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INCREASING EMPLOYMENT OPPORTUNITY FOR ALL

The Government's long-term employment goal is that, by the end of the decade, there will be a higher proportion of people in work than ever before.

The Government has taken tough action to tackle structural weaknesses and improve the underlying strength of the UK labour market. The New Deal has helped to reduce unemployment among young people and has been extended to provide extra help for the long-term unemployed, lone parents and other disadvantaged groups. Because of this solid foundation, Britain now has a strong base from which to face challenging economic times.

The Government is determined to advance its goal and to achieve employment opportunity for all in every region – the modern definition of full employment. In times of economic uncertainty, flexible working practices and responsive employment policies are vital to ensure that the labour market is able to adapt without generating higher structural unemployment. Building on the progress it has already made, the Government is now taking steps to:

- improve support for people affected by large-scale redundancies, especially in deprived areas, by strengthening the Job Transition Service;
- tackle economic inactivity in the labour market, ensuring that all working age benefit recipients are given work-focused support via a new organisation, Jobcentre Plus, that will radically change the way in which the Government helps working age citizens;
- provide further help for communities with concentrations of long-term unemployment, ensuring that employment opportunity is extended via pilots of a transitional employment scheme; and
- tackle poor work incentives and persistent poverty among working people by introducing a new Working Tax Credit from 2003 that will extend in-work support to people on low incomes without children.

INTRODUCTION

4.1 The Government's long-term employment goal is that, by the end of the decade, there will be a higher proportion of people in work than ever before.

4.2 Worklessness, particularly on a long-term basis, represents an unacceptable waste of human resources. The long-term workless are at risk of becoming detached from the labour market. Reintegrating them back into the labour market is central to increasing the effective supply of labour. Alongside measures designed to raise productivity – increasing the amount of output produced per worker – expanding the supply of labour is vital to improve the economy's long-term growth potential.

4.3 Worklessness is also an unnecessary source of misery and degradation for those affected and is one of the most important causes of child poverty and persistent poverty – 61 per cent of all poor households with children are workless. The Government's objective of halving child poverty in ten years and eliminating it within a generation is therefore supported by measures designed to deliver a substantial reduction in the number of families with no one in work. Extending employment opportunities for these families will help break the cycle of deprivation that puts their children at greater risk of detachment from the labour market in adulthood.

4.4 Poor work histories are also likely to lead to poverty in retirement. Enhanced employment opportunities will therefore enable more individuals to build up pension assets to support themselves in old age, contributing to the Government's objective of tackling pensioner poverty.

Delivering employment opportunity for all

4.5 To achieve its goal of full employment in every region, the Government is pursuing a comprehensive strategy to deliver employment opportunity for all – the modern definition of full employment.

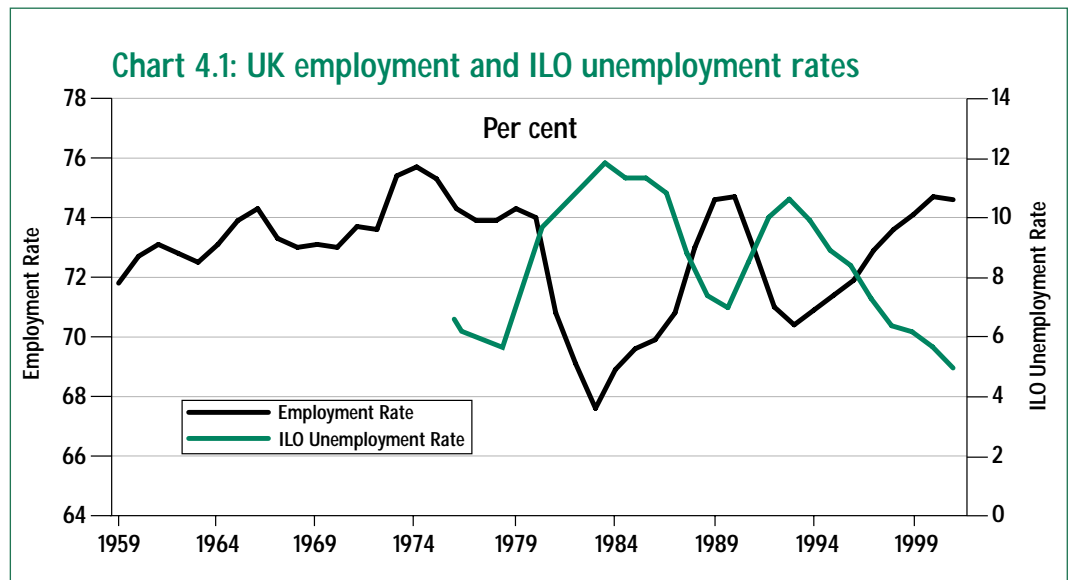
4.6 Macroeconomic stability is a prerequisite for achieving this aim. Chapter 2 describes how the Government is working to maintain stability, avoiding the cycle of boom and bust that destroys jobs and leaves people detached from the labour market. But stability alone is not enough. In an uncertain global economic environment, it must be supported by flexible working practices and by responsive employment policies to ensure that the labour market is able to adapt without generating higher structural unemployment.

4.7 To advance its long-term goal the Government is therefore also implementing a broad-based microeconomic strategy designed to address structural weaknesses in the labour market and ensure that individuals throughout the country are able to compete effectively for jobs. The main elements of this strategy are:

- Welfare to Work policies that help unemployed people search and compete effectively for jobs, and help re-attach the long-term unemployed and economically inactive to the labour market;
- reforms to make work pay. Unemployed people are understandably reluctant to take up work if it makes them worse off, or not much better off. The introduction of the Working Families' Tax Credit (WFTC) and reforms to national insurance contributions (NICS) and income tax have increased the returns to working compared with remaining on welfare. Alongside the minimum wage, these reforms mean that the Government can guarantee a minimum income in employment for all individuals; and
- help with the return to work, by removing barriers to work and ensuring that people are financially secure when moving from welfare to work.

4.8 Labour market policies build on the foundations of education and training measures, as set out in Chapter 3, which seek to provide individuals with the skills they need to obtain work and to make progress once they are in work.

4.9 This strategy has helped to deliver a substantial improvement in Britain's labour market in recent years. Around 1¼ million more people are in work today than in spring 1997, with recent Labour Force Survey (LFS) employment rates close to historic highs. Structural unemployment has also fallen sharply. At just 5.1 per cent, International Labour Organisation (ILO) unemployment is currently close to its lowest level since the 1970s, while the claimant count measure remains below one million – the first time this has been achieved since the mid-1970s. Employment rate has risen and unemployment fallen in every UK region.



4.10 The robust performance of Britain's labour market has been underpinned by improvements in its underlying strength. Since 1997, the New Deal programmes have helped to reduce long-term unemployment among young people by more than three quarters and among the over 25s by more than two thirds¹. The extension of the New Deal to lone parents and other disadvantaged groups has helped to address the structural barriers to work faced by the economically inactive in the labour market. Because of this groundwork, Britain now has a strong base from which to face challenging economic times and a solid platform from which to advance the Government's long-term goal.

4.11 Despite this progress, significant challenges remain. Too many people still face obstacles in returning to work, and opportunities in the labour market remain unequal. In particular, the employment rates of lone parents, people with disabilities, ethnic minorities and the over 50s are well below the overall average. Pockets of high unemployment also persist in certain deprived areas and in six per cent of local authority districts, employment is at least ten percentage points below the national average.

4.12 The Government is therefore determined to continue its work to dismantle the barriers that discourage and prevent people from finding and succeeding in work. This chapter explains how the Government is now:

- continuing to **tackle unemployment**, preventing newly unemployed people from becoming detached from the labour market and providing targeted and tailored assistance for the long-term unemployed;
- **helping the economically inactive**, by taking action to address the difficulties

¹ Long-term youth unemployment is defined as people aged between 18 and 24 who have been unemployed for more than 6 months. Long-term unemployment among the over 25s, in this example, is defined as people aged between 25 and state retirement age who have been unemployed for more than 18 months.

faced by certain disadvantaged groups, including lone parents and disabled people, as they seek to rejoin the labour market;

- **tackling regional worklessness**, addressing the barriers that prevent local people taking up the supply of local jobs in some of the most deprived areas of the country; and
- **making work pay**, improving work incentives by tackling the poverty and unemployment traps and **easing the return to work**.

TACKLING UNEMPLOYMENT

4.13 There are currently around 950,000 unemployed people claiming Jobseeker's Allowance (JSA), but around three million new claims are made every year. This dynamic pattern in the labour market means that worklessness is a short-term experience for most people who become unemployed. Indeed, 75 per cent of JSA claims end within six months, and over 90 per cent end within one year.

Job Transition Service **4.14** However, those who remain unemployed for longer periods risk becoming detached from the labour market. The Government's Welfare to Work strategy is therefore designed to combat long-term unemployment, providing people with the skills and opportunities they need to find and remain in work.

4.15 Even in a strong economy, it is inevitable that redundancies will occur, and the majority are naturally absorbed by a healthy labour market. However, some redundancies can have a devastating impact on local economies, especially when they occur in areas of high unemployment or where the local economy is overly dependent on one industry. To coordinate and enhance support for such areas, the Government has introduced a new Job Transition Service (JTS). The JTS provides support for communities affected by large-scale redundancies, focusing on the needs of individuals, and works closely with employers who are able to offer new jobs.

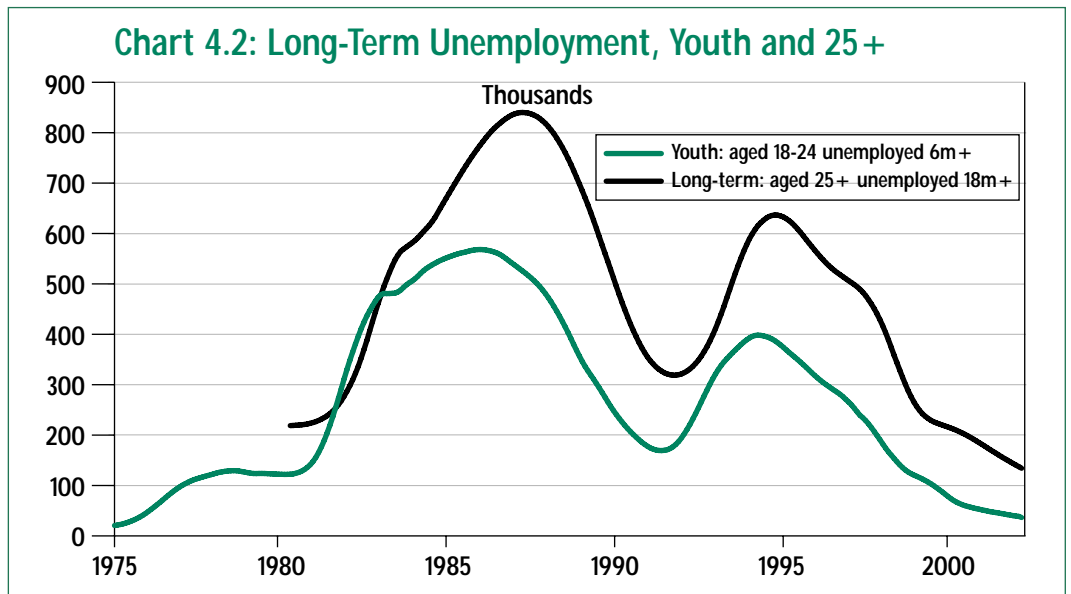
4.16 In recognition of the increased risks to global growth and recovery, and in order to enhance further the strategic work of the JTS, **the Government is allocating additional resources to strengthen the Job Transition Service over the next two years**. The Government is also bringing together the Job Transition Service with the Rapid Response Fund, which seeks to equip people affected by large-scale redundancy with new skills where a potential new employer has identified the skills required for such people to be offered new jobs.

Tackling long-term unemployment

4.17 To prevent newly unemployed people from becoming distanced from the labour market, jobseekers attend mandatory fortnightly interviews with Jobcentre advisers. After six months a variety of more intensive help becomes available. This extra help includes a range of training options, as well as work trials and business start-up advice. For many, this provision is sufficient to secure a return to work.

New Deal **4.18** For those who experience greater difficulty, the New Deal provides additional help to find jobs, progress within employment and increase long-term prospects. The New Deal is central to the Government's Welfare to Work strategy for the long-term unemployed and is unique in the continuity and support offered by personal advisers to each participant in the scheme. This tailored assistance has contributed significantly to the success of the programme.

4.19 The New Deal for young people (NDYP), for 18 to 24 year olds, and the New Deal for 25 plus (ND25+) provide help and support for people seeking employment. These programmes offer a structured Gateway period, involving regular contact with personal advisers, access to job search support, and help in addressing basic skills gaps. At the end of the Gateway period, each scheme offers a range of options, including access to training and subsidised employment. For those who are unable to find work, a follow through period provides more intensive help with job search, building on the skills and experience obtained under the New Deal.



4.20 The New Deal for young people has been a success in its first four years of operation. Over the course of the last Parliament, the NDYP surpassed its target of helping 250,000 long-term unemployed 18 to 24 year olds back into work. The ND25+ has also helped nearly 75,000 long-term unemployed people to find jobs. To build on this performance, the Government is now introducing further measures to increase the effectiveness of the New Deal programmes, including:

- **piloting greater flexibility in the Options section of NDYP from November 2001** to give personal advisers more freedom to tailor the provision of support to meet the needs of individual clients, local employers and local labour markets; and
- **establishing a pilot mentoring scheme from January 2002** to assess how mentoring can best be used to improve employment chances and job retention under the New Deal. To improve take-up, the pilot scheme will run on an opt-out, rather than an opt-in, basis.

Employment Zones **4.21** The Government is continuing to test new methods of helping people to find work. Employment Zones (EZs) are testing an alternative approach to helping long-term unemployed people aged 25 and over. EZs differ from ND25+ in that jobseekers and their personal advisers are able to set up Personal Job Accounts to make more flexible use of the funds available to overcome individual barriers to work. EZs are currently being tested in 15 areas of England, Scotland and Wales.

Over 50s 4.22 People over 50 often face specific barriers to work. They may have been without work for a substantial length of time and may therefore be particularly remote from the labour market. For most of the 1980s and early 1990s, the employment rate of men aged over 50 fell, while women over 50 failed to experience the marked increase in labour market participation seen among younger women. While their overall employment position has improved in recent years, at 68 per cent the employment rate of people aged between 50 and state pension age is still well below the national average.

4.23 The New Deal for the over 50s (ND50+) seeks to combat this trend, offering a package of personal advice, help with job search, an Employment Credit (EC50+) and in-work training and support. By autumn 2001, around 51,000 people had returned to work via ND50+. The EC50+ was found to increase job search activities for around half of programme participants, and evidence suggests that 42 per cent of claimants would not have taken the job they are in without the credit. The Government is now building on the success of the EC50+ with a new Working Tax Credit (see Box 4.3).

Strengthening partnership with employers

4.24 Employer involvement is crucial to the success of all employment programmes, including the New Deal. Many sectors have high levels of vacancies that could be filled through New Deal and other programmes. Matching the needs of employers with the skills and experience of jobseekers therefore requires a partnership between labour providers and employers themselves. To strengthen relationships with local employers, and ensure that their needs are met through local provision, the Government is creating Local Account Managers for all Jobcentre Plus Offices. They have already taken up post in 15 of the Jobcentre Plus pathfinder offices, with full national rollout planned for April 2002.

Box 4.1: Retention and advancement

Retaining a job and advancing in work can be particularly difficult for those who have just moved off welfare. This is especially true for women, lone parents and people without qualifications. Of those people who move off Jobseeker's Allowance into work, 25 per cent return to benefits within three months, and 40 per cent return within six months. The wages that people return to work on are also typically lower than for those already in work.

Low wages are of less concern if people face them for short periods of time and are able to progress up the earnings ladder out of in-work poverty. However, some people experience a 'low pay-no pay' cycle, moving from a low-paid job into unemployment, and re-entering work in another low paid job. Duration of unemployment seems to have a proportional, and permanent, effect on earnings. Repeated lengthy spells of unemployment may badly affect earnings. Keeping people in work is therefore a precondition to their achieving wage progression and avoiding a return either to unemployment or to the low pay-no pay cycle.

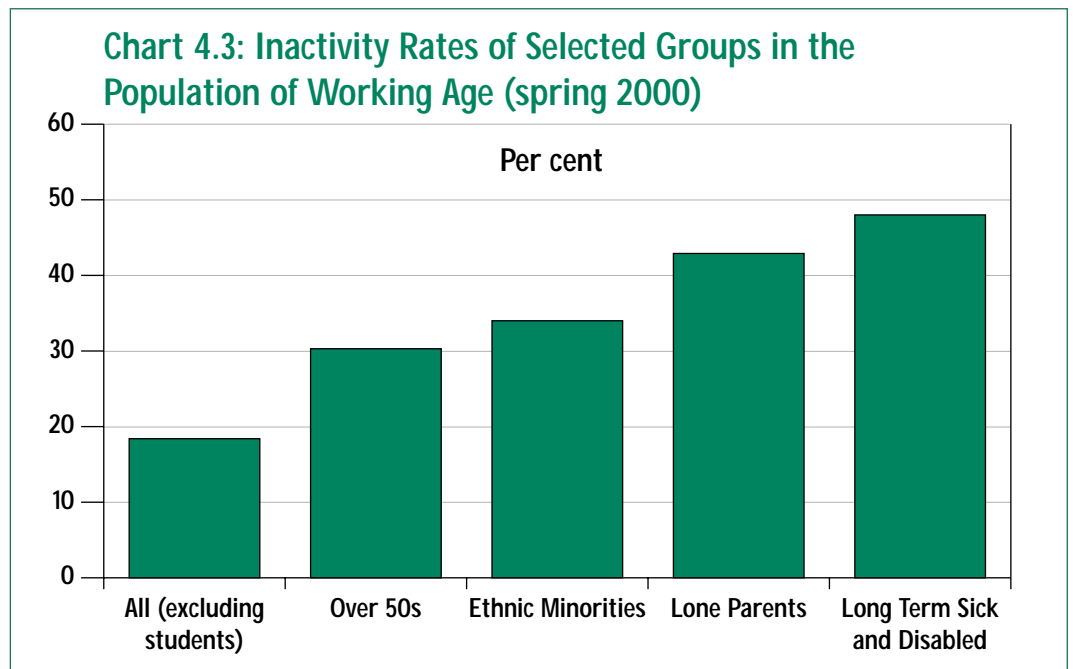
Over the next three years, the Government will run demonstration pilots to learn more about how best to improve job stability and advancement among low-paid workers, helping people to remain, and progress, in work. As described in Chapter 3, the Government is also proposing to pilot new opportunities for low-skilled employees to train towards basic or level 2 skills.

HELPING THE INACTIVE

4.25 High levels of economic inactivity are a waste of human resources and a constraint on Britain's long-term economic growth potential. The Government is publishing shortly a new paper, *The Changing Welfare State: Employment Opportunity for All*, which examines current labour market inactivity in detail.

4.26 There are currently around 7.8 million people of working age who are economically inactive – neither working, nor looking for work. In part, this reflects the serious problems and challenges faced by certain groups in society including ethnic minorities, the long – term sick and disabled, the over 50s and lone parents. Chart 4.3 compares the inactivity rates for these groups with that for the labour force as a whole.

4.27 Tackling the causes of inactivity is central to the Government's strategy for achieving employment opportunity for all. It is a vital challenge. Some 2.7 million people of working age currently claim out-of-work sickness and disability benefits, while numbers of Incapacity Benefit (IB) claimants and lone parents on benefit have trebled in the last 20 years. The Government is committed to taking steps to address the difficulties faced by these groups and to help them rejoin the labour market.



Jobcentre Plus

4.28 In October 2001 the Government launched Jobcentre Plus, a new business to deliver work-focused support to all benefit claimants of working age, both unemployed and inactive. Starting in 49 pathfinder offices across the country, Jobcentre Plus is at the heart of the Government's strategy for an "employment-first" service, with rights and responsibilities balanced at every stage. It marks a radical change in the way in which the Government helps working age citizens, delivering an active service to help people become independent and move from welfare into work.

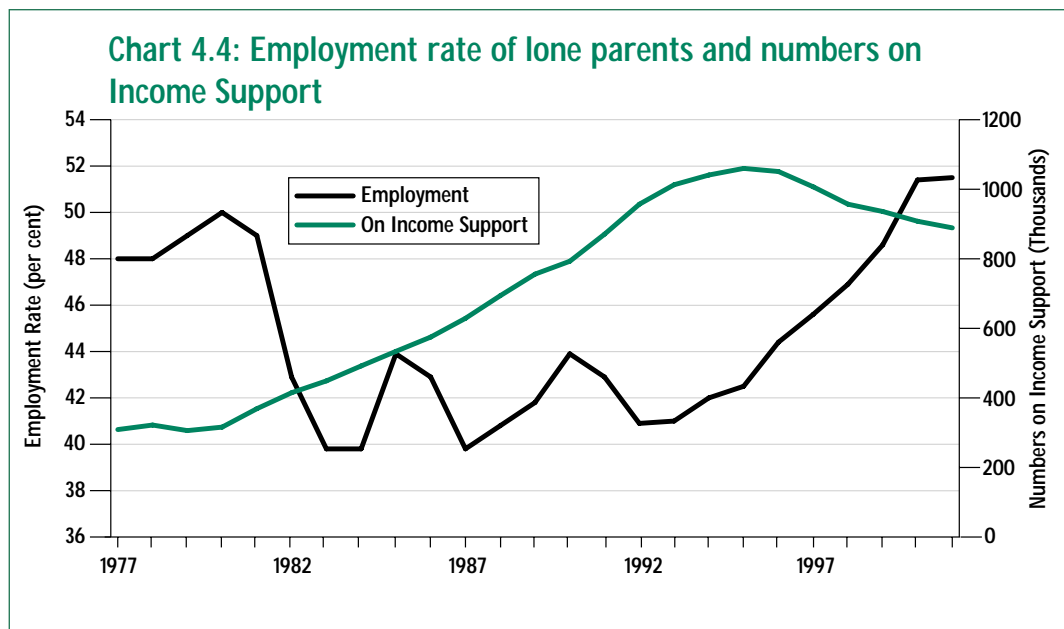
4.29 Jobcentre Plus brings together the Employment Service and those parts of the Benefits Agency dealing with working age people. It aims to help unemployed people and inactive welfare recipients who can work to fulfil their responsibilities by making available high-quality job vacancies, information, advice, training and support, while ensuring security for those who cannot work. Anyone making a claim for benefit at a Jobcentre Plus office,

unemployed or inactive, will receive an interview with a personal adviser to discuss the opportunities available for taking up work. This will put an end to the old system under which inactive benefit recipients received little, if any, help with finding work.

Helping lone parents

4.30 Lone parents face particular difficulties in seeking to balance work and caring responsibilities. During the 1980s the employment rate of lone parents fell significantly. In 1979, two-thirds of children in lone parent households lived with a parent who was in work. By 1996 this proportion had fallen below one half. The employment rate of lone mothers has also failed to keep pace with the general rise in female employment, falling far short of the 71 per cent employment rate of mothers in couples.

4.31 In more recent years, lone parent employment rates have increased significantly, from 44.7 per cent in 1996 to 51.5 per cent in 2001 – their highest level in 20 years. This has been accompanied by a fall in the number of lone parents on Income Support by over 150,000 since 1996 to the current level of 888,000. But there remains much to do. Helping lone parents into work is key to reducing child poverty and the Government has therefore set a target for 70 per cent of lone parents to be in work by 2010.



New Deal for lone parents

4.32 The New Deal for lone parents (NDLP) provides a comprehensive package of support to enable lone parents to improve their prospects and living standards through employment. The programme provides a personal adviser, assistance with training, education and childcare, and advice on benefits, in-work financial support and self-employment. From November 2001, eligibility for NDLP was extended to include all lone parents who are not working, or who are working less than 16 hours a week, whether or not they are on Income Support, which has made NDLP support available to an additional 106,000 lone parents.

4.33 Evaluation evidence indicates that the NDLP is having a real and positive effect. By the end of August 2001, over 225,000 lone parents had participated in the New Deal, and over 96,500 had found employment through the programme.

Personal Adviser meetings 4.34 The Government is committed to enhancing the choices open to lone parents in the labour market. To ensure that they are offered the opportunity to work, and the support they need to do so, the Government has introduced personal adviser meetings for lone parents across the country. From April 2001, lone parents on Income Support with children over the age of five have been required to attend a meeting to discuss the choices available to them. These choices, which were enhanced from April 2001, now include help with education and training, the opportunity to try work of less than 16 hours a week while remaining on benefit, and extra financial support for those working more than 16 hours. Feedback from the pathfinder meetings suggests that many lone parents have found the programme valuable as a direct catalyst to work.

Assistance with childcare

Childcare and employment 4.35 Lack of access to suitable childcare can be a significant barrier to parental employment. This is particularly the case for women and lone parents, whether they are entering the labour market for the first time or returning after having children. It is reflected in lower economic activity rates among mothers compared with fathers (partly due to the uneven burden of childcare responsibilities), and among mothers with young children compared with women without children.

4.36 Access to childcare also has an impact on work retention and career progression, and is therefore important in tackling in-work poverty. A large proportion of mothers work part-time. While many choose to do so, many others would prefer to move towards full-time work if they had access to suitable childcare, since part-time work often means lower earnings potential and fewer opportunities for career progression. The Women and Equality Unit and H.M. Treasury are currently examining the implications of these patterns for UK productivity performance.

National Childcare Strategy 4.37 The Government's National Childcare Strategy aims to ensure the provision of affordable, accessible and good quality childcare in every neighbourhood. The Strategy seeks to remedy existing shortfalls in childcare provision by:

- making childcare more affordable for lower and middle-income working families through the childcare tax credit component of the Working Families' Tax Credit and the Disabled Person's Tax Credit; and
- providing time-limited, supply-side grants where there may be market failures – for example, in disadvantaged areas.

4.38 The Strategy is providing significant investment to expand the number of childcare places available across the country. Between April 1997 and June 2001, new childcare places have been created that have helped 773,000 children. Taking account of turnover in existing places, this has allowed an extra 455,000 children to benefit. By March 2004, the Strategy will have created additional places benefiting around one million extra children in England alone.

4.39 The Government has also set an ambition to offer a childcare place to every lone parent entering employment in the most disadvantaged areas. The Neighbourhood Childcare Initiative will create 45,000 new day care places in up to 900 Neighbourhood Nursery Centres in these areas. The Initiative will also support the establishment of 25,000 new Neighbourhood Childminder places as part of a 145,000 increase in places nationwide.

4.40 In addition to making childcare more affordable and creating new childcare places, Budget 2001 extended eligibility for the Adviser Discretion Fund to lone parents who have been on Income Support for over six months. This will provide help with the up-front childcare costs that many lone parents face in seeking to move from welfare to work.

Help for partners

4.41 Over the past 20 years, polarisation of employment opportunities has led to a significant rise in the proportion of workless households. In couples with one unemployed or economically inactive partner, the probability of the other being in work is greatly reduced. In Britain, less than 40 per cent of partners of benefit claimants are in work. The majority of these workless households have children and are in poverty.

New Deal for partners

4.42 The New Deal for partners is a voluntary personal adviser service to help partners of people on benefit move into work. Since April 2001, childless partners of unemployed people born after 1976 have become joint Jobseeker's Allowance claimants, subject to the rights and responsibilities of the JSA regime. **Budget 2001 announced that, from October 2002, joint claimant status will be extended to all childless partners of the unemployed born after 1957.**

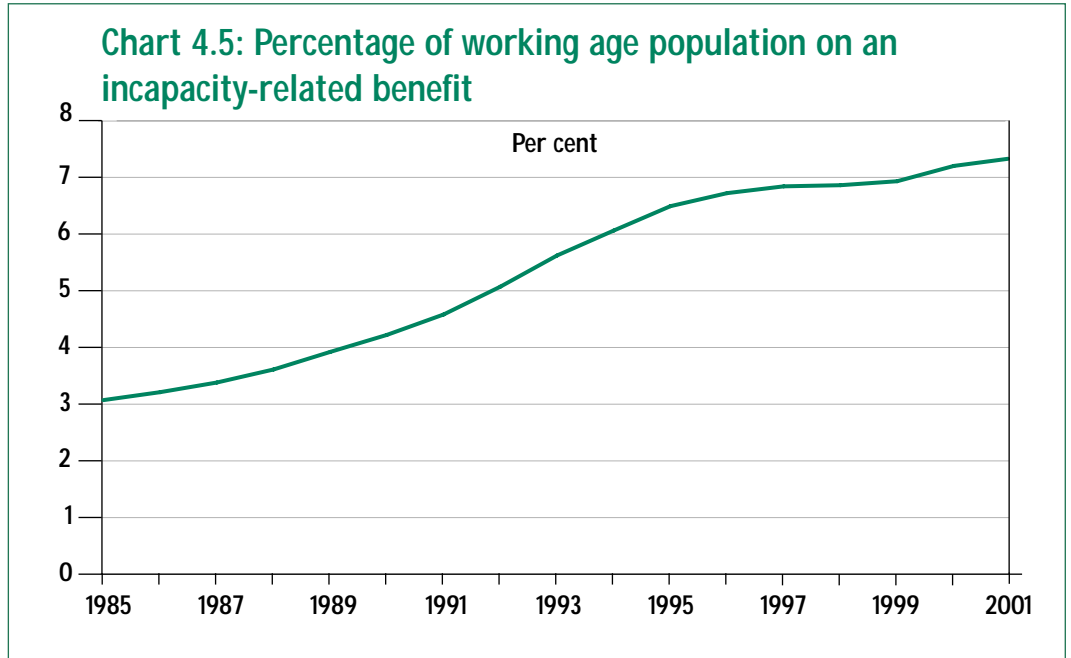
4.43 To ensure that all partners of benefit claimants are offered the help and support they need to return to work, **the Government will also be legislating to introduce compulsory work-focused interviews for partners of benefit claimants with children** in line with those being provided to lone parents.

Help for disabled people

4.44 People with disabilities or long-term ill-health are among the most disadvantaged in the labour force and account for 30 per cent of the economically inactive population.

4.45 Over the last 20 years, the employment rate of people with disabilities (including those with long-standing health problems) has fallen significantly compared with that of the rest of the population. Despite a rise since 1998, the employment rate of disabled people, at 47 per cent, remains substantially below the rate for those without disabilities, of 81 per cent. Although the proportions of the working age population reporting limiting longstanding illnesses have risen only slightly over the last 20 years, the proportion of people who are out of work and claiming Incapacity Benefit has more than doubled over this period. The number of IB claimants now stands at 2.3 million.

4.46 According to the Labour Force Survey, as many as 1.4 million people with disabilities are currently without work but want to work. The Government believes that people with disabilities who can work should be provided with the support they need to return to work and to fulfil their potential.



New Deal for disabled people

4.47 Since October 1998, the New Deal for disabled people (NDDP) has been testing a range of approaches to determine what works best in helping disabled people search effectively for, and find, work. By the end of June 2001, over 20,000 disabled people had taken part in NDDP pilot schemes and over 8,000 had found work as a result. Following this success, the Government began extending NDDP to all areas of the UK in July 2001. The national extension of NDDP will provide a gateway to engage those moving onto Incapacity Benefit, and a network of innovative job brokers to help disabled people find secure employment.

4.48 In addition to NDDP, the Government is taking further steps to help disabled people make the transition from inactivity to work. As announced in the Employment Green Paper, the Government is modernising and expanding supported employment programmes for the disabled. The Government is also ensuring that benefit rules ease the transition from inactivity to employment by **introducing new permitted work rules for those on Incapacity Benefit. From April 2002, people on IB will be able to try small amounts of work without affecting their benefit entitlement.** New rules will allow claimants to undertake up to 12 months of permitted work, for up to 16 hours a week, and earn up to £66 each week. This includes the £20 a week all claimants will be allowed to earn with no hours or time-limit.

Retention and Rehabilitation Pilots

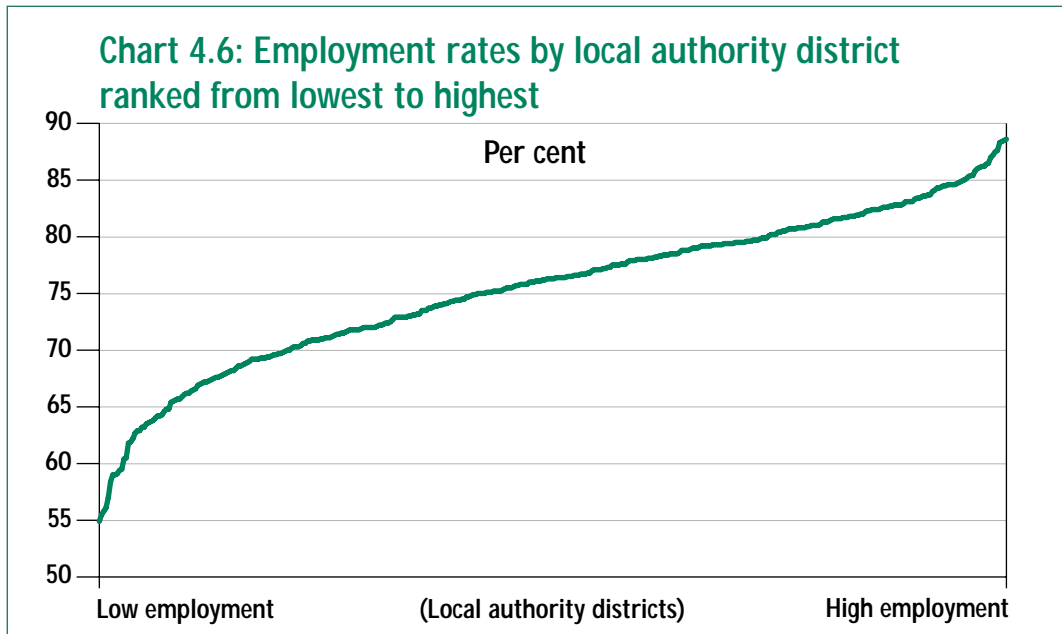
4.49 **To support disabled people already in employment, a series of regional Retention and Rehabilitation pilots will be launched from 2002.** These pilots will focus on workers at risk of losing their job because of illness or disability, testing integrated health and employment interventions to maximise the retention in work of sick and disabled employees.

TACKLING REGIONAL WORKLESSNESS

4.50 While every region in Britain has experienced sharply falling unemployment and rising levels of vacancies in recent years, pockets of high unemployment persist in certain deprived areas within every region. Particular groups within the population also continue to experience high, and in some cases rising, levels of worklessness.

4.51 Employment and unemployment rates vary from area to area. Geographic differences in work and worklessness are much wider within regions than between them, with areas of particularly low employment usually evident at local authority district, ward or even sub-ward level. In a few cases, groups of adjacent local authority districts all have particularly low

employment rates – East London, areas of Merseyside, the South Wales valleys and a strip of areas along the coast in the North East. In a small number of districts – 26 out of 408 – employment rates remain at least ten percentage points below the national average. Chart 4.6 below shows employment rates across UK local authority districts.



4.52 Local authority districts with low employment rates do not simply lack jobs. Many areas experiencing high levels of worklessness are found alongside others with large numbers of vacancies. In such instances, measures to boost local labour demand alone will not address labour market difficulties. Policies need to address the barriers that prevent local people taking up the supply of local jobs.

4.53 Areas with low employment rates also often contain a high proportion of people on sickness and disability related benefits, or a significant proportion of people with no or few qualifications. People from ethnic minorities, who suffer much higher rates of worklessness than the population as a whole also tend to live in inner city areas which have low employment rates. The Government's commitment to the goal of full employment in every region therefore requires measures to deliver an inclusive distribution of employment, covering the groups and areas that have in the past been allowed to fall behind the rest of society.

Action Teams 4.54 To tackle the obstacles to employment in some of the worst affected regions in Britain, the Government has established Action Teams for Jobs in 53 areas of England, Scotland and Wales that suffer from particularly high levels of inactivity and long-term unemployment. Action Teams are a dynamic and innovative resource to tackle some of the UK's most deep-seated and protracted employment problems. They set out to help increase employment in disadvantaged areas by:

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

Ethnic minorities 4.55 Focusing assistance through Action Teams will also help significant numbers of people from ethnic minorities, whose unemployment rates can be up to three or four times higher than those for the rest of the population. Some 85 per cent of Britain's ethnic minority population live in four main conurbations – Greater London, the West Midlands, West Yorkshire and Greater Manchester. All four are targeted by Action Teams. To help close the gap further, the Government will work with the Commission for Racial Equality to encourage employers to create more diverse workforces, Jobcentre Plus will maintain a clear focus on parity targets across all areas, and the Government will invest £15 million in ethnic minority outreach over the next three years, through voluntary and community bodies.

4.56 The Cabinet Office Performance and Innovation Unit will report in summer 2002 on the labour market disadvantages faced by black and Asian people, making recommendations for tackling inequalities in the labour market.

Transitional employment 4.57 For the majority of people who enter the New Deal, the programme proves beneficial, with many participants leaving it to enter into employment. However, in areas of deprivation and high unemployment, there are a small number who have multiple barriers to work. While New Deal provision has started the process of overcoming these barriers, there is a need for further assistance to enable these clients to compete effectively in the open labour market. **The Government therefore intends to put in place provision that will build upon their New Deal experience, and will include piloting transitional employment opportunities for these hardest to help groups.** The Secretary of State for Work and Pensions will announce details of this new provision shortly.

Funding for Welfare to Work 4.58 The Welfare to Work programme was originally funded through the receipts of the one-off Windfall Tax on the excess profits of privatised utilities, totalling £5.2 billion. Since April 2001, the programme has been funded from the Employment Opportunities Fund, which brought together the remaining Windfall Tax receipts and additional resources allocated in the 2000 Spending Review.

4.59 The formation of the Department for Work and Pensions (DWP) means that the majority of programmes covered by the Employment Opportunities Fund (EOF) are now delivered by the DWP and its agencies. Most of these resources have therefore been moved into the Departmental Expenditure Limit for DWP. Consequently, the Government will only report on the Windfall Tax element of the Employment Opportunities Fund in this and future Pre-Budget Reports and Budgets. EOF expenditure, both past and planned, will be presented in DWP's Annual Report, in line with the arrangements for other Government departments.

Table 4.1: Allocation of the Windfall Tax

Emillion	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04 ²	TOTAL
Spending by programme¹								
New Deal for young people ³	50	200	310	300	360	300	50	1570
New Deal for 25 plus	0	10	90	110	220	220	50	700
New Deal for over 50s	0	0	5	20	20	20	5	70
New Deal for lone parents	0	20	40	40	100	140	20	360
New Deal for disabled people ⁴	0	5	20	10	60	70	10	175
New Deal for partners	0	0	5	10	20	30	5	70
New Deal for Schools ⁵	90	270	260	750	450	0	0	1820
Childcare	0	20	10	5	0	0	0	35
University for Industry ⁶	0	5	0	0	0	0	0	5
Workforce development pilots ⁷	0	0	0	0	0	10	15	25
ONE pilots ⁸	0	0	0	5	5	0	0	10
Action Teams	0	0	0	10	60	50	10	130
Enterprise Development	0	0	0	10	20	10	0	40
Modernising the Employment Service	0	0	0	40	0	0	0	40
Total Expenditure	140	530	740	1300	1310	850	160	5030
Estimated Windfall Tax Margin								170
Windfall Tax receipts	2600	2600						5200

¹ Rounded to the nearest £10 million, except workforce development pilots (which are rounded to the nearest £5 million) and where expenditure is less than £5 million. Constituent elements may not sum to totals because of rounding.

² Windfall Tax expenditure is significantly reduced in 2003-04 as WT resources are exhausted. Remaining in year expenditure will be topped up with general Government revenues.

³ Includes funding for the Innovation Fund.

⁴ Includes £10million in 1999-00, an element of the November 1998 announcements on Welfare Reform.

⁵ Capital spending on renewal of school infrastructure, to help raise standards.

⁶ Start up and Developments costs. Other costs of the Ufl are funded from within Departmental Expenditure Limits.

⁷ The workforce development pilots, described in Chapter 3, are budgeted to cost £40m, of which £25m will come from the Windfall Tax, with the remaining £15m provided by the DfES. Profile of expenditure may be subject to change.

⁸ Funding for repeat interviews. Other funding comes from the Invest to Save budget.

MAKING WORK PAY

4.60 Policies designed to help individuals compete in the labour market, such as the New Deal, need to be supported by policies that provide incentives for people to move into work or to take a better paid job. The Government's reforms to help improve work incentives are designed to tackle two key problems:

- the unemployment trap, when those without work find that the difference between in- and out-of-work incomes is too small to provide an incentive to take a job; and
- the poverty trap, when those already in work may be discouraged from working longer hours or taking a better paid job because it may leave them little better off, as in-work support is reduced and they pay more income tax and NICs.

4.61 The Government is committed to tackling these problems by making sure that work pays more than welfare and by improving incentives to move up the earnings ladder.

National Minimum Wage 4.62 The National Minimum Wage, introduced in April 1999, ensures fair minimum standards of pay, thereby underpinning the Government's tax and benefit reforms. From October 2001, the National Minimum Wage rose to £4.10 an hour for workers aged 22 and over and to £3.50 an hour for workers aged 18-21. **Subject to economic conditions, these rates will be increased to £4.20 and £3.60 respectively in October 2002.**

Making work pay for all 4.63 The Government has introduced a series of reforms to help make work pay at all levels of the labour market, but especially for those on low incomes. From April 2000, the basic rate of income tax was reduced to 22 pence – the lowest level for 70 years. The introduction of the 10 pence starting rate of income tax in April 1999 and the subsequent widening of the band in April 2001 have halved the marginal tax rate for nearly two million people in low paid work.

4.64 In addition to reducing income tax rates, the Government's reforms to employees' NICs have helped to ensure that jobs at the lower end of the earnings distribution now pay better. From April 2001, the threshold above which employees pay NICs was increased to align it with the income tax personal allowance. This means that around one million people no longer have to pay NICs. At the same time, the entitlement to contributory benefits for those earning between the "lower earnings limit" and the new "primary threshold" has been protected.

4.65 From April 2001, employer NICs were reduced by 0.3 percentage points and will be reduced by a further 0.1 percentage points in April 2002. This ensures that all revenue from the climate change levy and the aggregates levy is recycled back to business (see Chapter 7 for details of the climate change levy and the aggregates levy). The Government has also reformed employer NICs to encourage employment.

Box 4.2: The income tax personal allowance, NICs threshold, and WFTC/ DPTC rates for 2002-03

In April 2001, the threshold above which employees begin to pay national insurance was aligned with the income tax personal allowance. Rising in line with indexation, the income tax personal allowance for 2002-03 will be £4,615 and the NICs threshold will be £89 a week. In addition, the main rates and income thresholds in the Working Families' Tax Credit and the Disabled Person's Tax Credit will be increased in line with indexation from April 2002, the details of which will be announced shortly.

Additional targeted support 4.66 Families with children have, in the past, faced particularly difficult work incentive problems. To address these problems, the Working Families' Tax Credit (WFTC) was introduced in October 1999. Nearly 1.3 million families are now receiving WFTC – over 400,000 more than received Family Credit at its peak. These families are on average receiving around £35 a week more compared with Family Credit.

4.67 The WFTC includes a generous childcare tax credit component to help working families. The credit is worth 70 per cent of eligible childcare costs up to limits, which were increased in June 2001 to £135 a week for a family with one child and £200 for a family with two or more children. Currently around 145,000 families are benefiting from the childcare tax credit in WFTC, over three times the number that received the Family Credit disregard at its peak.

4.68 The Disabled Person's Tax Credit (DPTC), launched alongside the WFTC, helps to provide support for workers with disabilities. Currently, over 29,000 disabled workers are benefiting from the DPTC by an average of £73 per week – nearly 60 per cent more than received the Disability Working Allowance in July 1999. The DPTC is open to people who work 16 hours or more a week, have an illness or disability which puts them at a disadvantage in securing a job, and who are either receiving, or have recently been receiving, one of a number of qualifying benefits. It is also open to people who satisfy the special rules which govern the “Fast Track” route to DPTC.

Equal Pay 4.69 The Government is committed to driving forward action on equal pay and has commissioned a review into Women's Pay and Employment which will report in December. The review is assessing a range of non-legislative and cost-effective proposals to deliver improvements to womens' employment prospects and participation in the labour market. To provide more effective settlement of pay disputes, the Government is also taking forward measures to speed up and simplify the employment tribunal process.

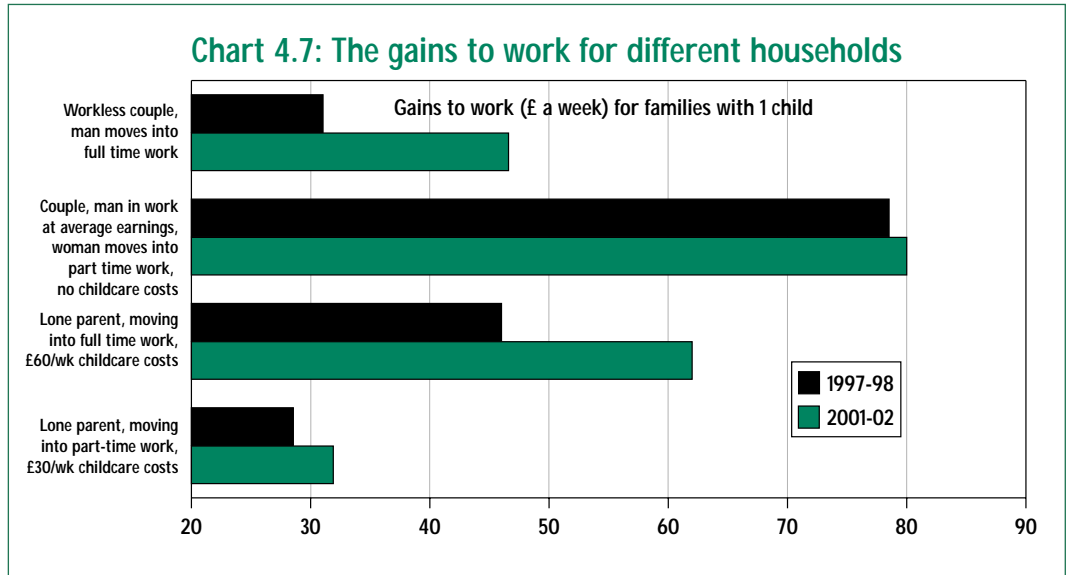
The effect of the Government's reforms to make work pay

4.70 The Government can now guarantee a minimum level of income for people with children moving into employment. These guaranteed minimum levels of income are set out in Table 4.2, for a family with one child with one person working at the National Minimum Wage.

Table 4.2: Weekly minimum income guarantee

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

4.71 The Government's reforms are helping to ensure that work pays more than welfare to address the problem of the unemployment trap. The gain to work has increased, while security for those out of work has been maintained and enhanced. Chart 4.7 shows how the gains to work have improved for different households as a result of the measures over the last Parliament as a whole.



4.72 These measures have also helped to lessen the poverty trap. Many low income families, who often face very high marginal deduction rates, now keep more of each additional pound that they earn, losing less through reduced benefits and higher taxes. In 1997, almost 750,000 families faced marginal deduction rates of over 70 per cent. As a result of measures introduced by the Government, this number has fallen by nearly half a million.

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

Marginal deduction rate ¹	Before Budget 1998 ²	After Budget 2001 ²
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

¹ Cumulative figures for working households.

² The before and after figures are based on 1997-98 and 2000-01 caseload and take-up estimates.

Box 4.3: the Working Tax Credit: extending in-work support to those without children

The Working Families' and Disabled Person's Tax Credits (WFTC and DPTC) have helped to make work pay for families with children and workers with disabilities. As part of the next steps in tax and benefit reform, the principle of the WFTC will be extended to those without children or disability through the new tax credit for work – the Working Tax Credit.

The Working Tax Credit is designed to help tackle poor work incentives and persistent poverty among working people. For families with children or people with disabilities, it will replace the support for adults provided through the WFTC and the DPTC. The childcare tax credit, which recognises the extra costs faced by working parents with childcare needs, will also be available to those receiving the Working Tax Credit, just as it is available to those receiving the WFTC and DPTC.

In the past, the problem of poor work incentives has often been of particular concern to families with children. However, people without children can also face poor work incentives and may also experience persistent in-work poverty. For example, moving into work at a typical entry wage, a workless couple with one child would be nearly £50 a week better off in work than on benefits, but a couple without children would only be around £20 a week better off. Equally, to be £40 a week better off in work, a couple with one child need to earn around £160 a week, while a couple without children need to earn £215, well above the typical wage that someone in these circumstances would normally command on moving into work. The Working Tax Credit will therefore also provide support to working households without children.

The Working Tax Credit will be complemented by the new Child Tax Credit, described in Chapter 5. A consultation document, *New Tax Credits: Supporting Families, Making Work Pay and Tackling Child Poverty*, was published by the Inland Revenue in July 2001. The proposals that were consulted on included:

- assessing the Working Tax Credit on an annual basis, in line with the Child Tax Credit and the rest of the tax system;
- targeting the Working Tax Credit for those without children on people aged over 25, working 30 hours or more a week, in order to help individuals at greatest risk of persistent poverty and with the lowest work incentives;
- making the 30 hour element of the Working Tax Credit available to couples with children who jointly work 30 hours or more a week, even if neither of them individually works 30 hours;
- paying the childcare tax credit component to the main carer, alongside the new Child Tax Credit; and
- simplifying the arrangements for payment of tax credit via the employer to help both recipients and employers.

The consultation period ended formally on 12 October and the Government has received over 170 representations. These have been considered carefully, and the Government will issue a response to the consultation when the necessary primary legislation is published later this month. The rates and thresholds for the new tax credits will be set in Budget 2002.

Increasing labour supply

4.73 One of the overall objectives of the Government's reforms to the tax and benefit system is to increase the supply of labour by encouraging those who are workless but not looking for a job actively to seek work. The Treasury has estimated the impact of the entire package of measures to make work pay since 1997, including the reductions in income tax and NICs 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.

EASING THE RETURN TO WORK

4.74 The return to work can be a difficult period, especially for those who have been out of work for long periods. Managing until the first pay cheque and covering additional expenditure, such as buying work clothes, can lead many to prefer the certainty of benefits to the uncertainties of work. In addition to the enhanced assistance now available to help families find affordable childcare, the Government is taking steps to address a range of other obstacles to moving into work and to provide the additional security many people need to move into employment.

Housing Benefit

4.75 Housing costs are of particular concern to many people moving into work. Evidence suggests that worklessness is concentrated among tenants, especially in social housing – 46 per cent of those in local authority housing are workless compared with less than 8 per cent in owner-occupied housing. Easing the return to work for tenants is therefore an important strand of the Government's strategy to increase employment.

4.76 Housing Benefit is available to tenants both in and out of work. However a number of recent reports have highlighted the work disincentives created by the structure and administration of Housing Benefit. In particular, delays in processing a Housing Benefit claim when a person moves into work can make it hard for tenants to be sure that they will be better off working and can lead to rent arrears and debt.

4.78 The Government's strategy for reducing the work disincentives created by Housing Benefit has had a number of elements:

- boosting in-work income through the Working Families' Tax Credit, which has floated 70,000 off Housing Benefit;
- improving and simplifying the rules of the Housing Benefit Extended Payments scheme. This allows maximum benefit to continue for the first four weeks of work for people moving off Income Support or Jobseeker's Allowance, reducing the possibility of rent arrears building up while claims for in-work support are processed;
- helping local authorities to improve the administration of Housing Benefit. This includes the establishment of a help team to provide direct support to local authorities, and granting local authorities access to a Help Fund where the main barrier to employment is a lack of funding; and
- working in partnership with other organisations to improve administration. The Government has begun a pilot scheme using registered social landlords to verify entitlement to Housing Benefit. If successful the scheme could be introduced nationally during 2002.

4.79 The Government is examining the case for longer-term reform of Housing Benefit.

