been central to the success of the Government's welfare to work policy. In some cases (for example, people in disadvantaged groups who are not on benefits), the first challenge is actually to get in touch with people through, for example, outreach programmes. Only then can individuals receive the help and support they need to exercise effective labour market choice; and
- second, to provide appropriate and necessary support. Different individuals face different barriers to labour market participation, and help must be tailored to their specific needs. Some will find work by themselves; others will require extra help either at an individual level – through their Jobcentre Plus personal adviser – or through targeted programmes such as basic skills provision. For some groups, such as ethnic minorities and disabled people, coordinated work between Government departments and agencies will be required, as well as work with employers to break down barriers such as discrimination.



**3.16** Returning to work from unemployment can be difficult; returning to the labour market from inactivity and a situation of relative disadvantage, harder still.

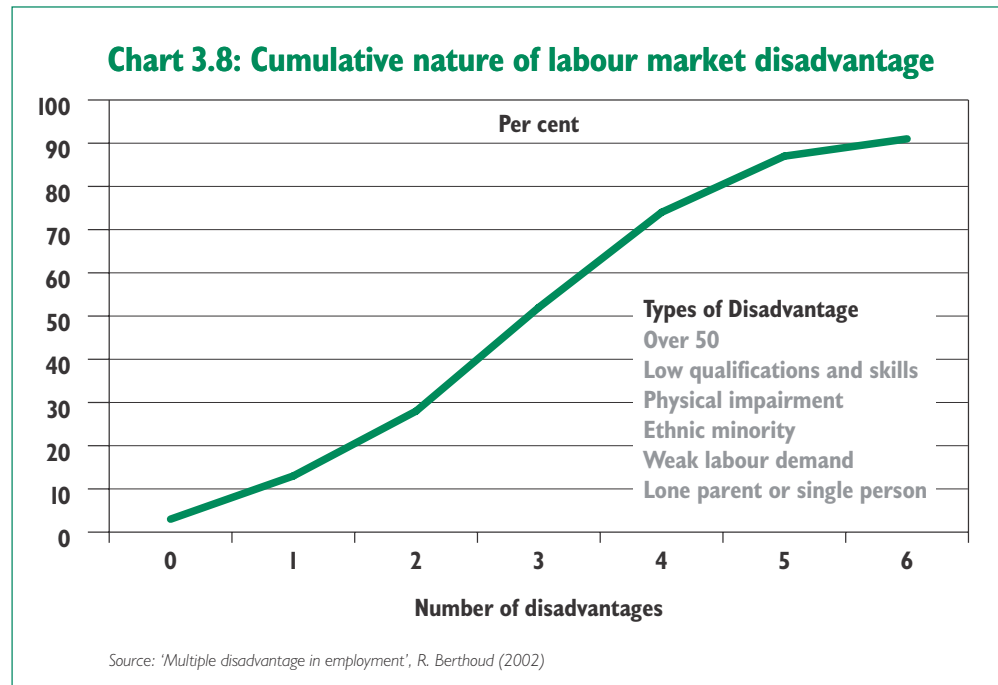
### Multiple disadvantage

**3.17** An added complexity in the challenge of reducing worklessness among disadvantaged groups is that individuals may belong to more than one of these groups. Jobless lone parents, or people with disabilities, for example, tend to have low or no qualifications.

**3.18** Many people have several characteristics associated with labour market disadvantage. The probability that a healthy white male, aged under 50 and not living in a disadvantaged area will have a job, is 96 percent. The probability that a white male aged over 50, with a physical impairment<sup>3</sup> and no qualifications will have a job, is less than half that; and if this same person had an ethnic minority background or lived in an area of high unemployment, the probability would be lower still. Chart 3.8 illustrates the cumulative nature of multiple disadvantage<sup>4</sup>.

<sup>3</sup> As defined in the Labour Force Survey.

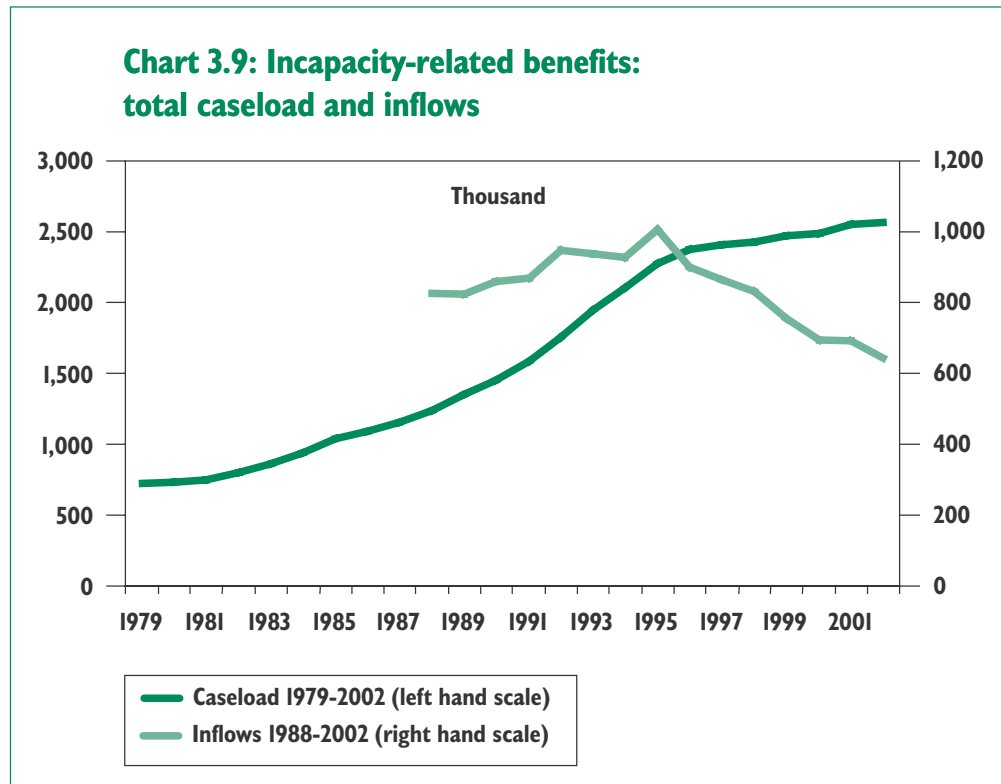
<sup>4</sup> *Multiple disadvantage in the labour market*, R. Berthoud, Joseph Rowntree Foundation (2002).



## People with health conditions or disabilities

**3.19** The largest group of people on out-of-work benefits are people with health conditions or disabilities. The number of people claiming incapacity-related benefits was until recently on a very strongly rising trend. The numbers on Incapacity Benefit (IB) alone trebled between 1979 and 1997, representing an extra 1.7 million people who were essentially excluded from the labour market, at huge social and economic cost.

**3.20** Since 1997, as a result of both economic success and the labour market policies the Government has put in place, the number of people moving onto incapacity-related benefits has declined, and the trend increase in the stock of benefit recipients has accordingly slowed (Chart 3.9). However, the working age employment rate of sick and disabled people, at just under 50 per cent, remains significantly below that of the overall working age population, indicating that there is still much more to do.



**3.21** Although almost all of the 700,000 people who move on to incapacity-related benefits each year want and expect to return to work, a range of barriers not necessarily related to an individual's health condition can make this goal difficult to realise. Employment support for this group is crucial; once a person has been on an incapacity related benefit for 12 months, and whatever the severity of their condition, the average duration of the claim will be eight years.

**3.22** In the UK and internationally, there is much less experience in the field of helping people with health conditions or disabilities than with helping many other groups. While the UK is at the leading edge of developments in this area, it is particularly important to evaluate policy initiatives in the light of the available evidence to create an active and encouraging intervention regime which focuses on capabilities rather than disabilities.

**3.23** Employment support is available for people with health conditions or disabilities moving into work (through Access to Work provision and Work Preparation) and to encourage people to participate in work, through the New Deal for disabled people (NDDP). Since its inception in July 2001, NDDP has helped over 20,000 people find work. Performance continues to improve, and NDDP has recently been extended to March 2006.

**3.24** In October 2003, and as announced in the Green Paper 'Pathways to Work',<sup>5</sup> a much more personalised and intensive work-focused regime for IB claimants was introduced in three pilot areas to help people focus on their capabilities and realise their aspirations for getting back to work. A further four pilot areas will commence from April 2004, eventually covering nearly ten per cent of the national IB inflow. The key elements of the pilots are:

- early, sustained mandatory support from specialist advisers;
- easier access to additional help such as NDDP and Work Preparation, and new rehabilitation services, with the Department for Work and Pensions (DWP), the Department of Health and the National Health Service working in partnership;

<sup>5</sup> Pathways to Work: helping people into employment, DWP (November 2002)

- additional benefit flexibilities and improved financial incentives; and
- engagement with other key stakeholders.

**3.25** The Pathways pilots represent a new and more holistic approach to supporting IB claimants, particularly in the critical early phase of the claim. They fit together with other positive initiatives in this area, such as the Job Retention and Rehabilitation Pilots. Launched in April 2003, these will support people in employment before they claim benefits (and become at greater risk of losing their job through ill health or disability). Employer engagement is an important aspect of this agenda, improving access to occupational health and rehabilitation provision so that employers are better able to manage sickness absence and reduce the estimated annual cost to the economy of around £11 billion<sup>6</sup>.

**3.26** Underpinning these initiatives is the legislative framework, set out in Part 2 of the Disability Discrimination Act (DDA) 1995, preventing discrimination in the recruitment and employment of disabled people. Regulations made in July 2003 amend the DDA to implement the disability provisions of the EU Employment Directive. These come into force in October 2004 and extend coverage of the employment provisions of the DDA to employers of fewer than 15 employees and to most currently excluded occupations such as police officers and fire-fighters.

## Lone parents and workless households

**3.27** Worklessness at the household level is a key cause of poverty – households that have no earned income are typically in poverty. While the UK has a very high employment rate for parents generally and for mothers in particular, some households with children face particular difficulties in moving into work. This in turn is a central cause of the UK's high rate of child poverty.

**3.28** Around two thirds of workless households with children are headed by a lone parent. The rise in the number of lone parents, combined with the UK's low employment rate for lone parents, was an important factor behind the increasing number of children living in workless households in the 1980s and early 1990s. The Government has put in place PSA targets both to reduce the number of children living in workless households and to raise lone parent employment rates, narrowing the gap between the lone parent employment rate and the national average. Both of these approaches support the Government's ambition of eradicating child poverty.

**Lone parents 3.29** As Chart 3.2 showed, employment among lone parents has risen substantially in recent years. The lone parent employment rate has risen by around 8 percentage points since 1997, passing 50 per cent in 2000 for the first time on record.

**3.30** The Government's strategy to increase employment opportunity for lone parents combines several elements:

- putting lone parents in touch with the labour market through work-focused interviews with Jobcentre Plus personal advisers, helping them make the transition from benefit dependence to independence and work;
- providing accessible and affordable childcare through the National Childcare Strategy and Sure Start;

<sup>6</sup> Absence and turnover survey, CBI (2001).

- ensuring that work pays; that lone parents are aware of and act upon incentives to work; and that the transition to work is smooth, via tax credits and the help provided by the New Deal for lone parents (NDLP); and
- providing individual and tailored mentoring support to help the most disadvantaged lone parents move towards the labour market, by encouraging them to improve their soft skills and engage with local employers.

**3.31** These policies have been remarkably successful. The extra support available through work-focused interviews has increased the overall take up of help provided through NDLP, and NDLP is estimated roughly to double participants' chances of finding work.<sup>7</sup> Research by DWP and independent academics suggests that policy reforms account for about half of the rise in lone parent employment rates over the last 6 years, with tax credits and NDLP accounting for most of that increase.<sup>8</sup> NDLP is also very cost-effective, producing an economic gain to society of £4,400 per additional job and a net exchequer saving of around £1,600 per additional job.<sup>9</sup>

**3.32** Among couples with children, there has been a sharp fall in worklessness due to unemployment since 1997. Worklessness in this group is now overwhelmingly concentrated among people on inactive benefits. In many cases, the main benefit claimant, and sometimes both parents, is in receipt of incapacity-related benefits. The Government's strategy for helping people with disabilities or impairments has been noted above.

### Workless households

**3.33** Since its inception, the benefit system has treated the partners of benefit claimants – mostly women – as 'adult dependents' assumed to be neither interested in, nor capable of, working. However, either partner in a couple may move into work, and the Government has sought to extend its successful approach to lone parents by providing partners of benefit claimants with the help and support they need to move into work. From April 2004, the New Deal for partners will offer the same package of support as is available in the New Deal for lone parents, and work-focused interviews will begin to be introduced for partners of all benefit claimants. The Government has already introduced joint claims for childless couples within the JSA system, and continues to consider whether further changes in the benefit system could provide additional support to workless households.

## Ethnic minorities

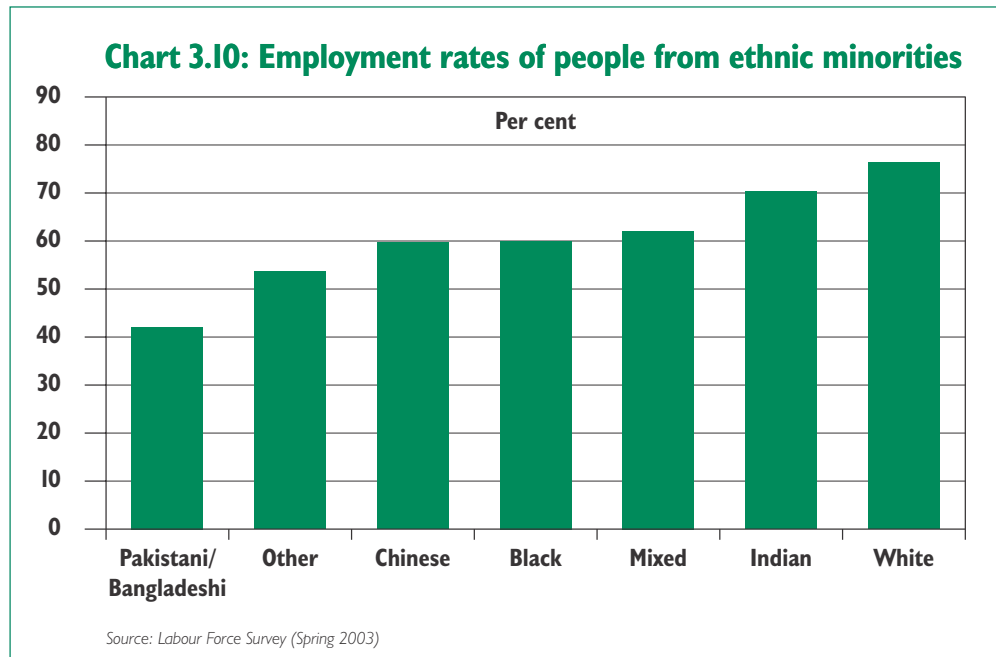
**3.34** The employment rate for people from ethnic minority backgrounds is 58 per cent, compared to around 75 per cent for UK the population as a whole. This gap of just over 16 percentage points has remained roughly constant over the past decade.

**3.35** The experience of different ethnic minority groups varies. People of Indian origin, for example, are relatively successful in the labour market, although they may still face some disadvantages (Chart 3.10). Among Pakistani and Bangladeshi women, in contrast, employment rates may be as low as 16 per cent. This represents an unacceptable waste of resources and perpetuates social divisions, poverty and exclusion.

<sup>7</sup> *New Deal for Lone Parents: Second Synthesis Report of the National Evaluation*, Centre for Analysis of Social Policy, University of Bath: DWP (June 2003).

<sup>8</sup> *Welfare reform and the employment of lone parents*, Gregg and Harkness, in *The labour market under new labour: The state of Working Britain*, edited by Dickins, Gregg, Wadsworth (2003).

<sup>9</sup> *ibid.*



**3.36** The Prime Minister's Strategy Unit Report 'Ethnic Minorities in the Labour Market'<sup>10</sup> committed the Government to ensuring that no-one faced disproportionate barriers to achievement in the labour market because of their ethnicity. DWP and the Department of Trade and Industry (DTI) share a PSA target to increase the employment rates of people from ethnic minority backgrounds and significantly reduce the difference between their employment rates and the overall rate by 2006.

**3.37** An Ethnic Minority Employment Taskforce, involving a range of Government Departments and key stakeholders such as the Commission for Racial Equality (CRE), the Confederation of British Industry and the Trades Union Congress has recently been established to implement the recommendations of the Strategy Unit report. The report identified three key areas for action:

- building employability. The Department for Education and Skills (DfES) recently published its strategy 'Aiming High' to tackle the underperformance of certain ethnic minority groups through promoting access to education and community cohesion, providing local education authorities and schools with guidance and support in implementing the Race Relations Amendment Act, and embedding the closing of gaps in attainment and race equality issues in the new Ofsted inspection framework;<sup>11</sup>
- equal opportunities in the workplace. Despite much progress, employment discrimination, both deliberate and inadvertent, continues to have an unacceptable impact on job prospects. The recent extension of the Race Relations Act will be monitored and the case for extending the powers of employment tribunals reviewed. Action to promote equality through public procurement is being taken forward, building on the guides recently published by the CRE<sup>12</sup>, while Jobcentre Plus is introducing Specialist Account Managers to work with employers to support the business case for diversity; and

<sup>10</sup> *Ethnic Minorities in the Labour Market*, Prime Minister's Strategy Unit (March 2003).

<sup>11</sup> *Aiming High: Raising the Achievement of Minority Ethnic Pupils*. DfES (2003).

<sup>12</sup> *Race Equality and Public Procurement and Race Equality and Procurement in Local Government*, CRE (September 2003).

- connecting people with work. DWP and Jobcentre Plus have a number of policies in place which should help to improve the employment rate for ethnic minorities. The Jobcentre Plus target structure focuses efforts and resources on 258 wards with a high concentration of ethnic minorities and worklessness. DWP has also introduced an ethnic minority outreach service, a community-based initiative designed to test new approaches to engaging ethnic minorities with Jobcentre Plus services and improve links between communities and employers. From April 2004, a new policy fund of £8m will be available to Jobcentre Plus district managers to provide innovative solutions to help people in areas with high ethnic minority populations and high worklessness into work.

## Over 50

**3.38** Increasing employment opportunities among older workers is essential to ensure that the labour market and workforce adapts to meet the needs of an ageing population, and that people are able to provide for their retirement needs. There has already been a steady improvement in the employment rate of the over 50s, rising from 64.7 per cent in 1997 to 70.1 per cent in 2003.

**3.39** Most of those remaining out of work are economically inactive: the unemployment rate for people over 50 is below the national average. In some cases, this reflects rising wealth, with people choosing to retire earlier on private pensions. Many people who are aged over 50 and are not in employment would, however, prefer to be in work, and are often living on incapacity-related benefits. There is therefore a considerable overlap between the Government's strategy to help people on these benefits return to work, set out above, and its target to increase employment for the over 50s.

**3.40** People over 50 also face a range of more specific barriers related to their age. That is why the Government set out in its report 'Simplicity, Security and Choice: Working and Saving for Retirement'<sup>13</sup> further measures to increase the labour market choices and opportunities for people aged 50 and over:

- for those in work, measures are being put in place to increase the choices people have on how they move from work into retirement. These measures include tax rule changes that will allow people to draw part of their occupational pension while staying in work with the same employer, and financial incentives to defer receipt of the State Pension; and
- for those out of work, the Government is further improving its back to work help. This includes extending the support available, particularly through the New Deal, and ensuring that work pays through the over 50s element of the Working Tax Credit, introduced in April 2003.

**3.41** The Government is also encouraging age positive employment practices so that employers realise the benefits of recruiting, training and retaining older workers as part of an age diverse workforce. This will be backed by age discrimination legislation covering employment and training from October 2006.

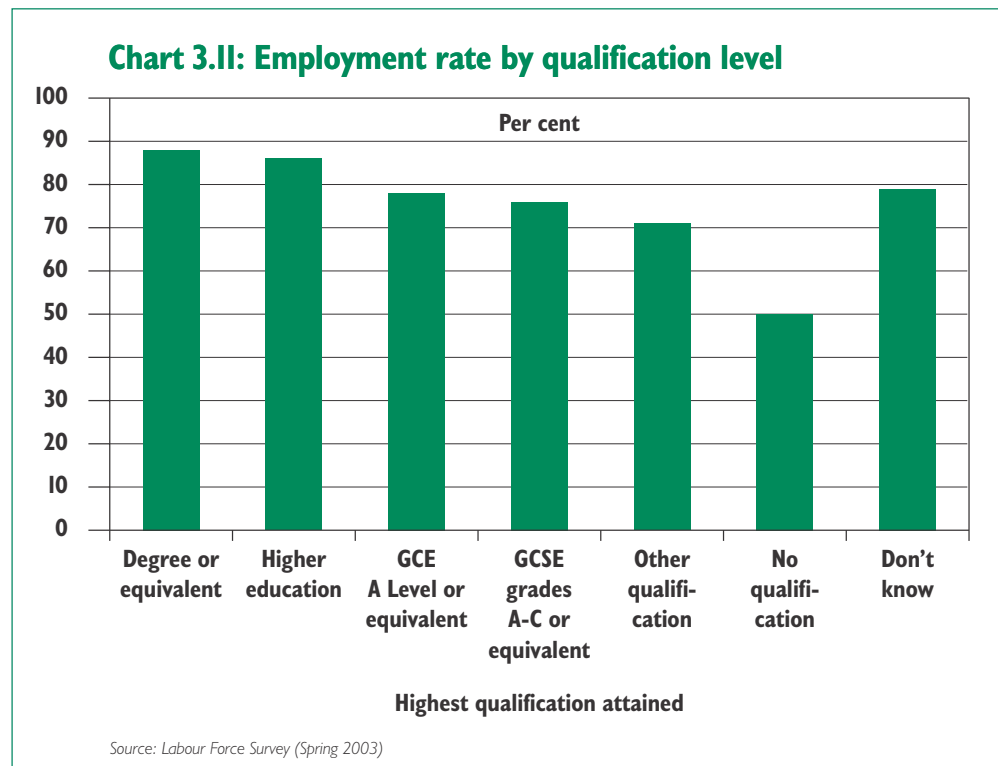
<sup>13</sup> "Simplicity, Security and Choice: Working and Saving for Retirement", DWP (December 2002).

## The low skilled

**3.42** The Government published its skills strategy in a White Paper in July 2003.<sup>14</sup> The strategy, designed to improve the UK's productivity, aims to ensure that employers have the right skills to support the success of their business and organisations, and individuals have the skills they need to be both employable and personally fulfilled.

**3.43** The DWP, DfES, HM Treasury and, DTI are taking forward this strategy in partnership with key stakeholders through the work of the Skills Alliance. The National Employment Panel will report to the Secretary of State for Work and Pensions and the Secretary of State for Education and Skills in early 2004 on how better to align DWP and DfES skills provision for people on benefits.

**3.44** The Government has set a PSA target to increase the employment rate of the 15 per cent of the working age population with the lowest qualifications, and to close the gap with the overall employment rate. This target group is at present broadly equivalent to those people with no formal qualifications. As shown in Chart 3.11, this group has much worse employment prospects than its more qualified counterparts (although notwithstanding this, many do move into jobs – around two thirds of a million people in 2002).



**3.45** The Government will continue to provide the opportunity to access training for those on benefit and without significant formal qualifications, by providing short work focused training through Work Based Learning for Adults and the New Deals. Early access to training programmes is provided for certain disadvantaged groups, for example refugees and drugs misusers, while tailored programmes such as Freshstart (designed to help ex-prisoners find work) are being expanded.

<sup>14</sup> *21st Century Skills; Realising our potential*, DTI, DfES, DWP, HM Treasury (July 2003).

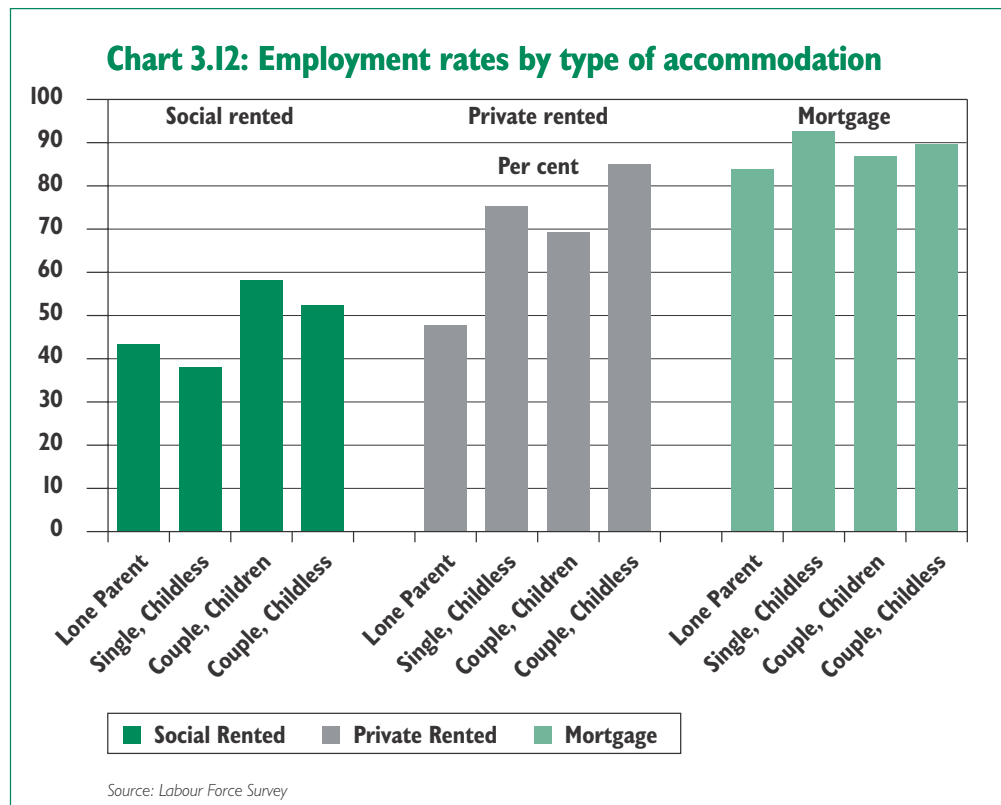
**3.46** While the number of people with no formal qualifications is expected to continue to fall over the next few years, an unacceptably large proportion of the workforce lacks basic literacy and numeracy skills. From 2004, Jobcentre Plus will screen all customers to see if they have basic skills needs. Where appropriate this will be followed up with a full needs assessment and with the delivery of appropriate training.

**3.47** Research has shown that those without English language fluency are severely disadvantaged in access to employment. Jobseekers with language skills below NVQ level 1 are offered language provision by Jobcentre Plus. DWP has worked in partnership with DfES to ensure Jobcentre Plus contracted training providers are using the English for Speakers of Other Languages (ESOL) curriculum standards. An ESOL strategy is also being developed, drawing on the experience of delivering ESOL help within this new infrastructure over the last year.

### Housing

**3.48** Workless people in rented accommodation, particularly social housing, are most likely to live in cities and to be inactive. Nationally, the employment rates for all household types with mortgages are substantially above 75 per cent. This reflects in part the fact that the most disadvantaged are more likely both to be without work and to have access to social housing. The lowest employment rates are among households who rent, particularly those living in social housing and those in private rented accommodation who have children – both lone parents and couples (Chart 3.12).

**3.49** The disparity in employment rates is particularly marked for single adults in social housing. The employment rate of single adult households of working age in social housing is actually lower than that of lone parents. Some of the factors behind this are analysed in ‘Building choice and responsibility: a radical agenda for housing benefit’.<sup>15</sup>



<sup>15</sup> Building choice and responsibility: a radical agenda for housing benefit, DWP (October 2002).



# 4

## ACHIEVING EMPLOYMENT OPPORTUNITY IN EVERY REGION

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**4.1** The UK is a high employment country; most areas of the country have an employment rate higher than the EU and OECD average. As the employment rate of the UK has risen in recent years, every region of the UK has experienced increased employment.

**4.2** There remain, however, differences in employment rates between regions, and even greater differences within regions. Variation between local authority districts is greater than that between regions, and the variation between wards, greater than that between local authority districts.

**4.3** The vast majority of geographical areas in the UK have employment rates above the OECD average. The areas that are exceptions to this are concentrated in cities, some (though by no means all) ex-industrial areas and some seaside and coastal towns. These concentrations can be very localised – generally below local authority level, and even below ward level.

**4.4** In this chapter we consider variations in employment, first, between regions; second, within regions, between local authority districts and between wards; and finally, with reference specifically to cities. We then set out the steps the Government is taking to address these variations.

### THE REGIONAL LEVEL

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**4.5** The fact sheets attached at Annex A show, for each country and region:

- variations in employment and jobs across the region or country;
- working age benefits across the region or country;
- the number of people who have benefited from the New Deal;
- a summary of Jobcentre Plus activity; and
- local policies, programmes and flexibility.

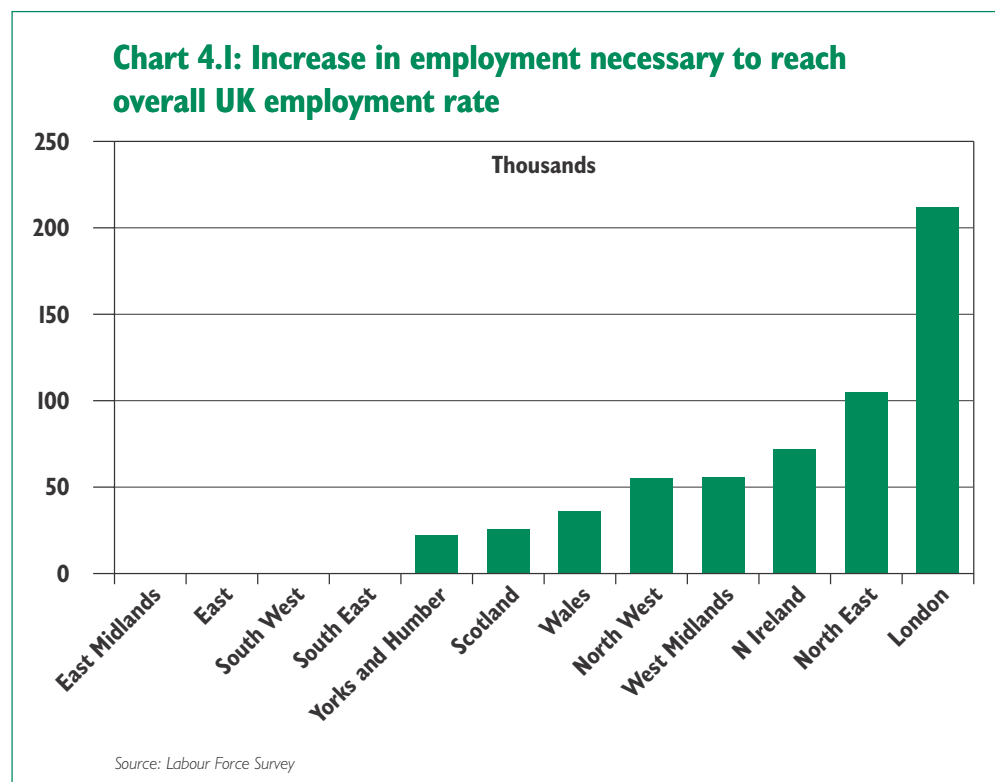
**4.6** There are clear similarities between the regions of the UK. In every region, for example, youth long-term claimant unemployment has been virtually eradicated, and there are few long-term claimant unemployed of any age. In every region worklessness is now mainly made up of those claiming inactive benefits, often for long periods of time.

### Employment rates

**4.7** All regions and countries of the UK have an employment rate above the EU and OECD average (around 66 per cent). All have seen employment growth since 1997 with the largest improvements in Wales and Scotland, and the smallest increases in London, the North East and the Midlands.

**4.8** The regions with the highest employment rates are the East, South East and South West. The regions with the lowest employment rates are the North East, Northern Ireland and London. Chart 4.1 illustrates the extent to which employment would have to rise in each region, to bring every region up to the current overall UK employment rate (around 75 per cent).

**4.9** London, because of its size, dominates the picture. In order to bring employment in London up to the UK national rate, the required increase in employment would be over 200,000; more than double that required in any other region. However, given their low starting point, substantial increases would also be required in both the North East and Northern Ireland despite their relatively small size.

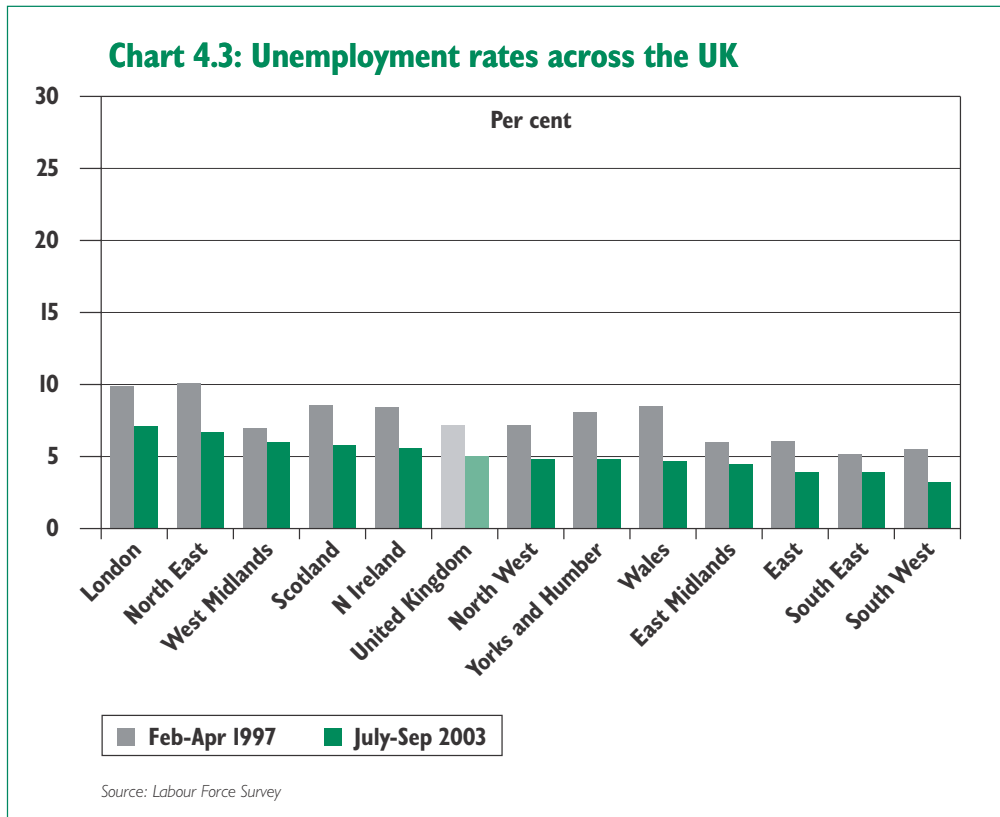
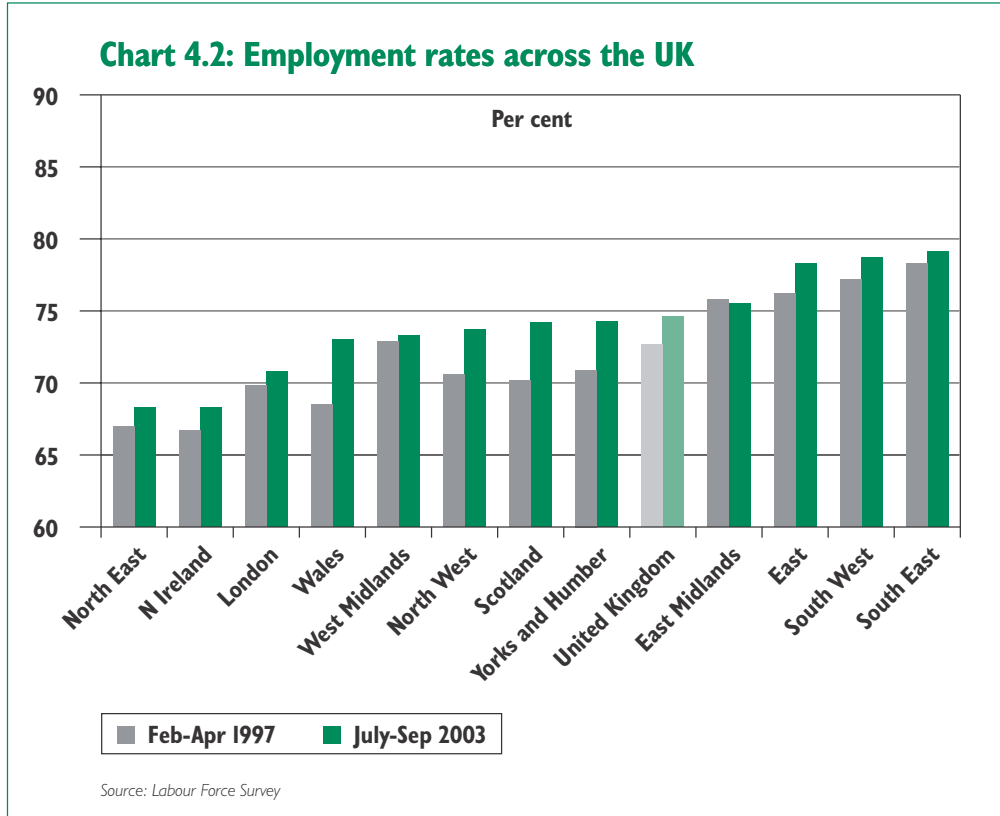


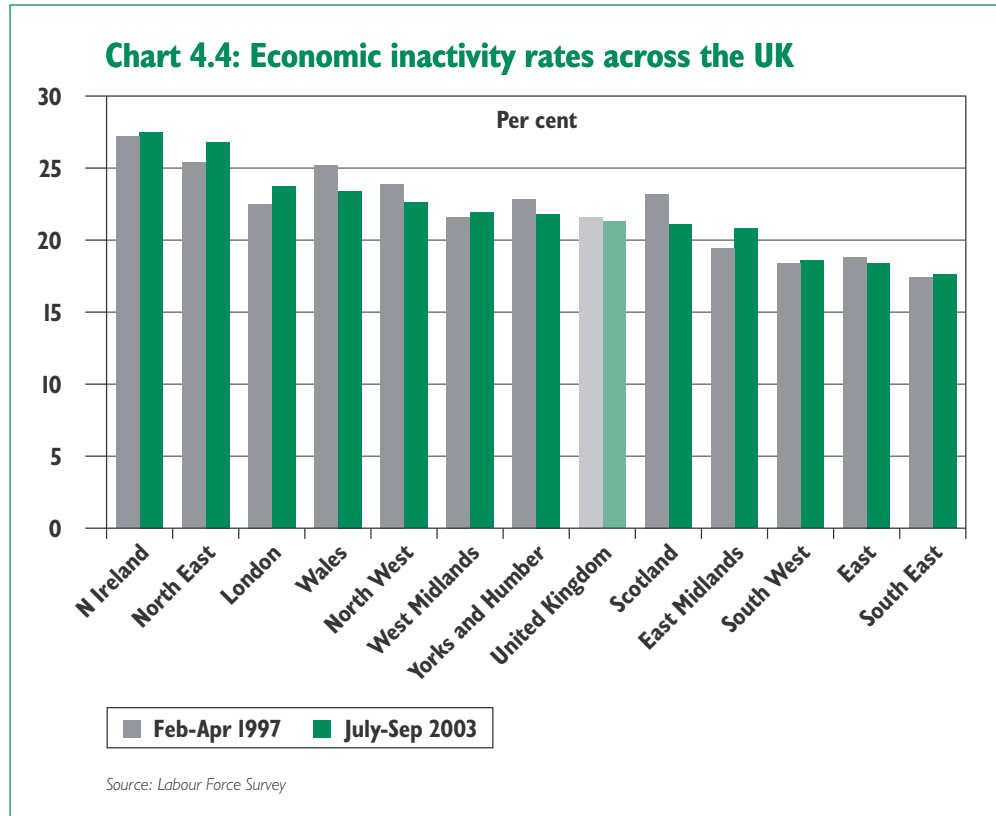
## Unemployment and inactivity

**Variations primarily in inactivity 4.10** As Charts 4.2-4.4 illustrate: while rising employment rates across all regions since 1997 have been accompanied by falling unemployment rates, the same general decline has not been evident in inactivity rates across regions.

**4.11** Differences in worklessness between regions primarily reflect variations in inactivity. There is now a stronger negative correlation between employment and inactivity rates, than between employment and unemployment rates. Wales, for example, has one of the lowest unemployment rates but also has a low employment rate because it has one of the highest inactivity rates. Some sources of variation are:

- people receiving incapacity-related benefits represent most of the inactivity in all regions. The number of claimants is particularly high in South Wales, the North East and the North West;
- the number of lone parent benefit claimants is particularly high in and around London; and
- what long-term claimant unemployment there is tends to be disproportionately concentrated in London.





## WITHIN REGIONS

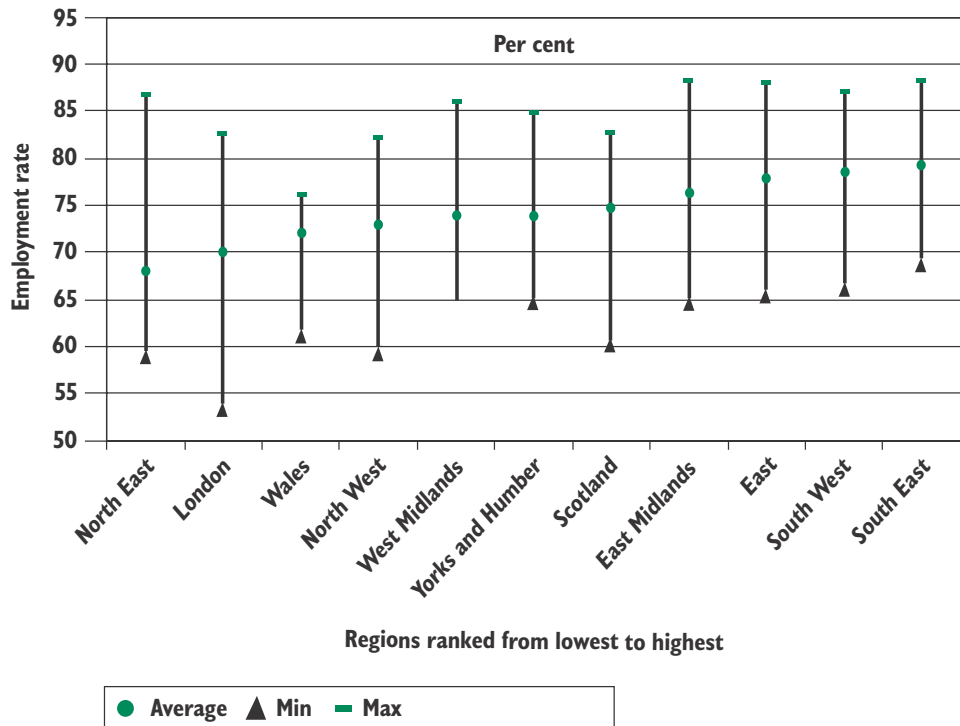
**4.12** Variations in employment are much more pronounced within regions than between them, as Chart 4.5 shows. This section looks first at variations at a local authority level, and then at ward level and below.

### The Local Authority Level

**4.13** Local authority level data shows a number of clear patterns, illustrated in Chart 4.6:

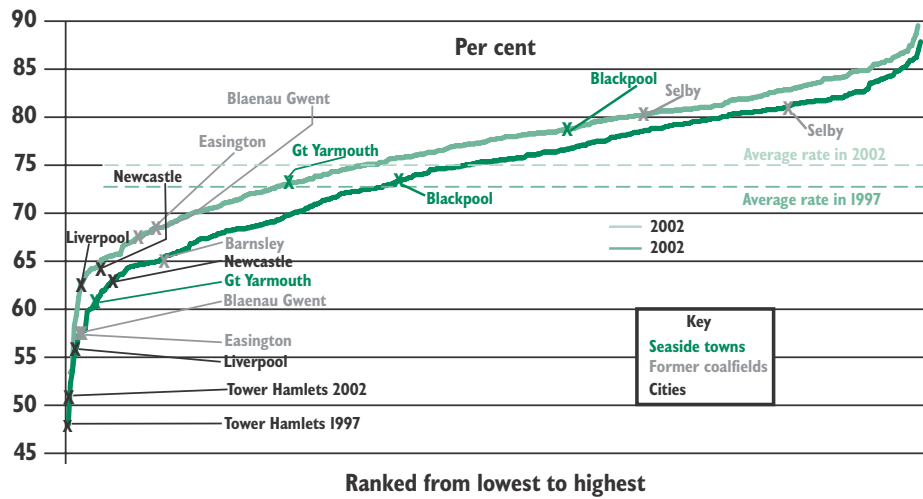
- the vast majority of local authorities lie within ten percentage points of the national average;
- employment rates tend to be considerably lower in cities;
- there are, however, some areas with relatively low employment rates outside cities: for example, the valleys of South Wales, such as Blaenau Gwent; areas in the North East, such as Easington; some seaside towns, particularly on the East Coast, such as Great Yarmouth;
- the highest employment rates tend to be in smaller market towns, such as Harrogate or Basingstoke; and
- since 1997, the rise in employment rates has been spread relatively evenly across the country, with most areas seeing clear improvements.

**Chart 4.5: Variation within regions is greater than variation between regions**



Source: Regions: Labour Force Survey, June 2003. LADs: 2001 Annual Local Area Labour Force Survey. Coverage: Great Britain  
 Note: Rates are as a proportion of the working age population. LADs with rates below publication threshold are not included.

**Chart 4.6: Employment Rates by Local Authority Districts: GB 1997 and 2002**

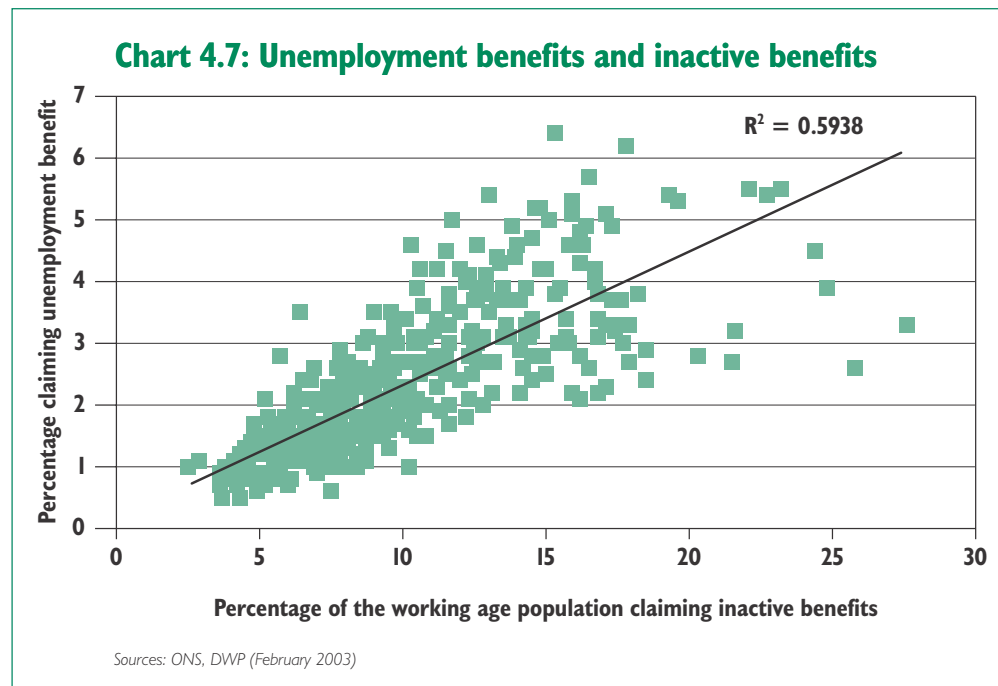


Source: Office for National Statistics' Labour Force Survey

**4.14** Regional analysis suggests that areas with high inactive benefit rates also tend to have relatively high unemployment benefit rates. The correlation is also quite strong at local authority level (Chart 4.7).

**4.15** Importantly, however, a lack of labour demand is by no means the main explanation for either high unemployment benefit rates or high inactive benefit rates. Although the general tendency is for areas with a large number of jobs to have fewer people on both unemployment and inactivity benefits, the relationship is weak. In cities, in particular, a large number of people claiming benefits can co-exist with a high number of jobs and of vacancies.

**4.16** As Charts 4.8 and 4.9 show, the number of jobs in a local authority explains only 6 per cent of the variation in unemployment benefits across local authorities and 9 per cent of the variation in inactive benefits.



**Chart 4.8: Number of jobs and people claiming unemployment benefits**



Sources: ONS, DWP (February 2003)

**Chart 4.9: Number of jobs and people claiming inactive benefits**



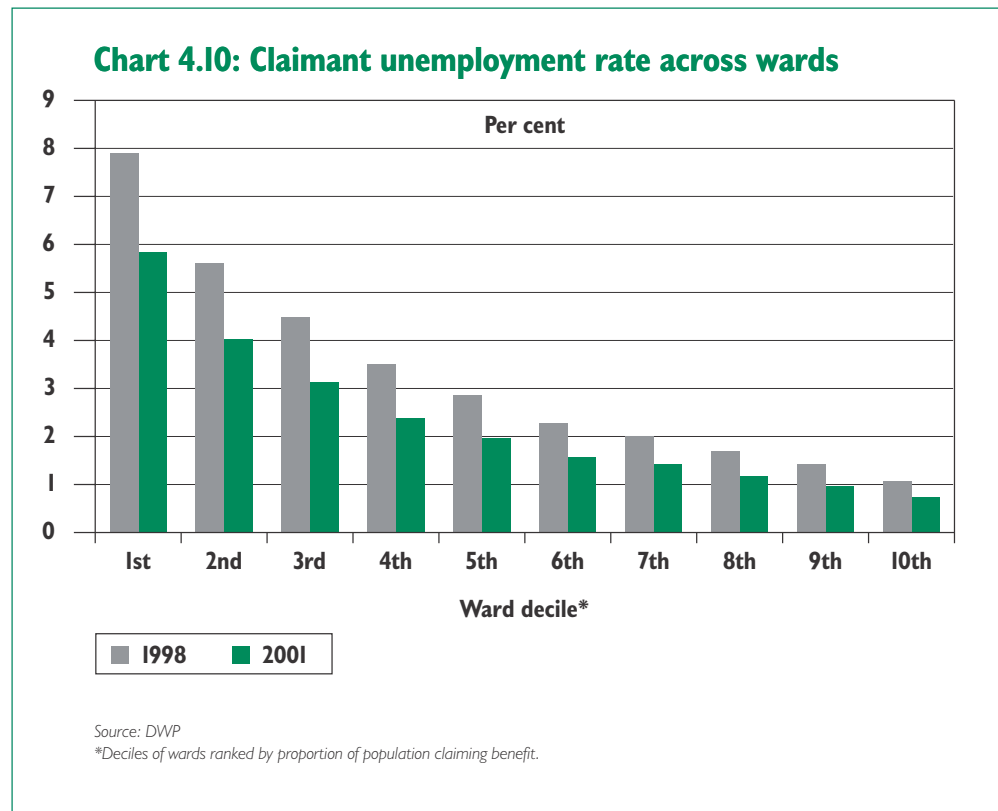
Sources: ONS, DWP (February 2003)

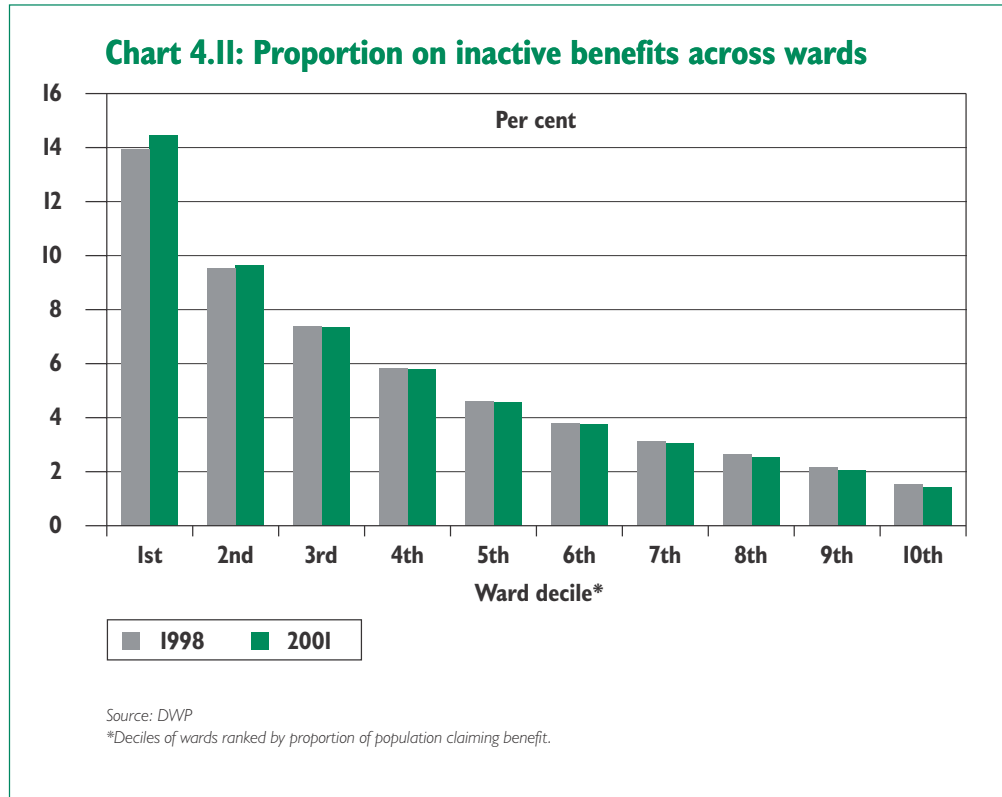
## Ward level and below

**4.17** Looking below local authority level illustrates even more starkly the extent to which local variation is more significant than regional variation.

**4.18** Some of the results are similar to those for local authorities. The numbers on inactive benefits are, once again, much higher than the number on unemployment benefits (Charts 4.10 and 4.11), and the proportion of the population on unemployment benefits has fallen across the board, while the proportion on inactive benefits has shown little change.

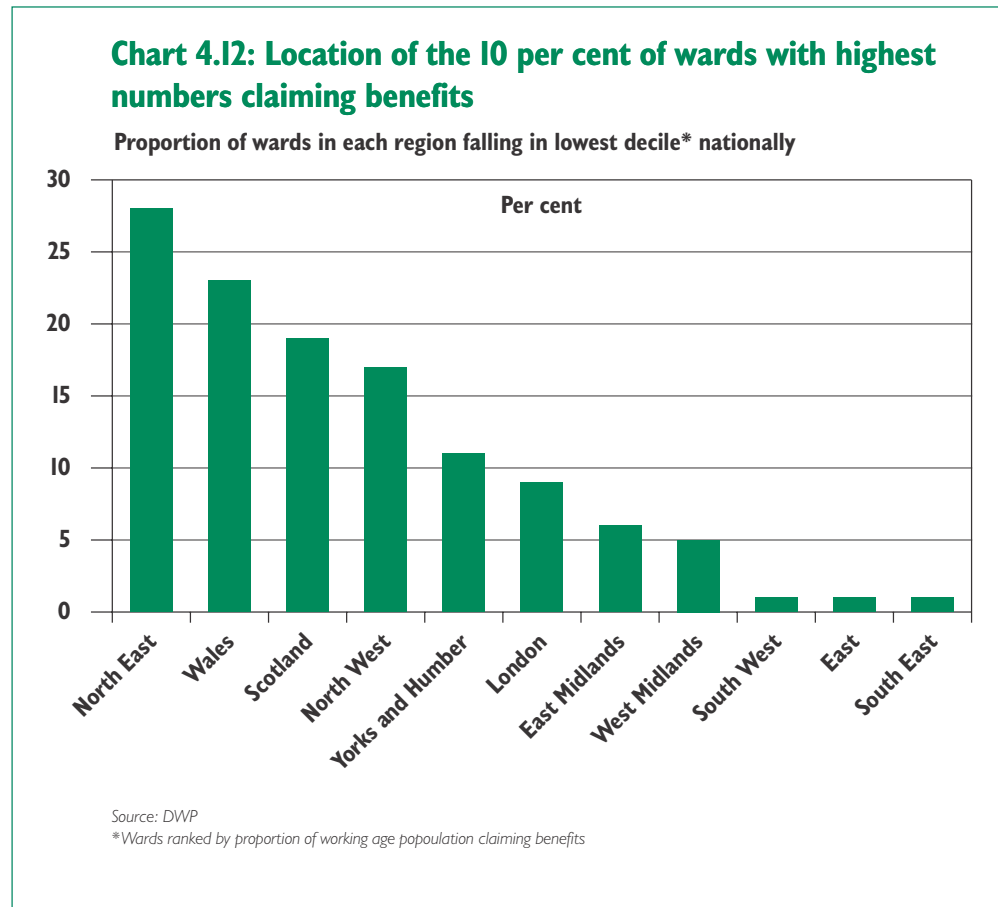
**Even greater variation at ward level** **4.19** High rates of people claiming benefits are even more concentrated at ward level and below. The dispersion of both unemployment and inactive benefits at ward level is wider than for local authorities (which is, in turn, greater than for regions). In the bottom decile (or 10 per cent) of wards, over 20 per cent of the population is claiming unemployment or inactive benefits; by contrast, in the top decile of wards, only around 2 per cent of the population claim benefits.





**4.20** Chart 4.12 shows that the wards with the highest proportion of people claiming benefit are concentrated in certain regions. Recent work by the Social Exclusion Unit has shown that the areas where there is by far the greatest concentration of people on benefits, both at ward level and below, are in the cities of the North West and North East – Liverpool, Manchester, Middlesbrough, Hartlepool – and some other areas in these regions – Knowsley and Easington – as well as areas such as the South Wales valleys.

**4.21** Some important conclusions can be drawn from this analysis. First, concentrations of worklessness are greatest at a local level. Second, while inactivity is a far larger challenge than unemployment, the two are related, and affect the same areas. Concentrations of unemployment and inactivity are not, however, necessarily a product of less buoyant labour markets with fewer jobs, and this becomes clearer when we look in more detail at the underlying trends in cities.

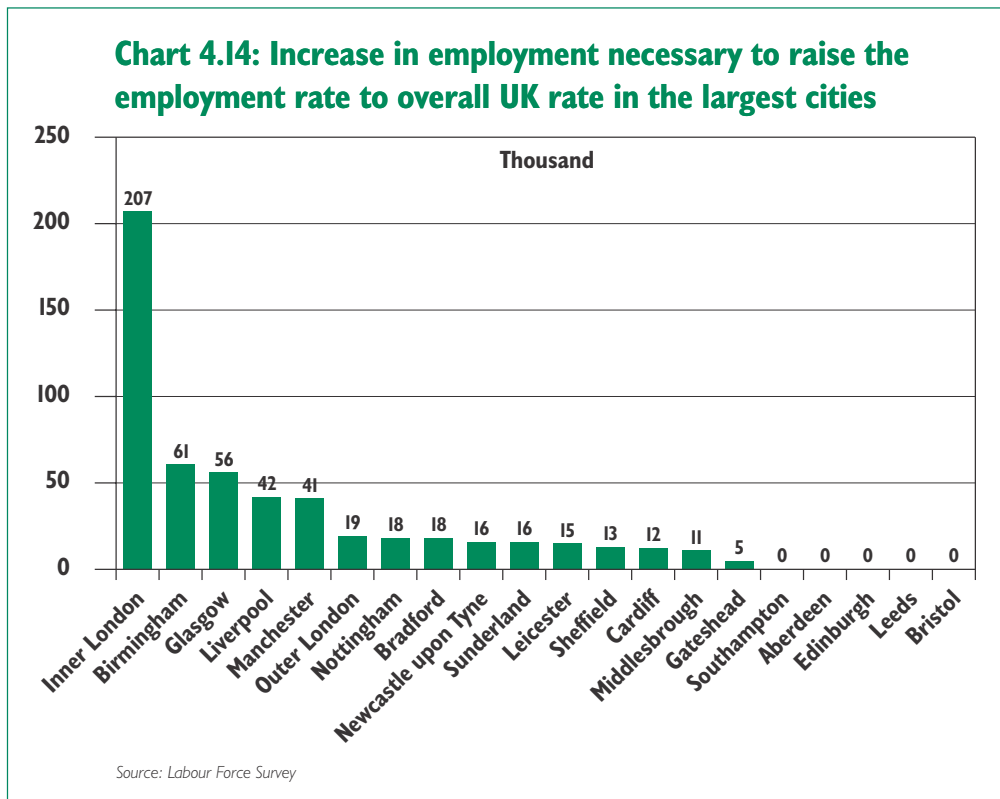
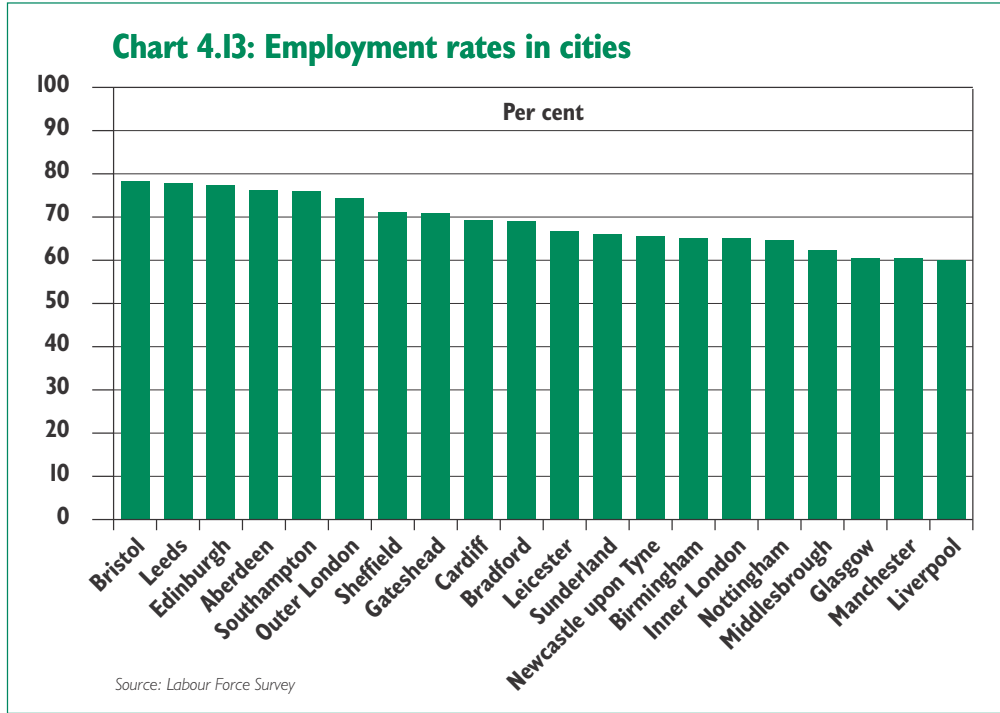


## CITIES

**4.22** The vast majority of large cities have resident employment rates below the current overall UK rate (around 75 per cent). The exceptions are Aberdeen, Edinburgh, Leeds and Bristol. As Chart 4.14 shows, because of their size, the cities that would require the greatest increase in employment to reach the current overall UK rate are London, Birmingham, Glasgow, Liverpool and Manchester, with inner London showing by far the largest shortfall.

**4.23** In addition, the increase in employment that would be required to bring employment rates in the cities up to the national UK rate is generally larger than the increase that would be required in their regions as a whole. This includes the North West, where the shortfall in Liverpool and Manchester exceeds the shortfall for the region as a whole. The exceptions are the North East and Wales, where the shortfall in the region is greater than the shortfall in the cities in those regions.

**4.24** In other words, if the resident employment rates in cities were raised to the overall national rate (without being reduced in other parts of the region), the entire region's employment rate would in most cases also be raised to the national average.

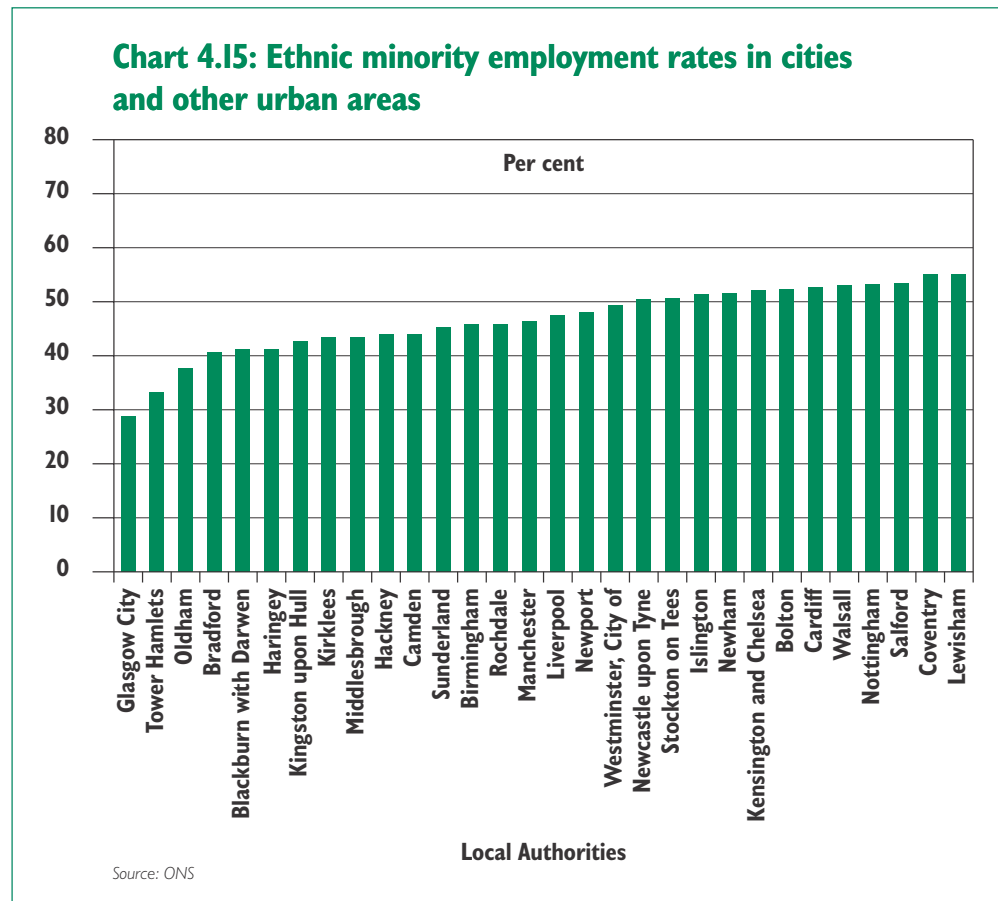


**Ethnic minorities 4.25** People from ethnic minority groups are more likely to live in cities, and especially in London. This is particularly true for groups that are more likely to have difficulties in finding employment:

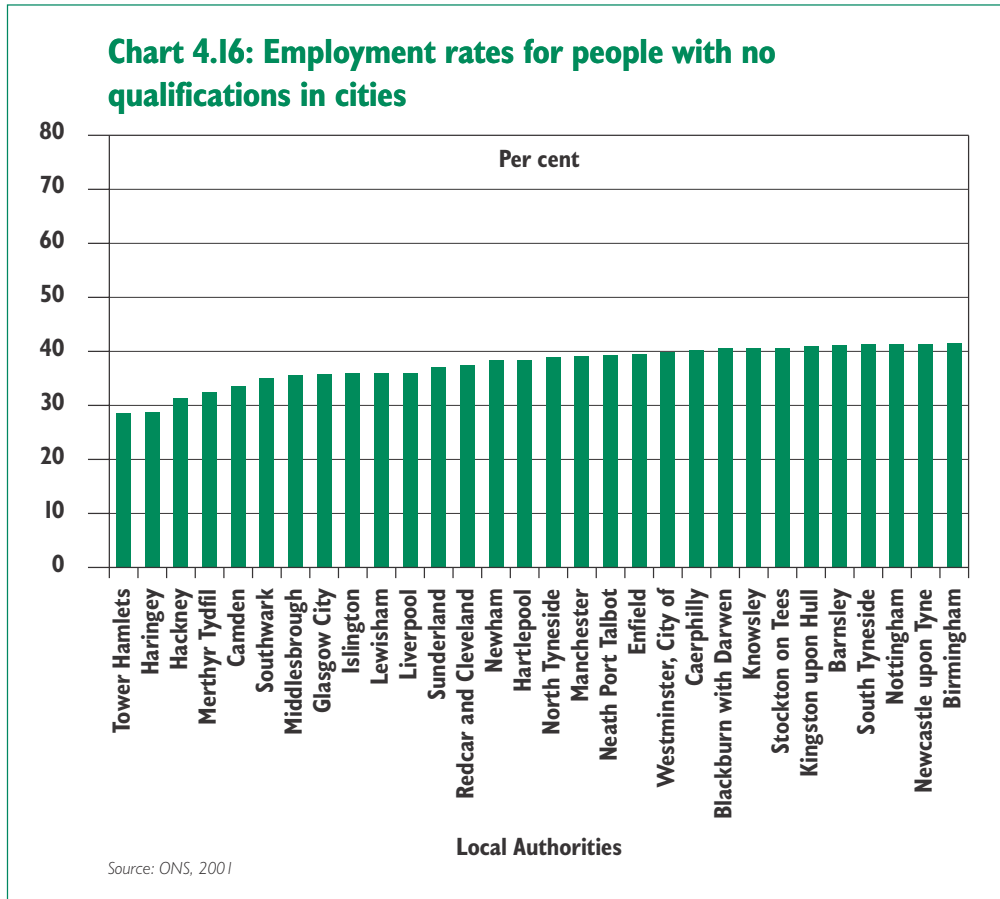
- those who have poor or no English;
- those recently arrived in the UK, especially refugees; and
- those who face a tradition of non-participation in the labour market, particularly Pakistani and Bangladeshi women.

**4.26** The problems faced by ethnic minorities in entering the labour market may be compounded by the fact they are more likely to live in areas of high worklessness. This is not only a problem in large cities; some smaller cities and towns in Lancashire and Yorkshire – Oldham and Bradford, for example – have low employment rates.

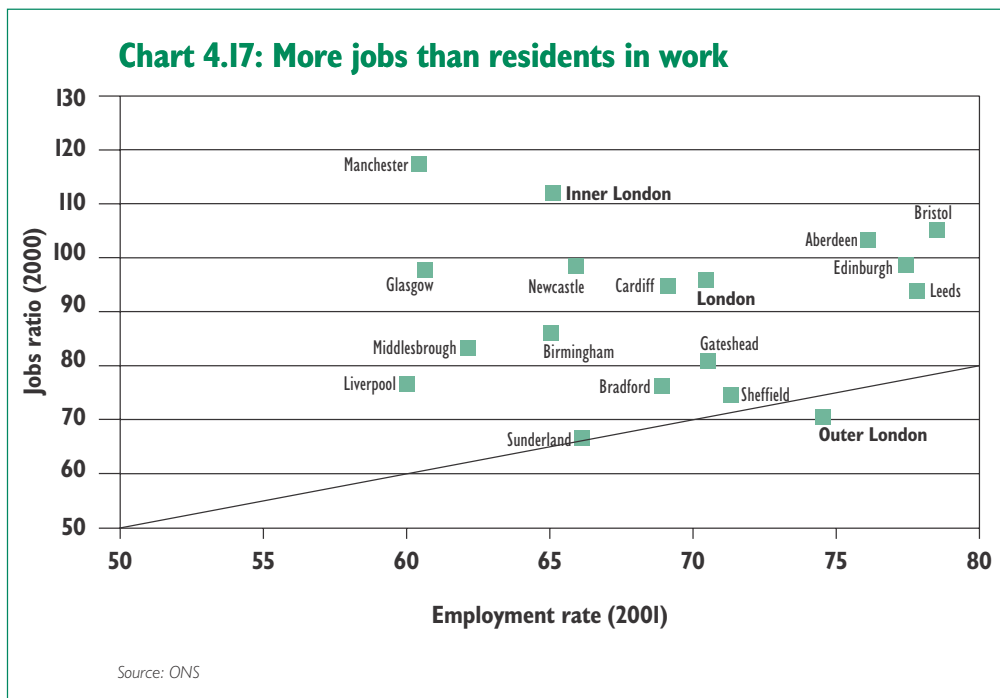
**4.27** Non-EU immigrants are also concentrated in cities, particularly London. Immigrants are concentrated at both ends of the skill and earnings distribution, meaning that, while immigrants are more likely to be high-skilled and have high earnings, as a group they are also more likely to have low or no skills and to be out of work or low paid. The worst disadvantage is faced by refugees, who frequently face multiple barriers, although most refugees want to work.



**Skills 4.28** People without qualifications are concentrated in parts of some cities, and tend to be even less likely to be in employment than elsewhere. This suggests that there may be a degree of mismatch between residents of some urban areas and the skills and personal attributes required to be successful in the labour market.



**More jobs than residents in work** **4.29** Labour demand *per se* is certainly not the problem in cities. Every city in the UK has more jobs than it has residents in work.



**4.30** Part of this reflects the tendency of universities and other forms of higher education to be concentrated in cities. This explains some of the variation in employment rates because students, particularly full time, tend to have lower employment and activity rates than the rest of the population.

**4.31** The main reason, however, is that cities attract commuters, and so have more jobs than residents. Of course, this mobility and flexibility is to be welcomed, but a key challenge is to increase the ability of disadvantaged groups to compete effectively for jobs. At the same time, employers need to be aware that there are untapped resources within their local area that can make a contribution to their business and their profits.

## POLICY RESPONSIVENESS AND FLEXIBILITY

**4.32** The Government's policy response to geographical variations in employment must be based on the evidence. As shown above, the worst concentrations of worklessness are in very small defined areas and are caused not by a lack of jobs, but by the people living in these areas being unable to compete successfully for the vacancies available. Promoting greater labour demand in these areas would not help local residents if they were unable to compete for them; the jobs would simply go to people from outside the local area, as many already do, particularly in cities.

**4.33** As described in Chapter three, the Government's national policies target additional help on individuals and groups of people facing particular labour market disadvantage. Increasingly, this means people who are not even looking for work. As many of the same factors – a lack of active support, financial incentives, and specific labour market barriers – affect a wide range of workless people, the Government's national policies will have positive effects across the country, and provide most help where there are the most disadvantaged people.

**4.34** National policies alone, however, will not be enough to address the concentrations of disadvantage that affect particular areas and groups. One of the Government's overall aims is that nobody should be disadvantaged by where they live. Many problems are of a more local nature, and can only be tackled at the level where concentrations of worklessness occur; the very local level. In some areas, a 'culture of worklessness' or 'poverty of aspirations' has developed, locking people into cycles of worklessness.

**Regional skills partnerships** **4.35** In order to tackle the factors that affect the ability of local areas to create and retain a highly skilled labour force, Regional Skills Partnerships will be established from April 2004 with the aim of better coordination of the supply and demand for skills in each region. They will include representatives of employers, Regional Development Agencies (RDAs), the Skills for Business Network, the Small Business Service, the local Learning and Skills Councils, and Jobcentre Plus.

**4.36** As noted earlier, the Government has set itself a target of increasing the employment rate and bringing it closer to the overall national rate for the 30 local authority districts with the poorest initial labour market position. However, as shown above, the worst concentrations of worklessness are at very local levels, so meeting this target alone will not guarantee higher employment rates in the most disadvantaged communities. The main elements of the Government's strategy to tackle these more localised problems are:

- using the Jobcentre Plus performance system to direct resources towards those areas with the greatest concentrations of unemployment and inactivity;

- ensuring that the work of Jobcentre Plus is effectively coordinated with the wide range of other economic agencies working at local level – for example, the local Learning and Skills Councils, local authorities, RDAs, Scottish Enterprise and Education and Learning Wales; and
- applying a wide range of alternative and supplementary delivery models in particular areas, to increase the effectiveness of mainstream delivery services and to reach out to those who are most excluded from society.

**4.37** In focusing efforts on concentrations of disadvantage, one size clearly does not fit all; the areas with the highest concentrations of unemployment and inactivity need targeted resources and greater flexibility in how they are used in order to address local barriers to work. To promote flexibility and responsiveness of delivery, and to encourage both new ideas and best practice, the Government has taken a number of steps including setting up Action Teams, Working Neighbourhoods pilots, and Employment Zones.

**Action Teams for Jobs 4.38** Action Teams for Jobs help jobless people from the most disadvantaged groups in the most employment deprived areas of the country to find and remain in work by developing individually tailored, innovative ways to help them overcome barriers to work. Jobcentre Plus runs 38 teams while 25 are led by private, voluntary and public/private organisations.

**4.39** Since their inception three years ago, Action Teams have engaged over 180,000 clients and found jobs for over 80,000 (to the end of September 2003). They will now be extended for a further two years to March 2006 and they will be focused even more on both the hardest to help individuals and the hardest to help areas.

**Working Neighbourhoods 4.40** From April 2004, a two-year programme of intensive support, Working Neighbourhoods, will be piloted in 12 deprived neighbourhoods where very high proportions of people are not in work. The pilots will test whether new approaches combining earlier and more intensive intervention, community based delivery and additional resources to provide help in overcoming barriers to employment – in partnership with other local agencies – can enable local residents to access the jobs that can often be found within travelling distance of where they live.

**4.41** Help from the pilot will be available to all economically inactive residents within the pilot neighbourhoods who are of working age, not in employment and aged over 18. The help provided by each pilot will be determined locally, in consultation with local partners, to reflect local needs.

**Employment Zones 4.42** Employment Zones also provide local flexibility, and have been successfully offering customised support tailored to individual needs since April 2000. As of the end of June 2003, Employment Zones had helped into work over 38,000 long-term unemployed people aged over 25.

**4.43** The Employment Zone approach has demonstrated that providing personal advisers with a high level of flexibility and devolved responsibilities achieves better services for customers. Since October 2003, Employment Zone services have been available to lone parents and to some long-term unemployed people aged 18-24. From April 2004, the introduction of multiple providers in some Zones will be tested, to further sharpen incentives to providers and deliver better services for the unemployed.



# 5

## CONCLUSION: MEETING THE CHALLENGE

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**5.1** More people are in work than ever before. This success has been built on a comprehensive strategy to tackle worklessness and poverty. Certain elements of this strategy are still being developed or rolled out, and the Government continuously seeks to develop its strategy on the basis of robust evidence of what works, remaining responsive to changing circumstances.

**5.2** The challenge for the Government now is to build on the success since 1997 and to extend employment opportunities to every region and nation of the UK, by addressing particular concentrations of worklessness and the poverty this causes. All who are able to move into work should be given the opportunity to do so. This concluding section considers some of the further steps the Government is taking to deliver this ambitious but important objective.

### **A MULTI-FACETED APPROACH TO A MULTI-FACETED PROBLEM**

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**5.3** As set out in previous chapters, there is no simple answer to the question of how to achieve sustainable high levels of employment. Individuals without work, whether unemployed or inactive, face a variety of barriers to entering and remaining in employment. Effective policies must therefore be both flexible and responsive, and tailored in such a way as to address these needs.

**5.4** In very broad terms, however, the Government's policy approaches to worklessness can be grouped under three themes:

- **providing active, work focused support.** Claimants of Jobseeker's Allowance (JSA) must be actively seeking and available for work as a condition of receiving benefit. The New Deal extends these rights and responsibilities, ending the option of remaining indefinitely on JSA. While the Government provides a level of support for economically inactive people who – because of caring responsibilities, disability or ill-health – cannot reasonably be required to look for work, this does not imply that all those on inactive benefits are neither capable of, nor interested in, work. This incorrect assumption has led in the past to the provision of little encouragement or support for inactive people to return to work (with the result that few did). The benefit system needs to do more to help and encourage people on inactive benefits to return to work;
- **ensuring work pays.** The importance attached in the Government's reform agenda to making work pay has been underlined in earlier chapters. Incentives need to be improved further for, for example, those on sickness and disability benefits, whose gains to work may be lower. They also need to be improved to address the tendency for in-work costs to be higher in particular areas such as London, where the impact of Housing Benefit on work incentives tends to be greater because of higher rental costs; and

- **reducing barriers to work.** A range of barriers may make it more difficult for people to return to work: a lack of access to childcare, or to rehabilitation; a lack of skills; health issues; or discrimination. Jobcentre Plus provides a range of measures to overcome these barriers including training, access to childcare, basic skills and English language courses. This provision must be made even more flexible, even more work-focused and even better tailored to individuals' needs. In many cases the issues are multi-dimensional, requiring a partnership approach between a number of Government departments, other public sector bodies, employers and the community and voluntary sectors.

**5.5** Focusing on these three key areas of active work-focused support, financial incentives and barriers to work will help raise employment levels throughout the UK. Alongside its successful national policies, the Government is also introducing other, more targeted, policies aimed at particular groups or areas. As has been shown, the highest concentrations of worklessness occur in very small areas. A 'culture of worklessness' or 'poverty of aspirations' can develop in such areas, generating a vicious and self-perpetuating cycle leading not only to high levels of worklessness but also to crime, deprivation, and social exclusion. It is important that these cycles are broken and these concentrations addressed.

## NEXT STEPS

**5.6** The 2003 Pre-Budget Report sets out a range of measures which the Government is taking to extend employment opportunity to all. As the examples highlighted below illustrate, the Government is building on its success to date and is continually engaged in identifying ways in which its welfare to work agenda can be delivered in an ever more responsive, flexible and effective manner, to the benefit of individuals and of society as a whole.

### Active, work-focused support

**5.7** The New Deal has, as described in Chapter three, been hugely successful in helping people without work move into employment. The New Deal for young people has helped over 460,000 young people move into work, and over 165,000 long-term unemployed people have moved into jobs through the New Deal 25 plus.

**5.8** The initial focus of the New Deal was on helping unemployed people on JSA back to work. That long term unemployment is now at its lowest level in a generation is testimony in part to the programme's success. The New Deals have now been extended to people on inactive benefits; the New Deal for lone parents (NDLP), for example, has helped over 225,000 lone parents find employment.

**5.9** There is, however, a need to go further in providing support for people who are economically inactive, and in ensuring that employment programmes meet the differing needs of local labour markets. Too many lone parents, for example, still do not realise the extent of the support offered by NDLP to those who wish to work, while access to childcare remains a frequently cited barrier.

**5.10** From October 2005, lone parents whose youngest child is aged 14-15 will be required to attend extra, more intensive Work Focused Interviews providing the opportunity to access NDLP support. Furthermore, all those finding work through NDLP will receive childcare costs for the week before they start their job, enabling them to put in place appropriate arrangements for childcare that suits their work patterns ahead of their first day at work.

**5.11** Additional help is also now being extended to people with health conditions and disabilities in line with the direction of change set out by Pathways to Work (see Chapter three). Incapacity Benefit claimants will be able to get additional voluntary help from Jobcentre Plus personal advisers where appropriate. This will give advisers more flexibility to deal with this group.

**5.12** In order to improve the choices available to people aged 60 or over, voluntary access to employment programmes will be offered to all receiving the Pension Credit.

**5.13** More broadly, the Government is examining how it can strengthen the New Deal and build on current provision in order to help people who face particular difficulties in moving into employment. It is considering how provision can better be tailored to the needs of all workless benefit claimants, and how employment programmes can be made more accessible and effective for all client groups.

**5.14** There is, for example, increasing evidence of the value of flexibility in enhancing the effectiveness of employment programmes. This underlines the need for further flexibility to respond to the needs of individual clients and local areas, subject of course to the maintenance of high national standards, and in the context of the overall framework of rights and responsibilities of the national benefit system. Simplification of what may currently be complicated processes for advisers, employers, clients, and programme providers, is another important factor.

#### Ensuring work pays

**5.15** The incentives to take up work can, as is noted above, be weaker in areas such as London due to a combination of high housing and transport costs<sup>1</sup>. Relatively weak work incentives may be a contributory factor to London's relatively low employment rate and hence to its high levels of child poverty.

**5.16** The Government announced in Budget 2003 that it would, from October 2004, pilot an in-work credit for lone parents in 12 areas of £40 per week for the first year in work. In order to address the particular problems faced by workless families in London, this in-work credit will be extended across the capital to all lone parents and couples with children who have been without work and receiving certain benefits for more than a year.

#### Reducing barriers to work

**5.17** Housing Benefit is a national benefit delivered locally to around 3.8 million tenants. It provides help with rental costs for low income tenants, in or out of work. Housing Benefit can, however, act as a barrier to work if people are concerned that delays in processing claims may interrupt payments if they enter work, or if uncertainty over entitlement levels discourages them from moving. The Government has already taken significant steps to improve benefit administration, and has put in place a comprehensive strategy of financial and practical support for local authorities.<sup>2</sup> From April 2004, for example, working age customers will no longer need to submit a new claim on moving into work, thereby speeding up processing times for in-work benefit and smoothing the transition into work.

<sup>1</sup> *London Analytical Report*, Prime Minister's Strategy Unit (September 2003).

<sup>2</sup> *Budget 2003*, HM Treasury (April 2003).

**5.18** As of November 2003, a Local Housing Allowance is being introduced in nine 'Pathfinder' local authorities. Private sector tenants will be paid according to average local rents, rather than rents charged on their individual properties. This will ensure that people know in advance what benefit support they will receive; it will promote choice and personal responsibility; and it will bridge the gap between benefit and work by allowing tenants to budget for their own rent. As the 2003 Pre-Budget Report makes clear, Pathfinders in the social rented sector will be introduced as soon as is practical.

**5.19** As described in this chapter and throughout this document, the Government continues to look for ever more effective ways to build on the success of the New Deals and to mobilise the investment in Jobcentre Plus. In aspiring to employment opportunity for all, the Government has set itself a considerable challenge. It is a challenge which it is determined to meet.