

# 4

## INCREASING EMPLOYMENT OPPORTUNITY FOR ALL

The Government's aim is employment opportunity for all – the modern definition of full employment. In line with this, the Government's long-term ambition is that by the end of the decade there will be a higher proportion of people in work than ever before. Although macroeconomic stability is a prerequisite for achieving this aim, it must be backed up by microeconomic policies to ensure that individuals throughout the country are able to compete effectively for jobs. The Pre-Budget Report set out the challenges which the Government faces in helping people to move off welfare and into work, ensuring that work pays, easing the return to work, and enabling people to work their way up once in work. Budget 2001 sees further reforms that will help to deliver the Government's long-term ambition to see a greater proportion of people in work than ever before.

- The new package of choices in the New Deal for lone parents, available from next month, will be extended to include help with starting up in self-employment, training, a new outreach service to attract more lone parents to the New Deal, and extra childcare support. So that as many lone parents as possible are aware of the help available to them through the New Deal, compulsory work-focused interviews will be extended to all lone parents on Income Support, nationally from April 2002, with an additional interview at the six month stage.
- As part of its strategy to support those in greatest need of help, the Government will invest additional resources to tackle the problems facing claimants whose drug problems may be getting in the way of their finding a job, and provide more help for ex-users to move into work.
- Resources will also be allocated to enhance the New Deal and other programmes over the coming three years, focusing on employer needs, the hardest to help and the most disadvantaged areas. Full details will be set out as part of the Government's welfare to work strategy for the coming three years, which will be published shortly.
- To make work pay, the National Minimum Wage for workers aged 22 and over will be increased from £3.70 an hour to £4.10 an hour from October 2001, with a further increase, subject to the economic conditions prevailing at the time, to £4.20 an hour from October 2002, as announced by the Secretary of State for Trade and Industry on 5 March.
- In addition, the 10 pence rate of income tax will be extended by £300 over indexation from April 2001 to cover the first £1,880 of taxable income.
- To help working families, the basic credit in the Working Families' Tax Credit (WFTC) will increase by £5 a week from June 2001, on top of increases in line with indexation from April 2001. Combined with other measures, this raises the minimum guaranteed income for a family with one member working 35 hours a week at the minimum wage from £214 a week in April to £225 a week in October 2001.
- To help overcome barriers to work due to childcare costs, the WFTC and Disabled Person's Tax Credit (DPTC) childcare tax credit limits will be increased from £100 to £135 a week for childcare costs for one child and from £150 to £200 a week for two or more children from June 2001.

## INTRODUCTION

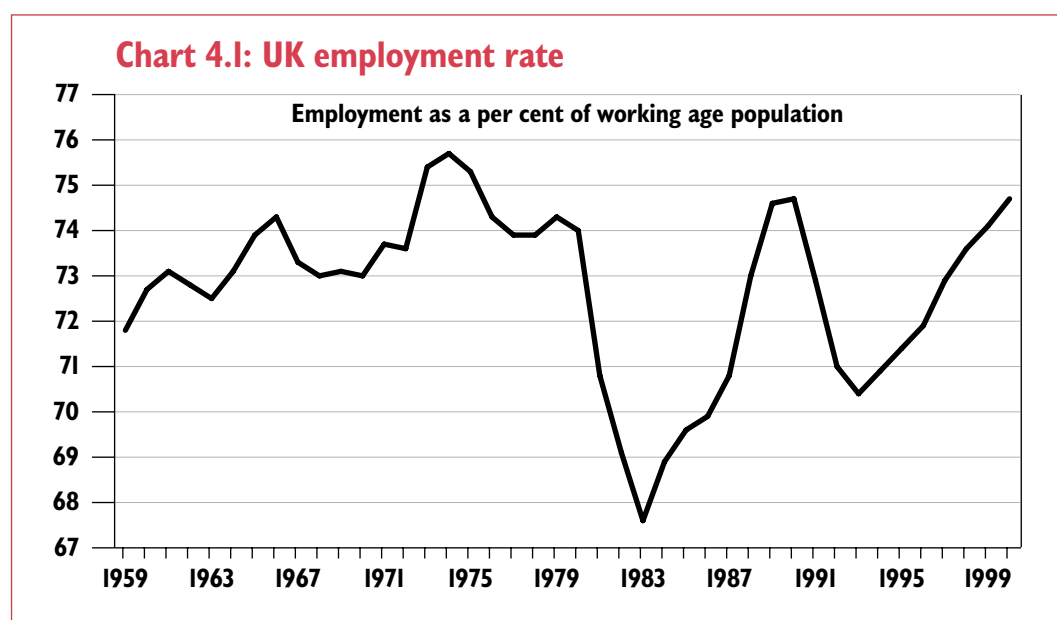
**4.1** The Government's aim is employment opportunity for all – the modern definition of full employment. Macroeconomic stability is a prerequisite for achieving this aim, but it also needs to be backed up by microeconomic policies to ensure that individuals throughout the country are able to compete effectively for jobs.

**4.2** The Government's microeconomic strategy for ensuring employment opportunity for all comprises the following key elements:

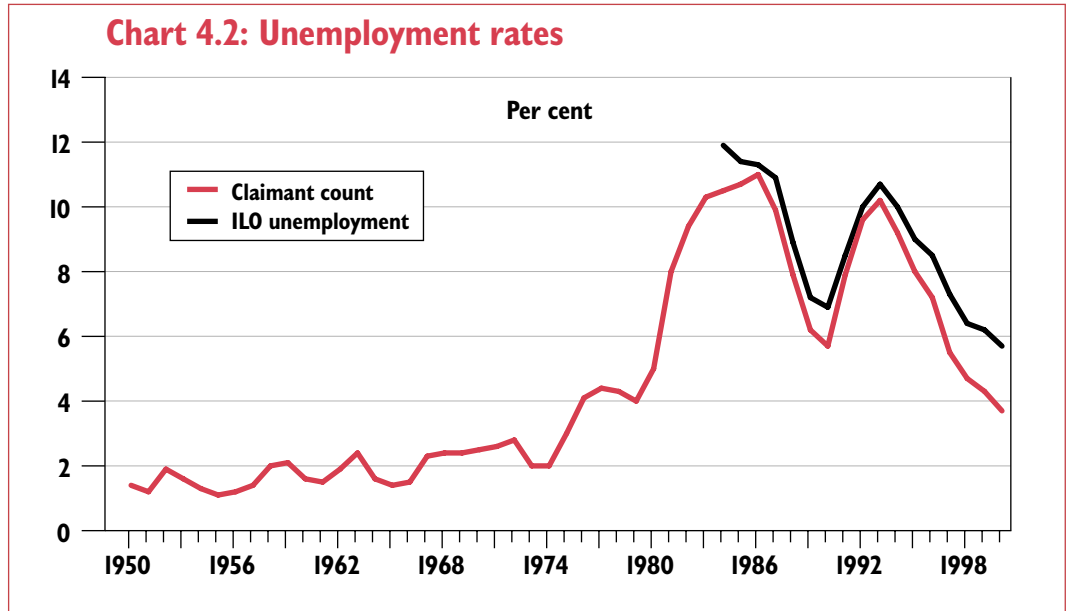
- helping people to move from welfare into work, through policies such as the New Deal;
- easing the transition into work, by removing barriers to work and ensuring that people are financially secure when moving from welfare into work;
- making work pay, through reform of the tax and benefit system and the minimum wage; and
- securing progression in work, through lifelong learning.

### Achieving high and stable levels of employment across Britain

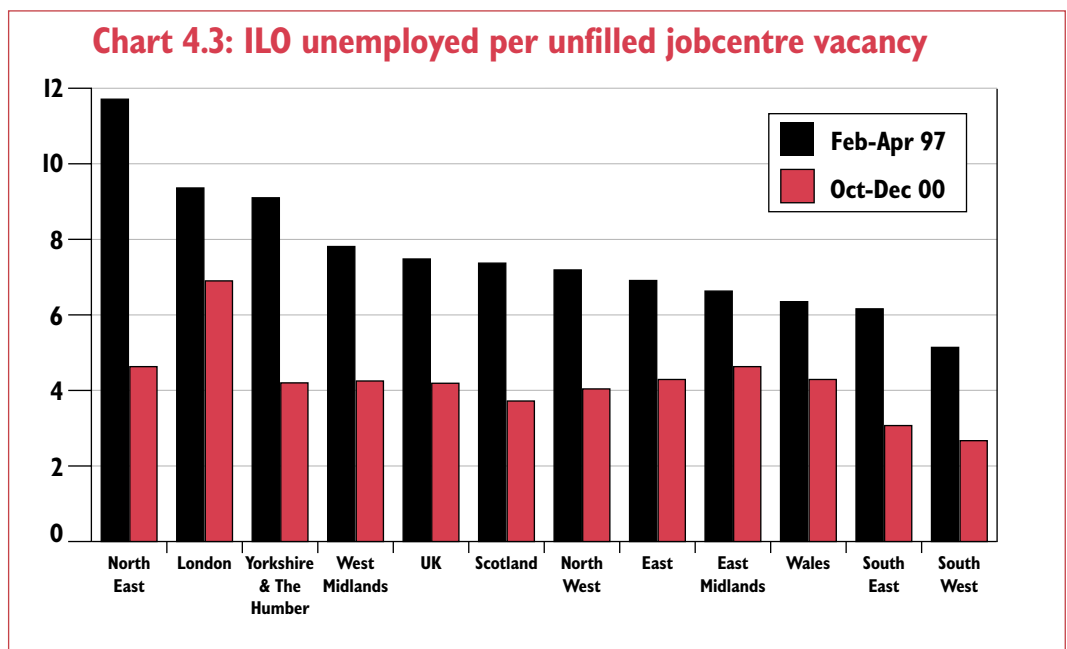
**4.3** The past few years have seen a substantial improvement in Britain's labour market. Over 1 million more people are in work now than in spring 1997. The employment rate, currently 74.6 per cent, has returned to levels typical of the 1960s and 1970s, substantially above those seen during most of the 1980s and early 1990s.



**4.4** Alongside record levels of employment, unemployment has fallen sharply. At 5.3 per cent, ILO unemployment is currently at its lowest rate for over 20 years. The claimant count measure currently stands at 1.005 million, down by nearly 660,000 since spring 1997 and the lowest rate since September 1975.



**4.5** The stock of unfilled vacancies at Jobcentres is at record levels: the ratio of jobseekers to vacancies currently stands at just under three claimant unemployed people to each Jobcentre vacancy, compared to around 10 jobseekers to each vacancy a decade ago. This rise in the level of vacancies has benefited all regions. As shown in chart 4.3, generally the number of unemployed people chasing each vacancy has fallen fastest in those regions which previously had the highest number of unemployed people per unfilled vacancy.



**4.6** Vacancies are now close to record levels in all regions, and trends in aggregate employment and unemployment rates continue to improve. However, as illustrated in the Pre-Budget Report, concentrations of worklessness exist both below the aggregate level amongst some people and groups in society, and also below the regional level in disadvantaged areas. Although improvements can be seen over the last couple of years, work remains to be done here. Box 4.1 explains the Government's aim to reduce these concentrations of worklessness and the poverty they engender. The measures announced in Budget 2001 work towards this aim by building on the success of the New Deal, providing additional support for those hardest to help, and giving lone parents more of the support they need to move from welfare into work.

#### **Box 4.1: Employment ambition – working towards full employment**

The Government is committed to delivering employment opportunities for all – the modern definition of full employment. The Government's long term ambition is that by the end of the decade there will be a higher percentage of people in employment than ever before, on a sustainable basis. This means that, taking account of the economic cycle, at least three quarters of the working age population are in work by the end of the decade.

Unemployment, and more generally long-term worklessness, represent an unacceptable waste of human resources and an unnecessary source of misery and degradation for those affected. The long-term workless are distanced from the labour market. Policies aim to reintegrate them into the labour market so that the effective supply of labour is increased. This both allows further non-inflationary growth in the economy, and reduces poverty.

Reducing the number of families with no-one in work is an important part of the Government's strategy to reduce child poverty by half in 10 years and eliminate it within a generation. Extending employment opportunities for these families may also be important to break the cycle of deprivation that puts children at greater risk of detachment from the labour market in adulthood.

Opportunities in the labour market are unequal. There exists a "tail" of local areas with especially low employment rates. The employment rates of people with disabilities, lone parents, ethnic minorities and the over 50s are all well below the overall average and have been so on a continuing basis. Hence the Government's commitment to employment opportunities for all requires not just a high overall employment rate, but also a commitment to a higher rate of employment covering groups and areas that have in the past been allowed to fall behind the rest of society.

The Government has already made significant progress in these areas with, since 1997:

- employment up by over 1 million;
- unemployment down by over half a million; and
- the number of children in workless households down by over a quarter of a million.

In order to maintain and build on this progress the Government, at the time of the 2000 Spending Review, committed to the following PSA targets for the period 2001–4:

- increase employment over the economic cycle;
- a continued reduction in the number of unemployed people over the age of 18 over the three years to 2004, taking account of the economic cycle;
- reduce the number of children in households with no-one in work over the three years to 2004; and
- over the three years to 2004, increase the employment rates of disadvantaged areas and groups, taking account of the economic cycle – people with disabilities, lone parents, ethnic minorities and the over 50s, the 30 local authority districts with the poorest labour market position – and reduce the difference between their employment rates and the overall rate.

## WELFARE TO WORK

**4.7** The labour market is dynamic, with most unemployed people who claim Jobseeker's Allowance (JSA) moving quickly back into work. However, those that remain unemployed for longer periods risk becoming detached from the labour market. In addition, there are 3.8 million people of working age receiving out-of-work benefits other than JSA, including sick and disabled people and lone parents, many of whom want to work. The Government's welfare to work strategy, outlined in the Pre-Budget Report, is designed to combat long-term unemployment and lift people out of economic inactivity by equipping them with the skills they need to find and remain in work.

**4.8** The New Deal is central to the Government's welfare to work strategy, helping people to move into work, progress within employment and increase their long-term employability. The continuity and support offered by the personal adviser to each participant in the New Deal is unlike anything seen on previous programmes. The 2000 Spending Review allocated extra resources to make the New Deal a permanent deal. The success of the New Deal programmes, and how the Government is planning to build on this, are discussed in Box 4.2. The Government will shortly be publishing its comprehensive plan for the development of its welfare to work policies over the period of the next three years, 2001–04.

**New Deal for young people** **4.9** The New Deal for young people (NDYP) was launched nationally in April 1998. Since June 2000, the Gateway stage of the programme has been enhanced through specialist Gateway to Work provision, intensifying the support available to young people, and providing additional help with 'soft skills' such as presentation, punctuality and communication skills. So far, in total over 270,000 young people have found jobs through the New Deal, surpassing the Government's manifesto commitment to move 250,000 young people from welfare into work by the end of the current Parliament. Further details on enhancements to the NDYP will be announced shortly, including helping the most disadvantaged.

**New Deal for 25+** **4.10** The New Deal for 25+ (ND25+) offers intensive support to older long-term unemployed people through a personal adviser service and, since April 2000, an intensified Gateway period. **As announced in Budget 2000, the New Deal 25+ will be extended and intensified from April 2001 on a national basis**, heralding a stronger emphasis on rights and responsibilities as the sanctions regime already operating under the New Deal for young people is extended to the older group. Over 60,000 long-term unemployed people have already found jobs through the ND25+.

**New Deal for lone parents** **4.11** The Government recognises the problems faced by lone parents trying to balance work and caring responsibilities, and is committed to enhancing the choices open to lone parents in the labour market. Lone parents with young children are likely to face the greatest barriers to work, for example high childcare costs, and as a consequence are less likely to be in work. The New Deal for lone parents (NDLP) provides the opportunity for lone parents to meet a personal adviser and receive help and support to improve their prospects and living standards by taking up, and increasing, paid work. Over 80,000 lone parents have moved into work through NDLP, and over half of all lone parents are now in work, for the first time in more than 20 years. Helping more lone parents into work is key to reducing child poverty, and the Government has set a target for 70 per cent of lone parents to be in work by 2010, comparable to international lone parent employment rates. **This Budget announces further measures for lone parents including extending compulsory work-focused interviews and further enhancing NDLP provision.**

**4.12** The November 2000 Pre-Budget Report announced that **from October 2001, the offer of help and support from the NDLP will be made available to all lone parents who are not working, or are working less than 16 hours a week, whether or not they are on Income Support.** This will make around an additional 150,000 lone parents eligible for the help and support of NDLP. **This Budget announces that a new advisory and outreach service will be introduced later this year.** This will provide outreach services for lone parents as well as partners – especially to those living in isolated communities or from groups that do not generally come into contact with Government agencies, including those who are now eligible for the New Deal, but who are not benefit claimants. Advisers will work within the community, in partnership with initiatives such as Sure Start, and local voluntary sector organisations and community groups, to inform lone parents about the help available to move into work.

**4.13** As announced in Budget 2000, **from April 2001 there will be an enhanced programme of choices available in the New Deal enabling lone parents to:**

- **move into work of 16 hours or more, with a guaranteed minimum income on the Working Families' Tax Credit;**
- **try work of fewer than 16 hours with a £20 earnings disregard and childcare help through NDLP; or**
- **undertake work-focused education and training with a £15 per week premium on top of Income Support from April 2001.**

**4.14** Lone parents are often wary of the uncertainty of leaving benefits and moving into work for the first time. The financial uncertainty around starting up in self-employment can be a particularly daunting experience. **To enhance the choices available to lone parents, Budget 2001 announces further help for lone parents to move into self-employment, in line with the provision available in the New Deal for 25+, from autumn 2001.** This will provide a training course followed by six months of test trading with financial support and help to pay for childcare costs. At the end of the test-trading period, participants will be able to keep their profits and move onto the Working Families' Tax Credit.

**4.15** This Budget also announces that **greater training flexibility will be introduced in NDLP,** so that more lone parents are able to take intensive short work-focused courses. This will enable lone parents to acquire the standard skills, such as basic IT qualifications, that will benefit them in the labour market.

**4.16** The Government wants to ensure that all lone parents are aware of the opportunities available to them to work or study through the New Deal for lone parents. **As announced in Budget 2000, from April 2001 lone parents on Income Support with children over the age of five will be required to attend annual meetings with a personal adviser to discuss the opportunities available to them.** Early evaluation evidence from the pilot stages of ONE showed that where lone parents received work-focused interviews, they were 40 per cent more likely to move into work than those in comparison areas. To ensure that as many lone parents as possible are aware of the help and support available to help them move into work, **from October 2001 in pathfinder areas and nationally from April 2002:**

- **compulsory work-focused interviews will be extended to all lone parents on Income Support, in line with ONE pilots; and**
- **an additional interview will be introduced at the six month stage in the Income Support claim.**

**Extending help with childcare costs** 4.17 Evidence shows that a lack of suitable, affordable childcare is a major barrier to parental employment, particularly for women and lone parents. To complement the measures outlined above, and to support parental employment, **the Government intends to improve help with childcare costs by:**

- **extending the Jobseeker's Grant to provide help with the up-front childcare costs that many lone parents face in moving from welfare to work;**
- **increasing the limits of the childcare tax credit element of WFTC and DPTC from June 2001 to provide additional help for those with high childcare costs; and**
- **considering how to help families who need to use formal childcare in their homes.**

4.18 Lone parents can often face substantial up-front childcare costs, which could cause short-term financial difficulties that prevent them from moving into work. **Later this year, the Government will extend eligibility for the Jobseeker's Grant to lone parents who have been on Income Support for over six months.** The Jobseeker's Grant provides funds to meet immediate expenses, such as deposits for childcare or essential items to start up in self-employment. This will provide additional targeted help, on top of the two week Income Support run-on, to ensure that more lone parents are able to make the transition to work.

4.19 The childcare tax credit component of the Working Families' Tax Credit provides generous support to help working families with childcare costs. The credit is worth 70 per cent of eligible childcare costs up to limits currently set at £100 a week for a family with one child, and £150 a week for a family with two or more children. So far 124,000 families are receiving help with their childcare costs through the childcare tax credit, compared to 47,000 who benefited from the childcare disregard in Family Credit at its peak. However, the absence of affordable childcare remains a barrier to work for some families. **Budget 2001 announces that these limits in the childcare tax credit will be increased to £135 and £200 from June 2001.** These limits reflect recent evidence on the cost of childcare across the country, particularly for those with children under five.

4.20 In order to claim the childcare tax credit, families must use eligible childcare. This ensures that the childcare tax credit in WFTC and DPTC supports the National Childcare Strategy by only funding safe, good quality childcare. However, current childcare tax credit rules do not support parents who use formal childcare in their own home. This poses a specific barrier to work for families with particular needs, such as those with disabled children who need home-based care or parents who work irregular hours. **The Government will consider how these families might be helped, for example by extending the childcare tax credit to cover formal childcare in the home where it meets standards similar to those that will govern the regulation and accreditation of childminders.**

**National Childcare Strategy** 4.21 The Government also offers support to childcare providers in order to help meet growing parental demand for good-quality, accessible childcare. Since its launch in 1998, the National Childcare Strategy has created childcare places that have helped more than 540,000 children, which, taking into account turnover, represents a net increase in places for 343,000 children. By March 2004, the Strategy will have created additional places for 1 million children.

4.22 The Government's ambition is that by 2004 there will be a childcare place in the most disadvantaged areas for every lone parent entering employment. The 2000 Spending Review allocated an additional £255 million from 2001 to 2004 to tackle the 'childcare gap' between disadvantaged and more affluent areas. This money will help fund the Neighbourhood

Childcare Initiative – a major expansion of childcare focused specifically on sustainable childcare in disadvantaged areas. The New Opportunities Fund will also provide a further £155 million from 2001 to 2004.

**4.23** The Neighbourhood Childcare Initiative will:

- create 900 new Neighbourhood Nurseries, providing 45,000 full day care places in some of the most disadvantaged areas by 2004;
- provide start-up grants for 19,000 childminders each year for the next two years; and
- fund a national business support package to promote and support sustainable childcare.

**New Deal for partners** **4.24** For couples where one person is unemployed, the chances of the other being in work are much lower. This is also the case for working age partners of the economically inactive. For example, where the head of household is inactive, the likelihood of the other partner being in work is less than 40 per cent. The New Deal for partners was launched nationwide in April 1999. It is a personal adviser service aimed to help partners of unemployed people to move into work. **From April 2001, the New Deal for partners will be extended on a voluntary basis to all partners of sick and disability benefit claimants.**

**4.25** Childless partners of the unemployed aged 18 to 24 have been able to volunteer to join the New Deal for young people. As previously announced, **from March 2001, they will become joint JSA claimants – both will have the same rights and responsibilities as the main claimant. From 2002, the Government intends to extend this approach to all childless partners of the unemployed who are 45 or under.**

**New Deal for disabled people** **4.26** People with disabilities are among the most disadvantaged in the labour force, being seven times more likely to be out of work than people without disabilities. According to the Labour Force Survey, 20.6 per cent of people with disabilities – some 1.4 million people – are currently without work but want to work. The Government has set a PSA target to narrow the gap between the employment rate of people with disabilities and the overall employment rate. At present, in any year only five per cent of those receiving incapacity benefits return to work. The Government has therefore set aside money from the receipts of the Employment Opportunities Fund specifically to help this group.

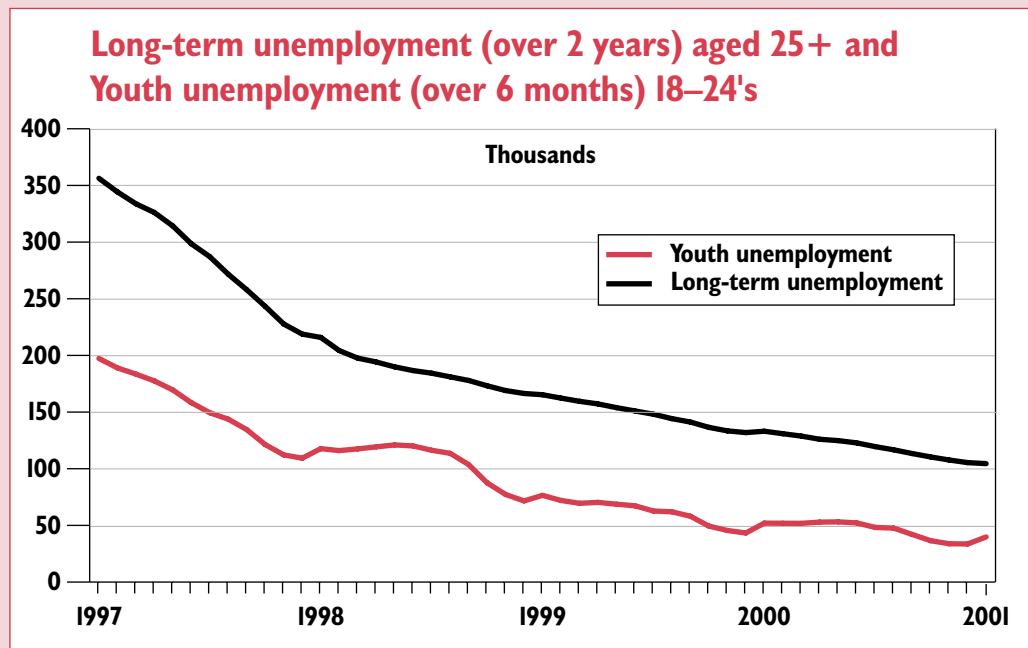
**4.27** The New Deal for disabled people (NDDP) is testing a range of approaches – a personal adviser service, innovative schemes and benefit changes – to see what works in helping disabled people back into work. The 2000 Spending Review set aside additional resources for the extension of services for people with disabilities across the country through the NDDP and for retention and rehabilitation pilots. As previously announced, **from July 2001 the Government will extend the NDDP to include, for the first time, a gateway to engage those moving onto incapacity benefits. It will also establish a network of innovative job brokers who will help disabled people to find, secure and keep paid work.** Job brokers will provide practical assistance and help people with disabilities to calculate their financial position in work and their entitlement to the Disabled Person's Tax Credit (see paragraph 4.57), as well as working with employers to match vacancies to the skills and potential of their disabled clients.

**Box 4.2: Building on the success of the New Deal**

Initially, the main focus of the New Deal was on young people, with the New Deal for young people (NDYP) available nationally since April 1998. The Government met its manifesto commitment to move 250,000 young people from welfare into work by the end of the current Parliament in September 2000. Independent evaluation shows that the NDYP has had a positive impact on both the prospects of young people and the economy generally. Recent research\* has shown that:

- without the NDYP, long-term youth unemployment would have been almost twice as high;
- after taking account of lower social security benefit payments and higher tax revenues, worth around £3 in every £5 spent, the NDYP is likely to have cost the Exchequer less than £150 million a year; and
- national income is around £500 million a year higher as a consequence of the programme.

The Government, building on the success of the New Deal for young people, is turning its focus to other groups which suffer disadvantages in the labour market, including long-term unemployed people, people over 50 without work, people with disabilities and lone parents. Evaluation of the pilot stages of the New Deal for lone parents\*\* suggests that the programme is having a real and positive effect, and over 80,000 lone parents have moved into work through NDLP.



\*Rebecca Riley and Garry Young, National Institute of Economic and Social Research (2000), 'The New Deal for young people: Implications for employment and the public finances', Employment Service Research and Development Report 62, December 2000.

\*\* J. Hales et al " Evaluation of the New Deal for lone parents: Early lessons from Phase One Prototype – Synthesis Report", DSS report, March 2000.

**4.28** The extension of NDDP will be delivered through partnerships between organisations in the public, private and voluntary sectors. The Government is encouraging innovation in the delivery of job-broking services and will evaluate the effectiveness of the different approaches to learn what works best, so that services for disabled people can be continuously improved. The retention and rehabilitation pilots will test integrated health and employment interventions to help people who are at risk of losing their job through sickness or disability to stay in work. The Government is also committed to helping people with severe disabilities who need additional support over and above that provided by the NDDP. **The Government also plans to take further steps to support disabled people in work through enhancements to the supported employment programme.** Full details will be announced as part of the Government's overall welfare to work strategy for the coming three years.

**New Deal for the over 50s** **4.29** For most of the 1980s and early 1990s, the employment rate of men aged over 50 fell, and over the same period women over 50 did not enjoy the same marked increases in labour market participation as younger women enjoyed. Despite recent improvements, the employment rate of people aged between 50 and retirement age remains low. The New Deal for the over 50s (ND50+) was rolled out nationally in April 2000 to address these below-average employment rates, via a package involving personal advice, help with job search, a new employment credit and in-work training and support. Up to the end of January 2001, around 27,000 people have returned to work through the ND50+.

**Worklessness in deprived areas** **4.30** Since 1997, the stable macroeconomic environment has resulted in falling unemployment throughout every region of the UK. Nevertheless masked behind this overall picture of falling regional inequality are localised pockets of high unemployment and high deprivation. These areas are failing to keep up with the increase in national prosperity that macroeconomic stability has delivered.

**4.31** Most of these areas are in inner cities, but some are seaside towns or former colliery areas. Many contain large numbers of people from ethnic minorities, lone parents and people with disabilities. These are groups which have low employment rates even in more prosperous areas. However, nearly all such areas face multiple disadvantages with not only high unemployment, but also low employment, large numbers of people dependent on benefits and often poor housing, health and transport.

**4.32** The Government is committed to meeting the challenge of regenerating such areas. But the traditional solution of moving jobs into these disadvantaged communities is not enough. It is striking that, almost without exception, these communities are side-by-side, or at least within easy travelling distance of, areas with high levels of vacancies. Simply moving jobs into these disadvantaged areas may result in their being filled by people from outside the area, merely reinforcing a patchwork picture of deprivation and prosperity existing side-by-side. So the Government has taken the view that solving such a complex problem requires both measures to regenerate disadvantaged areas and steps to ensure that those living in these areas can take advantage of nearby vacancies.

**Action Teams and Employment Zones** **4.33** The Government has established Employment Zones in 15 areas of England, Scotland and Wales that suffer from particularly high levels of long-term unemployment, coupled with Action Teams in these and a further 25 communities with the highest unemployment and the lowest employment. Together, they set out to improve the employability of those living in disadvantaged areas by:

- working closely with employers;
- using funding in more imaginative and innovative ways;
- targeting areas and groups which need help the most, including ethnic minorities; and
- working in partnership with private and voluntary sector organisations.

**4.34** Employment Zones are designed around the belief that what is needed are local solutions to local problems – the belief that what may succeed in moving people from welfare to work in one local area may be very different to what was required in another.

**4.35** Action Teams concentrate their resources on working with the long-term unemployed and inactive, searching for suitable vacancies and bringing the two together. In addition, Action Teams tackle barriers to employment, for example by providing funding for transport to enable people to access nearby vacancies. Together Employment Zones and Action Teams represent a dynamic and innovative resource to tackle some of the UK's most deep-seated and protracted employment problems.

**4.36** **Budget 2001 funds the extension of Action Teams over the Spending Review period, along with the creation of new Action Teams.** Full details will be announced as part of the Government's plans for its welfare work policies 2001–04.

**4.37** To complement Employment Zones and Action Teams, Local Employment Plans will be developed, formulating local solutions to local employment problems by drawing on analysis of the key employment issues (e.g. skill shortages, vacancies or levels of employment) in a particular local area. It is envisaged that Local Strategic Partnerships, which have representation from all the key stakeholders and which played a key role in taking forward Neighbourhood Renewal Strategies, will take responsibility for developing these Local Employment Plans, in partnership with other stakeholders.

**Job Transition Service** **4.38** Some of the most difficult employment problems have occurred as a result of large-scale job losses in areas particularly dependent on one industry or one company. **As announced in the Pre-Budget Report, the Government is introducing a new service where large-scale redundancies occur particularly in high unemployment areas or where there is a high dependency on one industry.** The service will provide help for people made redundant to move into new jobs, preventing them from becoming detached from the labour market, and also provide extra help for those affected indirectly, such as the long-term unemployed. The service will build on existing provision, including Rapid Response Units, and work closely with other government departments and agencies, including the Regional Development Agencies and Learning and Skills Councils, and tap into existing resources where possible.

**Engaging employers** **4.39** Employers are central to the Government's welfare to work strategy. In today's labour market, many sectors have high levels of vacancies. By working with employers, provision can be tailored to the needs of particular industry sectors, ensuring a better fit between the needs of employers and the skills and experience of people looking for work. A number of such sectoral initiatives are already underway. **The Government will look to build on this approach, supporting sectoral strategies linked to the needs of local labour markets.**

**4.40** Some industries, such as IT, have been traditionally reluctant to hire long-term workless people, even in the face of skills shortages. Overcoming their concerns about the abilities of people moving from welfare into work could unlock a wider range of opportunities and help employers fill their vacancies. As part of its wider sectoral strategy, the Government will seek to work with such employers to demonstrate the potential business advantages to them of widening the groups of people from whom they hire.

**Reaching the hardest to help** **4.41** The Government is committed to ensuring employment opportunity for all, including those in greatest need of help. As part of its strategy, **it will invest additional resources to help the 30,000 claimants whose drug problems may be getting in the way of their finding a job, and provide more help for ex-users to move into work.**

**ONE and the new Agency** **4.42** **To continue delivering work-focused support for people of working age, later this year a new agency will be established which draws together the Employment Service and the parts of the Benefit Agency that support people of working age.** The new agency will build on the experience of the ONE pilots in combining advice on benefits and work in one place to forge a culture which puts work first. This will represent a fundamental shift in the way that Government has traditionally supported people – moving away from a system that asks simply “what money can we pay you?” to one that says “how can we help you become more independent?”. The agency will continue to develop the partnership approach to working with the private and voluntary sectors, which the Government has adopted in implementing its welfare to work policies.

**Funding Welfare to Work** **4.43** The Welfare to Work programme is currently funded from receipts of the one-off Windfall Tax on the excess profits of the privatised utilities. This Windfall Tax raised a total of £5.2 billion. **From April 2001, the programme will be funded from the new Employment Opportunities Fund,** which brings together remaining Windfall Tax receipts and additional resources allocated in the 2000 Spending Review. This Employment Opportunities Fund, worth a total of around £1 billion in 2001-02, increasing to around £1.4 billion in 2002-03 and 2003-04, is part of the Government’s long-term investment strategy and will ensure successful employment initiatives will continue to be funded in the future.

**Box 4.3: Self-employment**

The Government's aim is a new culture of enterprise, open to all, in every part of the country. People on benefit who want to move into self-employment can face particular difficulties getting their businesses off the ground, and the Government has introduced a number of measures to help address this, including:

- advice, training and test trading through the New Deal and Work-Based Learning for Adults;
- flexible benefit rules to help when people are first setting up their businesses;
- additional financial help during the transition from benefit to work; and
- ongoing financial support providing a guaranteed income while in self-employment.

During the period of test trading available through the New Deal and Work-Based Learning for Adults, people can receive an allowance equivalent to their benefit while their profits are put into a special account which can be accessed once they move off the allowance. Six months test trading is a key feature of the self-employment route of NDYP, and from April 2001 it will be available to those starting their own businesses through ND25+. And, as outlined in paragraph 4.14 above, further help with self-employment will be extended to lone parents who have been on Income Support for over 18 months, in line with ND25+. Help to move into self-employment is provided for other groups in England via Work-Based Learning for Adults, which includes a three month test-trading period.

The Government aims to strike the right balance between making benefit rules as clear and transparent as possible and making them flexible enough to ensure that people are provided with enough help when they are first setting up their businesses. That is why JSA claimants preparing for self-employment can continue to claim benefit for up to eight weeks but not actively seek work during the period that they are preparing a business plan. From April 2001, lone parents, disabled people and others with restricted work choices will be able to keep £20 a week of any earnings without losing any benefit.

Additional help is also provided during the period when people first move off benefit into self-employment through the wider transition to work package announced in Budget 2000. From April 2001, people moving into self-employment will be eligible for the new £100 Job Grant (lone parents will retain their two week Income Support run-on instead), as well as a four week run-on of Housing Benefit and Income Support for Mortgage Interest. These additional payments will help provide a secure income in the crucial first weeks of trading.

For self-employed people with children, the Working Families' Tax Credit provides a longer-term income bridge. This principle will be extended to people without children, through an employment tax credit, due to be introduced in 2003.

**Table 4.1a: Allocation of the Windfall Tax 1997-98 to 2000-01**

£million	1997-98	1998-99	1999-00	2000-01	1997-2001
Spending by programme <sup>1</sup>					
New Deal for young people	50	200	310	400	<b>970</b>
New Deal for 25+	0	10	90	110	<b>220</b>
New Deal for over 50s	0	0	5	20	<b>20</b>
New Deal for lone parents	0	20	40	50	<b>110</b>
New Deal for disabled people <sup>2</sup>	0	5	20	20	<b>40</b>
New Deal for partners of unemployed people	0	0	5	20	<b>20</b>
New Deal for Schools <sup>3</sup>	90	270	260	800	<b>1420</b>
Childcare	0	20	10	5	<b>30</b>
University for Industry <sup>4</sup>	0	5	0	0	<b>5</b>
ONE pilots <sup>5</sup>	0	0	0	5	<b>5</b>
Action Teams (Budget 2000)	0	0	0	10	<b>10</b>
Enterprise Development	0	0	0	10	<b>10</b>
<b>Total Expenditure</b>	<b>140</b>	<b>530</b>	<b>750</b>	<b>1470</b>	<b>2890</b>
<b>Windfall Tax receipts allocated beyond 2000-01</b>					<b>2310</b>
<b>of which carried forward into the EOF</b>					<b>1720</b>
<b>Windfall Tax receipts</b>	<b>2600</b>	<b>2600</b>			<b>5200</b>

<sup>1</sup> Rounded to the nearest £10 million, except where expenditure is less than £5 million. Constituent elements may not sum to totals because of rounding. Outturns for 1997-98, 1998-99, and 1999-00; estimated outturns for 2000-01.

<sup>2</sup> Includes £10 million in 1999-00, an element of the November 1998 announcements on Welfare Reform.

<sup>3</sup> Capital spending on renewal of school infrastructure, to help raise standards.

<sup>4</sup> Start-up and development costs. Other costs of the Ufi are funded from within departmental expenditure limits.

<sup>5</sup> Funding for repeat interviews. Other funding comes from the Invest to Save budget.

**Table 4.1b: The Employment Opportunities Fund**

£million	2001-02	2002-03	2003-04
<b>Indicative Allocation within EOF<sup>1</sup></b>			
New Deal for young people	350	280	280
New Deal for 25+	190	230	180
New Deal over 50s	20	20	20
New Deal for lone parents <sup>2</sup>	100	180	250
New Deal for disabled people	50	70	70
New Deal for partners of unemployed people	20	30	30
Action Teams	40	50	50
Job Transition Service	5	5	5
ONE pilots	5	0	0
Modernising the Employment Service	40	5	0
Unallocated <sup>3</sup>	230	530	490
<b>Total WTW in EOF</b>	<b>1040</b>	<b>1390</b>	<b>1370</b>
Enterprise in deprived areas	10	10	0
<b>Total EOF</b>	<b>1050</b>	<b>1400</b>	<b>1370</b>
<b>of which, expected to be financed by</b>			
<b>Windfall Tax receipts:</b>	<b>1050</b>	<b>670</b>	<b>0</b>
Estimated Windfall Tax Margin <sup>4</sup>	590	0	0

<sup>1</sup> Rounded to the nearest £10 million, except where expenditure is less than £5 million. Constituent elements may not sum to totals because of rounding.

<sup>2</sup> Includes indicative allocations for work-focused interviews for lone parents with children under five.

<sup>3</sup> Includes the costs of establishing the new working age agency and retention and advancement pilots.

<sup>4</sup> Includes amounts for New Deal for Schools and to fund programmes in Northern Ireland.

## EASING THE TRANSITION TO WORK

**4.44** The transition back into work can be difficult, especially for people who have been out of work for a long time. They have to manage until their first pay cheque, and they may have extra expenses, such as buying clothes for work. As a result, people may prefer the certainty of an income from benefits to the risks of taking a job, even though they would be better off in work. Some groups also face specific barriers – for example, families with children have to find affordable childcare. The Government has therefore introduced a number of reforms to improve and simplify the schemes available to help ease the move into work, providing additional financial support during the transition period in as straightforward and automatic a way as possible. **Budget 2000 announced that, from April 2001:**

- **a Job Grant of £100 will replace Jobfinder's Grant and Jobmatch**, providing a single transitional payment, available much more widely and without the complex eligibility criteria of the previous schemes;
- the rules of the Housing Benefit Extended Payment scheme for recipients of Income Support and Jobseeker's Allowance – which allows maximum Housing Benefit to continue for the first four weeks of work – will be **simplified to ensure that payments are as near automatic as possible**, reducing the likelihood of rent arrears building up whilst claims for in-work support are processed;
- **the Income Support Mortgage Interest (ISMI) scheme will be extended to provide a four week ISMI run-on for those entering work**. The existing linking rules will also be improved so that everyone receiving ISMI will be able to requalify for it directly if they return to benefits within one year of taking a job;
- those facing restricted work choices, such as lone parents, carers or people with disabilities, **will be able to keep £20 a week of any earnings gained whilst trying out work without losing their Income Support or Jobseeker's Allowance**; and
- Budget 2000 also announced that **from April 2002 the process for re-claiming benefit for people on Jobseeker's Allowance and Income Support returning to benefit after taking up full-time work for periods of up to 12 weeks will be streamlined**. This aims to encourage benefit claimants to report starting work, which may be temporary or insecure. The Government is also attracted to the principle of introducing a similar arrangement for Housing Benefit.

Further details on these measures can be found in the Pre-Budget Report. Further details on help with childcare can be found in paragraphs 4.17 – 4.20 above.

**The informal economy** **4.45** The report of Lord Grabiner, following his review of the hidden economy, suggested that people can become trapped in the hidden economy because they are not aware of the opportunities that are available to them. In response, the Government set up a confidential helpline and provided advice for people starting up their own business on tax, national insurance and tax credits. To combat persistent tax offences and benefit fraud, the Government undertook measures including:

- making fraudulent evasion of income tax a statutory offence;
- requiring the newly self-employed to notify the Inland Revenue within three months of starting up a business;
- requiring people suspected of doing undeclared work while signing on to attend the Jobcentre frequently, at unpredictable times; and
- giving investigators the power to trace people who only give 'phone numbers when advertising for customers by making subscriber checks of the telephone directory.

In addition, the Government is also legislating for a “two strikes and you’re out” approach for benefit fraud – removing people’s right to claim for a specified time if they have been convicted twice.

## MAKING WORK PAY

**4.46** Evidence shows that people are reluctant to move into work if the financial gains are small. The situation where the gains to work are too small to provide incentives for someone to move into work is known as the unemployment trap.

**4.47** Those in work may be discouraged from working longer hours or taking a better paid job, as it may leave them little better off than before as a result of higher tax payments and reduced benefits. This situation is known as the poverty trap.

**4.48** To realise the aim of employment opportunity for all, active labour market policies aiming to reattach people to the labour market need to be supported by policies that reward work. The Government is committed to tackling the unemployment and poverty traps by making sure that work pays more than welfare, and providing people with incentives to move up the earnings ladder.

**Ensuring fair pay for all** **4.49** The National Minimum Wage was introduced in April 1999 to ensure fair minimum standards of pay and underpin the Government's tax and benefit reforms. In March 2001 the Government received Volume I of the Low Pay Commission's Third Report. Two years on from the introduction of the National Minimum Wage it has been possible to make a more definite assessment of its initial effects. The Report found that the National Minimum Wage has been a success and has not had any discernible effects on overall employment, inflation or the wider economy. In the light of this assessment, the Secretary for Trade and Industry announced this week that the Government will **increase the rate for adult workers aged 22 or over to £4.10 an hour from October 2001 and, subject to the economic conditions prevailing at the time, £4.20 from October 2002.**

**4.50** Workers aged 18-21 and trainees (workers aged 22 and over in the first six months of employment and receiving training leading to a recognised qualification) are entitled to a minimum rate of £3.20 an hour. The Low Pay Commission will report on the case for a further increase of the youth development rate in Volume II of their Third Report. The Government will receive this in May 2001, at which point it will consider the Low Pay Commission's recommendations.

**4.51** As a result of the introduction of the National Minimum Wage, around 1.3 million low-paid workers were entitled to higher wages. The Low Pay Commission's Third Report concludes that people earning less than the minimum wage in 1998 enjoyed a wage increase of over 15 per cent between 1998 and 1999, three times the increase of those paid above the minimum wage. By removing the worst excesses of low pay, the National Minimum Wage has been a significant factor in bringing about the reversal of the trend over the last two decades, whereby the biggest gains in pay went to the highest paid. Increases in pay across the earnings distribution for the year to spring 2000 show that the earnings of the bottom ten per cent increased almost twice as fast as the top ten per cent.

**4.52** The National Minimum Wage has been particularly helpful to women in low-paid work who number around 70 per cent of beneficiaries. In narrowing the gender pay gap, the Low Pay Commission conclude that the minimum wage has had the greatest effect on women's pay since the Equal Pay Act of 1970. In addition, the Low Pay Commission expect the minimum wage to have reduced the earnings gap of workers with disabilities and those from ethnic minorities.

**Equal pay** **4.53** Thirty years after the Equal Pay Act, women's earnings continue to lag behind those of men. The Government is committed to driving forward action on equal pay, and the Department for Education and Employment has been consulting on proposals for speeding up and simplifying the equal pay tribunal process.

**Making work pay for all** **4.54** The Government has introduced a series of reforms to the tax and benefit system to help make work pay for people at all levels of the labour market, but with a particular focus on those on low incomes. The 10 pence starting rate of income tax was introduced in April 1999, and in April 2000 the basic rate of income tax was cut to 22 pence – the lowest rate for 70 years. **To further extend the benefits of the 10 pence rate, Budget 2001 widens the starting rate band by £300 over and above indexation, from £1,520 to £1,880 from April 2001, at a full year cost of £1 billion a year.** The introduction of the 10 pence rate halved the marginal tax rate for over 2 million low paid workers, and the further widening will halve the marginal tax rate for a further 450,000 people. In total, around 25 million tax payers will benefit from the extension of the 10 pence band.

**4.55** In addition to reducing income tax, Budget 99 announced a series of reforms to employees' National Insurance Contributions (NICs) to help ensure that jobs at the lower end of the earnings distribution pay better. In April 1999, the entry fee on employee NICs was abolished. In April 2000, the point above which employees pay NICs was increased to £76 a week, and the upper earnings limit (UEL), which had historically been set at between 6½ and 7½ times the threshold, was consequently increased to £535. **As announced in Budget 99, from April 2001 the Primary Threshold above which employees pay National Insurance Contributions (NICs) will be further increased and aligned with the income tax personal allowance at £87 a week, and the UEL will be increased to £575** (just over 6½ times the threshold). As a result of these reforms, by April 2001, around 1 million lower paid employees will be taken out of having to pay NICs altogether, while maintaining the benefit entitlement position for all those earning above the Lower Earnings Limit.

**Additional targeted support** **4.56** Families with children have, in the past, faced particular work incentive problems. To address these problems, the Working Families' Tax Credit (WFTC) was introduced in October 1999. Today more than 1.1 million families are benefiting from the WFTC, around 300,000 more than received Family Credit at its peak. **Budget 2001 announces that from June 2001, working families will receive additional support through a £5 increase in the basic credit in WFTC, on top of increases in line with indexation which apply from April 2001.** This means families will be receiving on average around £35 a week more than under Family Credit, compared to £30 now. In addition, the minimum income guarantee, for a family on WFTC with one member working 35 hours per week at the minimum wage, will rise from £214 a week in April to £225 a week in October 2001. Chapter 5 looks at how the components of WFTC have increased the support for families with children, and details of how the childcare tax credit component of WFTC is being extended are provided in paragraph 5.3.

**4.57** The Disabled Person's Tax Credit (DPTC), launched alongside the WFTC, helps to provide support for workers with disabilities. Currently, over 25,000 disabled workers are benefiting from DPTC, 37 per cent more than were receiving Disability Working Allowance in July 1999, with an average claim of £72 a week. **Budget 2001 announces that from June 2001, disabled workers will also receive additional support through a £5 increase in the basic credits in DPTC, on top of increases in line with indexation which apply from April 2001.**

### The effect of the Government's measures to make work pay

**4.58** The Government's making work pay package clearly highlights the rewards of work over welfare, and the Government can now guarantee a minimum level of income for people with children moving into work. These guaranteed minimum levels of income are set out in Table 4.2, for a family with one child with one person working 35 hours a week at the National Minimum Wage.

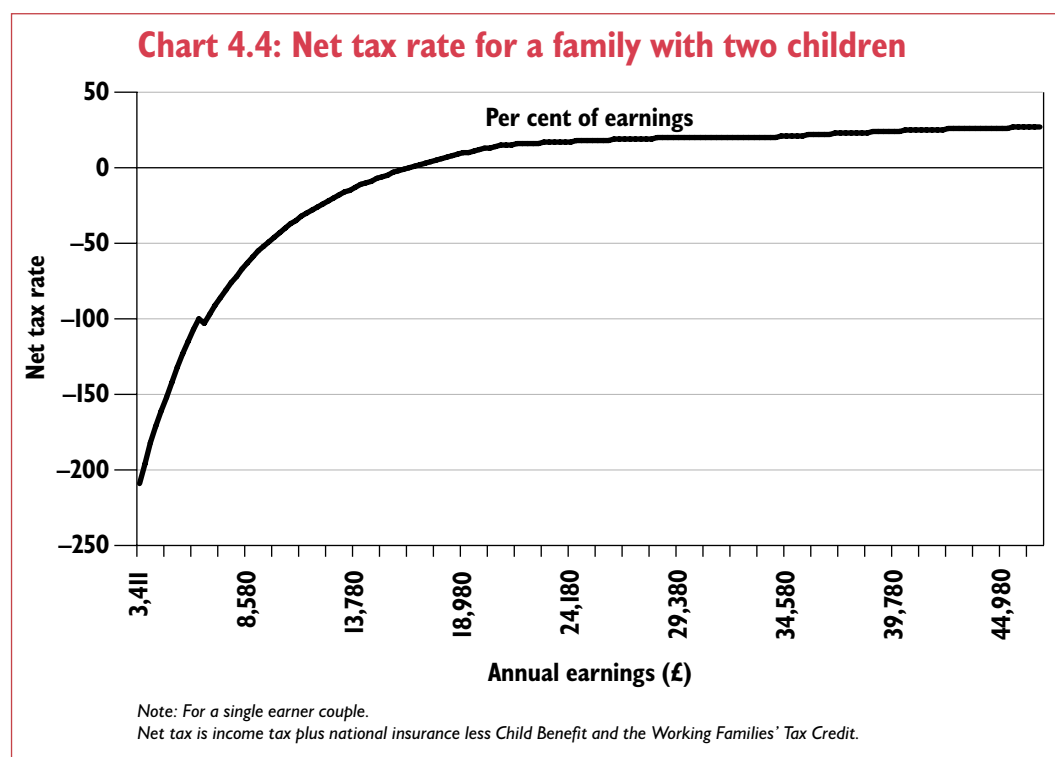
**Table 4.2: Weekly minimum income guarantee**

	October 2000	April 2001	October 2001
WFTC family (working 35 hours) <sup>7</sup>	£208	£214	£225
WFTC family (working 16 hours) <sup>8</sup>	£152	£154	£166
DPTC family (working 35 hours)	£240	£246	£257
DPTC family (working 16 hours)	£184	£186	£198

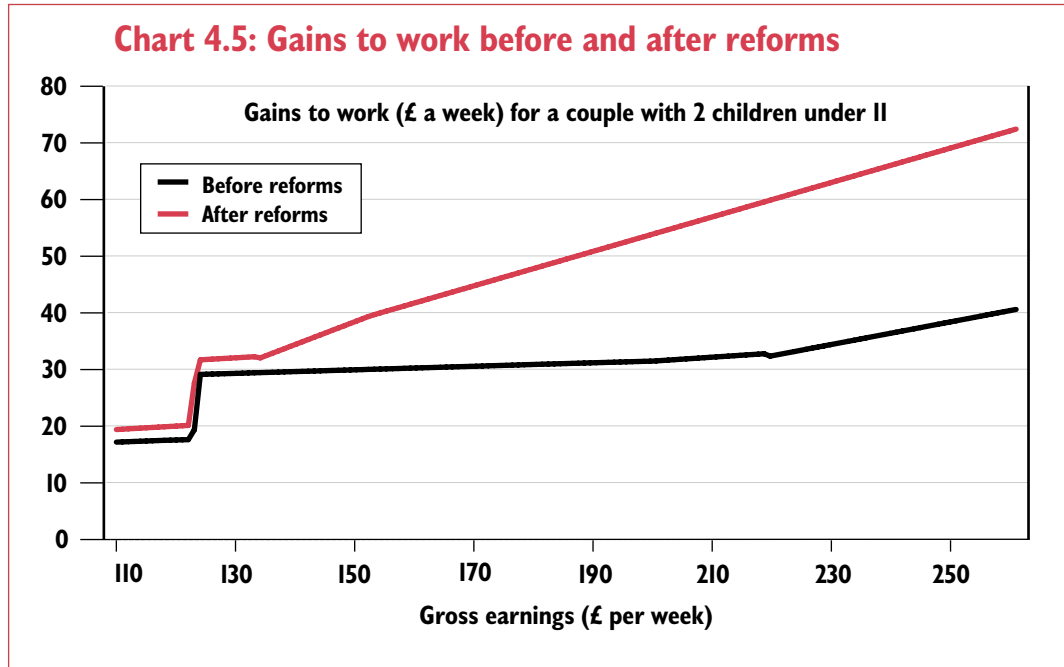
<sup>7</sup> These Minimum Income Guarantees are for families with one child and someone working 35 hours a week at the minimum wage.

<sup>8</sup> These Minimum Income Guarantees are for families with one child and someone working 16 hours a week at the minimum wage.

**4.59** As shown in chart 4.4, from October 2001 a family with two children earning less than £310 a week will have a negative overall effective tax rate, including the effects of Child Benefit. In other words, they will pay less in income tax and NICs than they receive in tax credits and Child Benefit.



**4.60** The reforms outlined above are helping to ensure that work pays more than welfare, thereby addressing the problems of the unemployment trap. The gain to work has increased, while security for those out of work has been maintained and enhanced. As shown in chart 4.5, by October 2001, a couple with two children will have to earn just over £150 a week in order to be £40 better off in work rather than on benefits, compared with nearly £260 a week in 1997.



**4.61** The Government's reforms to the tax and benefit system have also helped to tackle the poverty trap. Low-income families, who often face very high marginal deduction rates<sup>9</sup> and the greatest poverty trap, now keep more of each additional pound that they earn. In 1997, nearly 750,000 families faced marginal deduction rates of over 70 per cent. As a result of measures introduced in this and previous Budgets, this number has been reduced by nearly 500,000.

**Table 4.3: Combined effect of Government's reforms on high marginal deduction rates**

Marginal deduction rate <sup>1</sup>	Before Budget 1998 <sup>2</sup>	After Budget 2001 <sup>2</sup>
100 per cent or more	5,000	0
90 per cent or more	130,000	40,000
80 per cent or more	300,000	210,000
70 per cent or more	740,000	255,000
60 per cent or more	760,000	900,000

<sup>1</sup> Cumulative figures for working households.

<sup>2</sup> The before and after figures are based on 1997–98 and 2000–01 caseload and take-up estimates respectively.

### Increasing the labour supply

**4.62** One of the overall objectives of the Government's reforms of the tax and benefit system is to increase the labour supply by increasing the number of people seeking work. The Treasury has estimated the impact on the entire package of measures to make work pay since 1997, including the reductions in income tax and NICs<sup>10</sup> as well as WFTC and DPTC. Cautious estimates show that labour supply may increase by 160,000 people as a result of the changes to the tax and benefit system.

<sup>9</sup> The marginal deduction rate measures the proportion of any marginal increase in income lost through reduced benefit entitlement and higher tax payments.

<sup>10</sup> The analysis excludes the impact of the National Minimum Wage.

#### Box 4.4: Extending the principle of the Working Families' Tax Credit to those without children

While the WFTC has helped to make work pay for families with children, the gains to work from low-paid jobs for those without children can still be low. The chart below compares the ratio of in-work to out-of-work income for a single earner couple with and without children. Up to incomes of around 50 per cent more than the minimum wage, a couple with one child sees a higher proportionate gain to work than the couple without children.



There are also significant numbers of working people without children who live in poverty. Around 1¼ million people without dependent children live in households where someone is in work and income is below 60 per cent of the median.

To counter the problems of poor work incentives and poverty among people without children, the Government announced in Budget 2000 that the principle of in-work support through tax credits will be extended to people without children from 2003. This employment tax credit will complement the integrated system of support for children (see box 5.2), helping to ensure higher incomes for workers in low-income households both with and without children.

The Government is carefully considering the detailed design issues surrounding an employment tax credit, including how far to extend support to those without children, to make sure that it effectively and efficiently delivers the Government's aims of providing work incentives and tackling in-work poverty. Many of the key issues were set down in the Treasury paper *Tackling Poverty and Making Work Pay – Tax Credits for the 21st Century*, published in March 2000. More details on these tax credits will be published in the summer.

## SECURING PROGRESSION IN WORK

### Skills and lifelong learning

**4.63** Moving from welfare to work is the first step in moving out of poverty. But the Government also wants to enable people to remain in work and to progress up the earnings ladder. By training and improving their skills, individuals can strengthen their position in the labour market. Yet opportunities for training are unevenly distributed. An employee with qualifications below level 2 is more than four times less likely to receive training than a colleague with level 2 qualifications.

**4.64** To address this problem, the Government has set about transforming arrangements for lifelong learning by establishing Learning and Skills Councils, and investing in initiatives such as Individual Learning Accounts, learndirect, and ICT learning centres. Further details on these can be found in Chapter 3. In recognition of the need for real change in the area of basic skills, the Government is considering what further actions are necessary – including from government – to ensure that everyone in work is equipped with the training and skills necessary to progress in work, as Chapter 3 describes.

### Basic skills screening

**4.65** In accordance with the Government's objective of improving basic skills, the 2000 Spending Review also set aside money for basic skills screening of JSA claimants at the six month point. This means that those on both the New Deal for young people and the New Deal for 25+ are screened after the first six months of their JSA claim. Moreover, from April 2001, screening for basic skills needs will be extended to include clients on the New Deal programmes for over 50s, lone parents, partners and disabled people.

**4.66** As previously announced, the Government will also pilot basic skills screening earlier on in the JSA claim, after 13 weeks (as opposed to six months) and pilots will also be established to test the use of incentives and sanctions as a way of promoting basic literacy and numeracy attainments among the unemployed.

**4.67** Both the New Deal for young people and the New Deal for over 50s offer a £750 in-work training grant. This access to training through the New Deal programmes helps people develop their skills, thereby providing opportunities for people to climb the earnings ladder. This approach is also being piloted in the New Deal for lone parents.

### Helping people to remain in and progress in work

**4.68** Jobs can be particularly insecure during the first few months – around 25 per cent of people who move from JSA into work return to unemployment again within 3 months and 40 per cent within one year, thereafter the return to unemployment slows. Compounding this is the fact that entry-level jobs are far more likely to be unstable, for example, temporary or low paid. Helping people to remain in work is a precondition to helping them to stay out of poverty.

**4.69** Evidence suggests that some people experience a low pay-no pay cycle, where they move from one low paid job into unemployment, and re-enter work in another low paid job. Those who experience a spell of unemployment seem to move into lower waged jobs. The duration of unemployment can cause a further negative effect on wages. For some, low pay can be persistent, perhaps over an entire working life.

**4.70** Welfare to work policies and measures to make work pay have been shown to be effective at helping people to move into employment. Over the next three years, the Government will pilot ways to help people to progress in work. These pilots will be run as a demonstration project to learn more about what works.

**4.71** The Government will consult widely – drawing in particular on the Employment, Retention and Advancement project in the US – in order to develop the best policies to complement lifelong learning measures.

