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INCREASING EMPLOYMENT OPPORTUNITY FOR ALL

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

- **an extension of the support offered to lone parents** through ensuring that all lone parents who have claimed benefit for at least a year will be required to attend a Work Focused Interview at least every six months;
- **a strengthened, refocused, Fortnightly Job Review for Jobseeker's Allowance claimants, from June 2006**, to ensure that only those claimants who are able to demonstrate that they have undertaken their responsibilities to look for work are allowed to continue their claim;
- **measures to reduce anomalies in, and further simplify, housing benefit; and to tackle fraud and error in the housing benefit system;**
- **in response to the Women and Work Commission report, new funding to:**
 - **double the number of existing Skills Coaching pilots to 16 Jobcentre Plus districts** with a specific focus on helping low-skilled women return to work;
 - **increase, by 50 per cent, the number of pilots delivering level 3 skills**, with an additional pilot focused on women with low skills; and
 - **help Sector Skills Councils in industries with skills shortages test new recruitment, training and career pathways** for over 10,000 low skilled women;
- **publication of *Employment opportunity for all: analysing labour market trends in London***, alongside this Budget, examining the underlying reasons why employment rates are lower in London compared to other parts of the country, as a basis for future policy action;
- **publication of the Welfare Reform Green Paper** announcing national roll out of the successful Pathways to Work pilot projects by 2008 for Incapacity Benefit claimants, and consulting on replacement of the current system of incapacity benefits with a new Employment and Support Allowance; and
- **following the Low Pay Commission recommendations, the adult rate of the National Minimum Wage will rise to £5.35 from October 2006.**

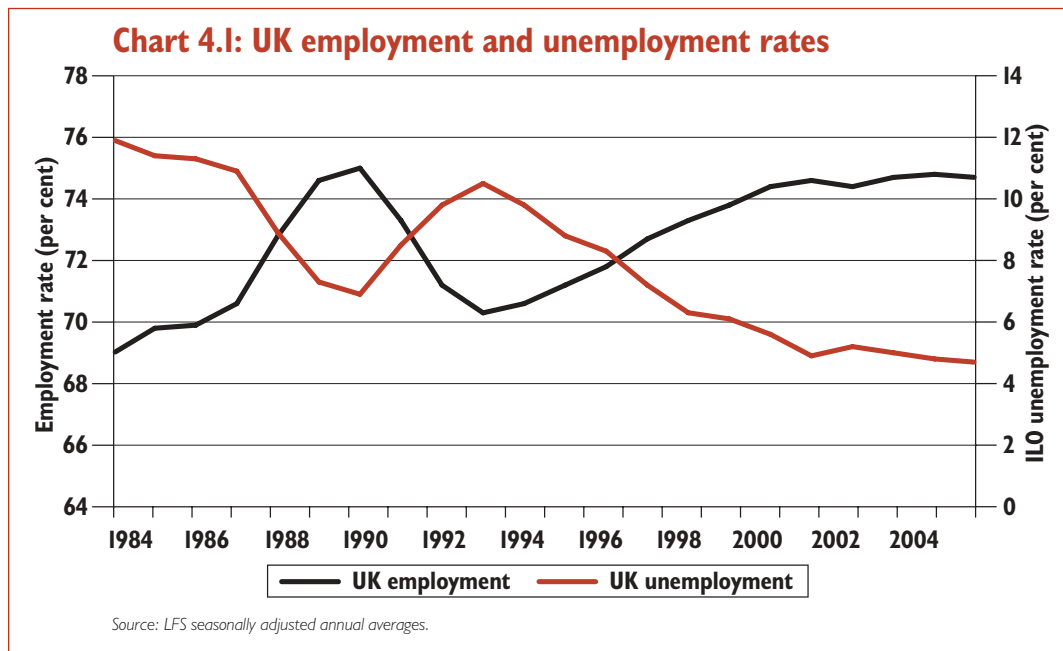
4.1 The Government has set a long-term goal of employment opportunity for all - the modern definition of full employment. This is reflected in the aspiration to achieve an employment rate equivalent to 80 per cent of the working age population. The strong labour market performance of recent years, the success of the New Deal and the creation of Jobcentre Plus, have all helped contribute towards the achievement of this objective, with the most significant improvements being demonstrated by the previously most disadvantaged groups and regions.

4.2 This Budget sets out steps to build on this strong performance, increasing flexibility and reducing inactivity still further, and doing more to help those groups in society which face particular barriers to work. The Government believes that everyone who is able to and wants to work should have the opportunity to do so, and should be given appropriate support. Alongside this sits a responsibility on the part of individuals to take steps to improve their chances of moving from welfare to work. The Government has set out its proposals for further extending rights and responsibilities to create a fair and efficient welfare system in a Welfare Reform Green Paper.¹

Labour market strength

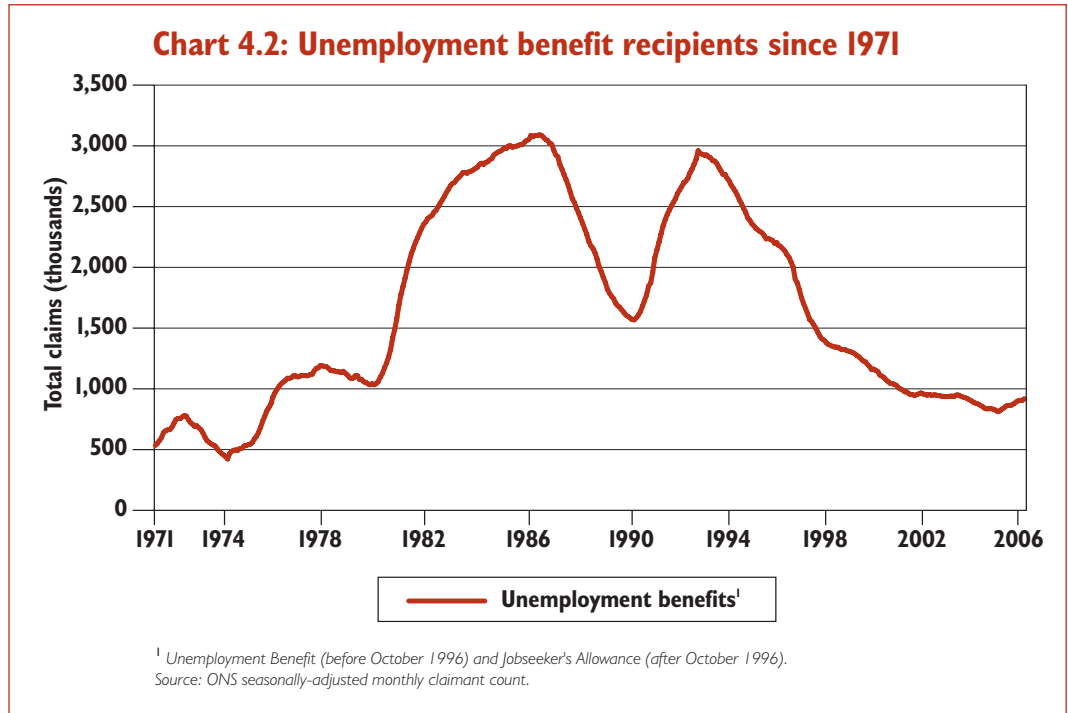
4.3 The UK labour market has performed strongly in recent years, as Chart 4.1 shows. The number of people in employment totalled 28.8 million in the three months to January 2006 while the working-age employment rate has reached 74.5 per cent. Since 1971, UK employment has increased by 16.8 per cent with over half of this rise occurring since 1997. This translates into an average annual employment growth rate of 1.1 per cent over the last 8 years, compared with an average of 0.5 per cent per year over the last 35 years. While both male and female employment levels have risen over the past 8 years, female employment growth has been particularly strong, and is now at almost record highs in terms of both the level (13.25 million) and the working age employment rate (69.8 per cent).

4.4 UK unemployment, meanwhile, has fallen, on the conventional International Labour Organisation (ILO) definition, to 5.0 per cent; down from 7.2 per cent in 1997 and around the lowest rate in 30 years. The UK unemployment rate is significantly below the EU 15 average of 7.7 per cent.

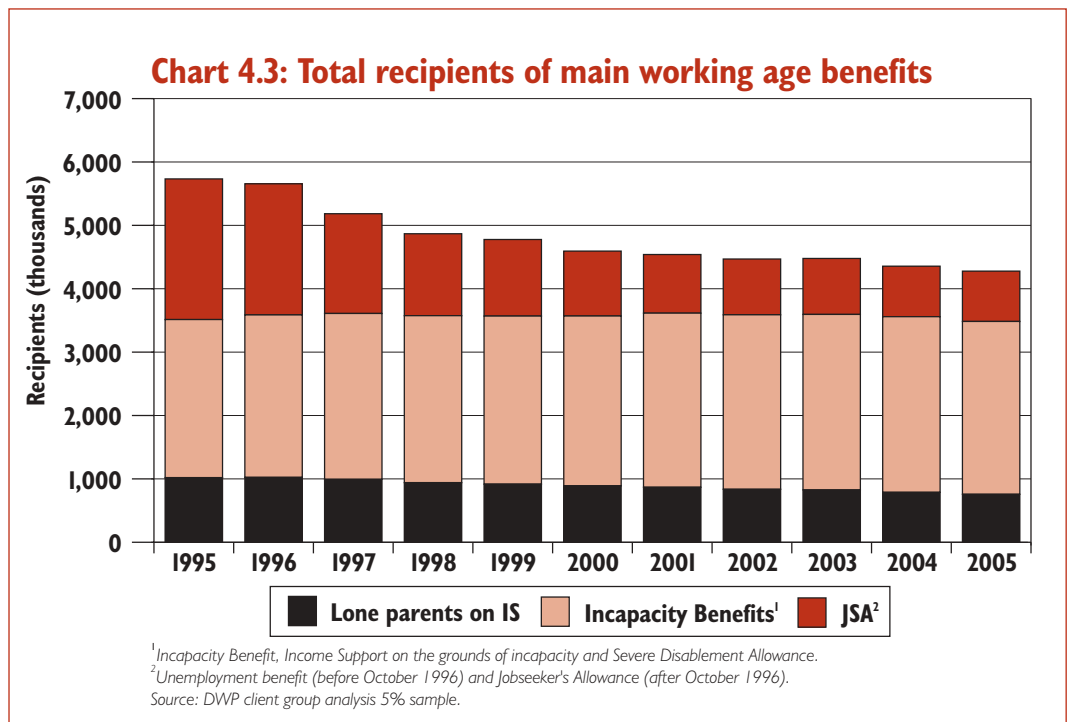


4.5 The significant improvements in labour market performance have also been reflected in falling caseloads in working age benefits. As Chart 4.2 shows, the number of people claiming Jobseeker's Allowance (JSA) has fallen dramatically, from 1,619,600 in 1997 to 919,700 in January 2006. The claimant count has now remained below 1 million for 50 consecutive months – the longest period since the mid 1970s.

¹ A new deal for welfare: empowering people to work, DWP, January 2006.



4.6 As well as a reduction in unemployment, the improving employment rate of recent years has been accompanied by a decrease in the total number of people claiming working age benefits. The number of lone parents claiming Income Support (IS) – over 1 million in 1997 – is now below 800,000. Furthermore, and for the first time since 1979, the number of people claiming incapacity benefits² has now started to fall, after more than trebling between 1979 and 1997. In total, there are now 900,000 fewer people of working age out of work and claiming benefits than was the case in 1997. As Chart 4.3 shows, in 1997, 5.18 million people were claiming JSA, lone parent IS or incapacity benefits. By 2005, this had fallen by 17 per cent, to 4.28 million.



² The current system of incapacity benefits includes: Incapacity Benefit, Income Support on the grounds of incapacity, and Severe Disablement Allowance.

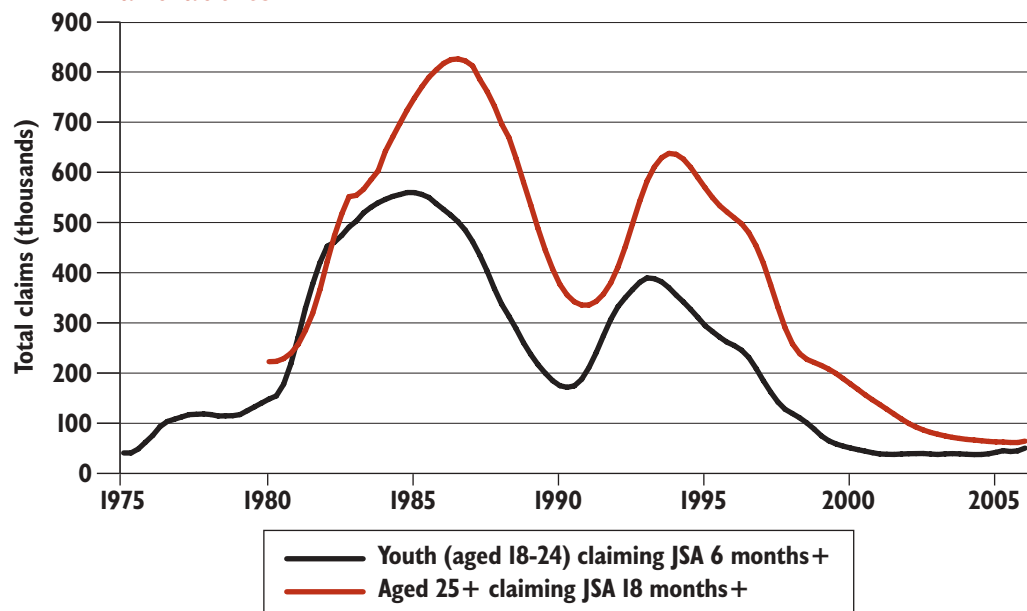
DELIVERING EMPLOYMENT OPPORTUNITY TO ALL

The New Deal 4.7 With the establishment of the New Deal, the number of unemployed young people claiming JSA for more than 6 months has fallen to 53,800. This compares with 163,300 in 1997, and has occurred despite the number of 18-24 year olds increasing by nearly half a million (meaning that the proportion of this age group claiming JSA for more than 6 months has fallen from 4 per cent to 1 per cent). The number of adults and young people making long-term claims for unemployment benefits has fallen by two thirds over this same period (see Chart 4.4).

4.8 The New Deal has been fundamental to the success of the Government's labour market policies. It provides support from Personal Advisers, followed by - for JSA claimants - mandatory full time training or subsidised employment to ensure that no claimant can remain indefinitely on benefit. In the 8 years since its inception, the New Deal has, in total, helped over 1.7 million people into work, including 646,410 young people, 251,490 unemployed adults and 423,290 lone parents.

4.9 Independent evaluations have repeatedly highlighted the New Deal's success and cost effectiveness. The National Institute of Economic and Social Research (NIESR) concluded in 2000 that, without the New Deal for young people (NDYP), the level of long-term unemployment would have been twice as high, and that the economy as a whole is richer by £500 million as a result of NDYP.³ More recent studies show that NDYP has significantly boosted exit rates from unemployment in all regions;⁴ that overall youth unemployment has been reduced by between 30,000 and 40,000;⁵ and that young men are now 20 per cent more likely to find work as a result of the NDYP.^{6,7}

Chart 4.4: Long-term claimant count for young people and adults



Source: DWP and ONS. Claimant count (4 point moving average).

³ *The New Deal for young people: implications for employment and the public finances*, NIESR, December 2000.

⁴ *How well has the New Deal for young people worked in the UK?* McVicar and Podivinsky, Northern Ireland Research Centre, April 2003.

⁵ *New Deal for young people: evaluation of unemployment flows*, D. Wilkinson, Policy Studies Institute, 2003.

⁶ *Evaluating the employment impact of a mandatory jobsearch program*, Blundell R, Costa Dias M, Meghair C, Van Reenen J, in *Journal of the European Economic Association*, June 2004.

⁷ *Active labour market policies and the British New Deal for unemployed youth in context*, Van Reenen J, in *Seeking a premier league economy*, Blundell R, Card D, and Freeman R (eds), University of Chicago Press, June 2004.

Flexibility and fairness 4.10 In an increasingly open and integrated global environment, increased prosperity depends on a flexible and outward looking economy which can respond effectively to changing circumstances, and which provides help and support to people to find employment and develop the skills they need to adapt to new technologies and new types of work. The degree of flexibility in the labour market determines the speed and efficiency with which individuals, firms and markets are able to respond to shocks. The more flexible an economy, the better able it is to accommodate shifts, and the lower the cost of change is in terms of lost output and jobs. The Government's labour market policies are committed to advancing flexibility and fairness together, ensuring that everyone in society has the support they need to achieve their full potential in a modern, dynamic economy. Box 4.1 summarises the trends and progress in UK labour market flexibility since 1997.

Box 4.1: Labour Market flexibility – report on progress

Labour market flexibility is crucial to ensure that the UK can adapt to change and thrive in a globally competitive environment. A flexible and efficient labour market has the ability to adjust to changing economic conditions in a way that maintains high levels of output and employment, minimising the cost of adjustment and maintaining economic stability. The UK Government continues to enhance flexibility through the introduction of a variety of policies to increase wage flexibility, reduce inactivity and help those groups in society which face particular barriers to work. Key measures introduced since 1997 include:

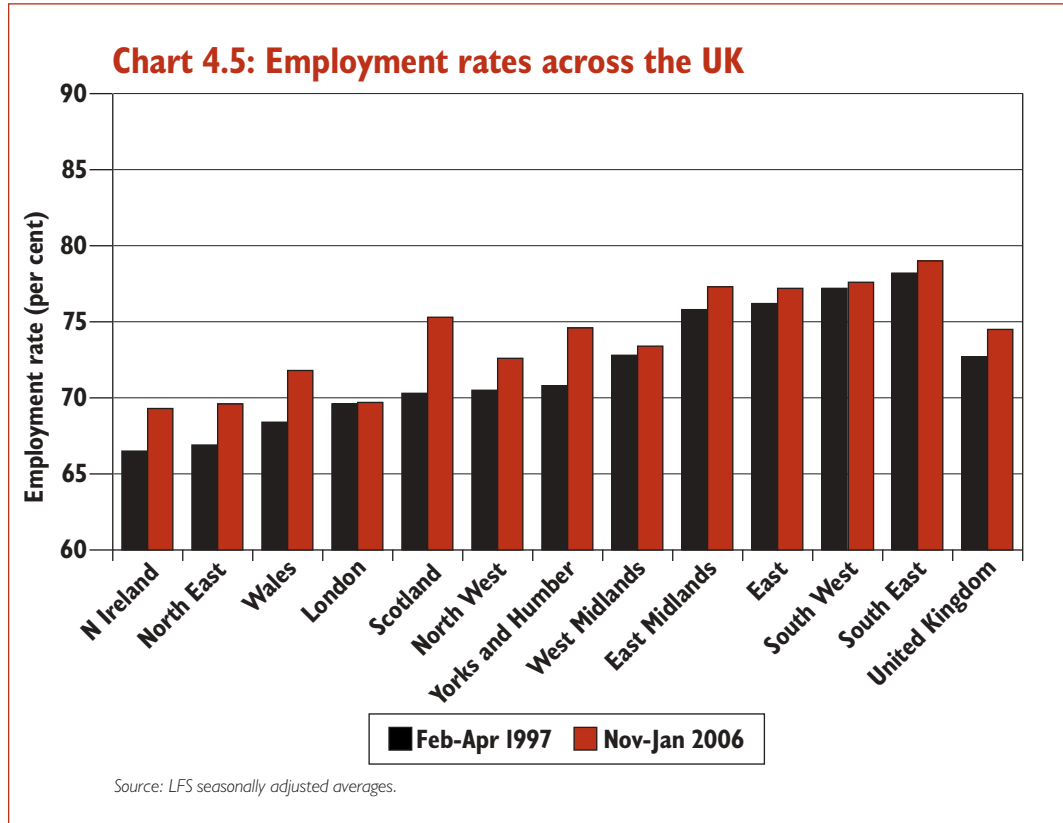
Developing skills: reforming the 14-19 curriculum to deliver a high quality vocational education route that equips all pupils with basic skills and gives opportunities to progress to higher skill levels; ambitious targets for 50 per cent of young people to participate in Higher Education by 2010; placing employers needs and priorities at the heart of the training system; rolling out the National Employer Training Programme (Train-to-Gain) across England in 2006; testing ways to increase the effectiveness of different work and skills support services for local communities and employers through the 'Fair Cities' projects. The Government will also publish tomorrow a White Paper on Further Education Reform, setting out how the sector can better provide the skills required for economic growth.

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

Improving labour market opportunities: the Welfare Reform Green Paper sets out proposals for widening labour market participation and providing genuine employment opportunity for all by developing a more positive and activist system of incapacity benefits; rolling out the successful Pathways to Work pilots to the whole country by 2008; enhancing employment programme support and flexible working opportunities for older workers; and further supporting lone parents. This Budget announces funding to take forward proposals in the Green Paper on more frequent work-focused interviews for lone parents.

Promoting geographic mobility and economic migration: structural reform and administrative improvements to ensure that Housing Benefit does not constrain the ability of the unemployed to find or take up work; and developing a flexible points-based system to ensure that the UK attracts the skills needed for the economy. This Budget announces further measures to reduce anomalies in, and further simplify, the housing benefit system.

4.11 The improving trends in employment and unemployment, shown in Chart 4.1, have been evident not only at a national level, but also among those areas and groups which have traditionally been the most disadvantaged in labour market terms. Employment rates have risen in every region since 1997, as Chart 4.5 shows, with the larger increases having generally been evident in the regions with the lower initial employment rates.



London 4.12 In the 2005 Pre-Budget Report, the Government noted that, at that time, London was the UK region with the lowest employment rate, and the only region where the employment rate was not higher than in 1997. *Employment opportunity for all: analysing labour market trends in London*, published alongside the Budget to inform future policy, examines the various factors that may lie behind low employment rates in London. The document builds on the findings of, and the subsequent cross-government efforts in response to, the *London Project Report* published in 2004.⁸ The challenge is to combine London's economic, social, and cultural vibrancy with opportunity for all, harnessing the capital's strengths for its resident population and taking full advantage of unique opportunities arising from the successful bid to host the Olympic and Paralympic Games in 2012.

⁸ *The London Project Report*, Prime Minister's Strategy Unit, Cabinet Office, July 2004

EXTENDING EMPLOYMENT OPPORTUNITY TO ALL

A new deal for welfare: empowering people to work **4.13** The Department for Work and Pensions' (DWP) Five Year Strategy⁹, published in February 2005, set out a long-term aspiration of achieving and sustaining an employment rate equivalent to 80 per cent of the working age population. The DWP Green Paper, *A new deal for welfare: empowering people to work*, published in January 2006, outlines a wide ranging set of proposals to move towards this long-term goal by ensuring that all sections of the population can benefit fully from growth in employment and the economy.

4.14 The Green Paper focuses in particular on tackling inactivity and raising employment among people with a health condition or disability, among lone parents and among older people of working age. The proposals also envisage close engagement with partners in the private and third sector organisations, to find the best means of supporting and encouraging people into work.

People with a health condition or disability

4.15 Of the nearly 5.9 million people of working age with a health condition or disability, only around half are in employment. Ensuring that many more are able to take up the opportunity to work is central to achieving the Government's long-term aspiration of an employment rate equivalent to 80 per cent of the working age population. This will require the reduction and removal of the barriers that can prevent individuals in this group from finding, remaining and progressing in work.

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

4.17 Since 1997, the Government has reformed the support offered to people with a health condition or disability, providing tailored help and support to make possible a return to work. Incapacity benefit claimants now receive active encouragement and support via a variety of means to plan their return to work, including:

- Jobcentre Plus ensures that incapacity benefit claimants have access to early and ongoing work focused advice;
- the New Deal helps disabled people to identify and move into employment. By November 2005, the New Deal for disabled people (NDDP) had helped over 100,000 disabled people into work;
- the Working Tax Credit and National Minimum Wage help to ensure that work pays; and
- the Government is tackling discrimination against disabled people and improving their opportunities to participate in society, as discussed in Chapter 5.

⁹ *Opportunity and security throughout life*, DWP, February 2005

4.18 These reforms have begun to change the attitudes and expectations of incapacity benefit claimants. The longstanding rising trend in the number of claimants has now stopped, and the caseload is beginning to fall. Annual inflows to the benefits have fallen by a third since the mid 1990s, and the total number of claimants of incapacity benefits in August 2005 was 2.77 million, over 55,000 lower than August 2004. At the same time the average duration of claims for incapacity benefits has increased, as has the proportion of claimants citing mental health conditions as the primary cause of their incapacity. Notwithstanding recent and considerable success, there is still more to be done.

4.19 People with a mental health condition face a particular risk of social exclusion, including low employment rates and over representation among the homeless and offenders. Public agencies, including the NHS and criminal justice system, do not always work as effectively as they could with people with a mental health condition. Too many are excluded from the world of work when, with the proper support, it should be possible for them to find or remain in work (implying benefits in turn, to their health). To inform the 2007 Comprehensive Spending Review, the Government will therefore review the policies needed to improve mental health outcomes and employment.

Pathways to Work 4.20 The Government's Pathways to Work pilots are providing additional support to help incapacity benefit claimants return to work. The pilots are testing a new framework that combines ongoing mandatory contact with highly skilled Personal Advisers at Jobcentre Plus, and high quality employment, health and financial support. The OECD has described Pathways to Work as a considerable success,¹⁰ and this success is demonstrated by such evidence as:

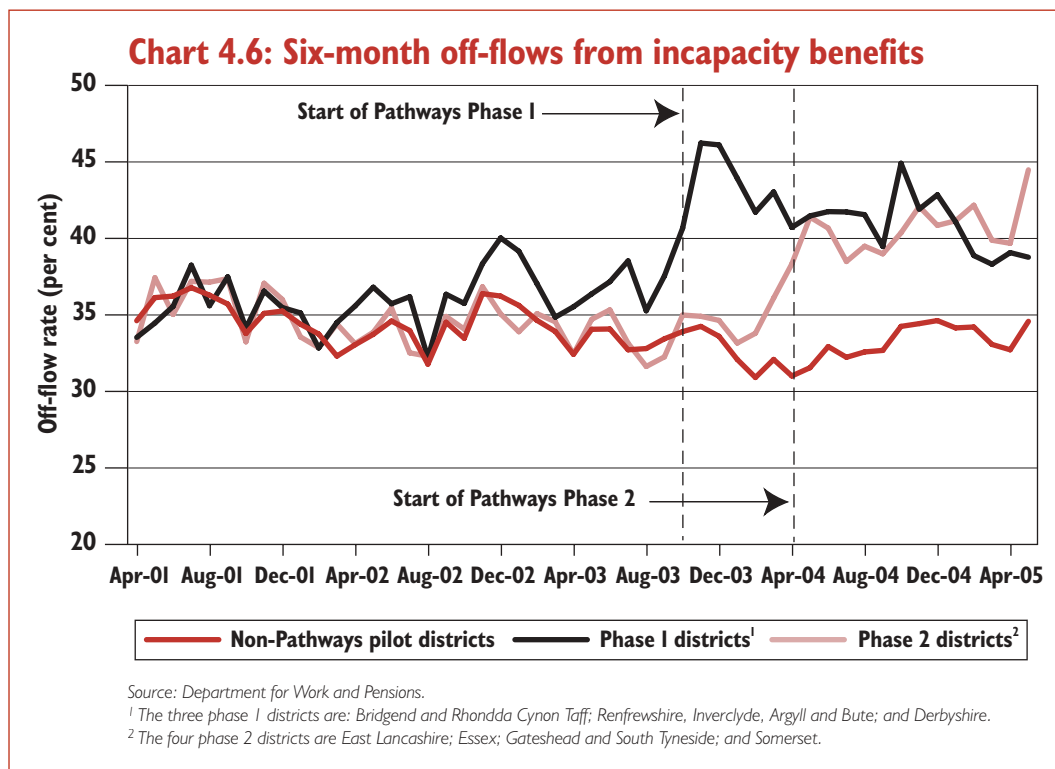
- an increase of around 8 percentage points in the off-flow from incapacity benefits after six months of a claim (Chart 4.6);¹¹
- by October 2005, there had been over 21,000 job entries through the Pathways to Work pilots;
- following the initial Work Focused Interview (WFI), over 20 per cent of claimants have taken up elements of the Choices package,¹² with over 8,000 referrals to the new Condition Management Programmes; and
- nearly 10 per cent of participants in the pilots are longer-term claimants who were not required to participate in the programme, but volunteered to take part after hearing about the support on offer. In February 2005, the Government extended a mandatory WFI regime to some existing claimants, alongside a new Job Preparation Premium of £20 per week to encourage steps towards finding work.

4.21 As outlined in the Welfare Reform Green Paper, Pathways to Work will be rolled out across the country by 2008. This will ensure that all new incapacity benefit claimants can take advantage of the support that Pathways offers, complementing the introduction of a new Employment and Support Allowance.

¹⁰ *Economic Survey of the United Kingdom*, OECD, 2005

¹¹ The off-flow rates presented are produced from the Working Age Statistical Database (WASD). WASD does not include a proportion of short-term incapacity benefits claims; therefore the off-flows presented will be lower than actual rates. However, trends over time will be consistent.

¹² The Choices package is a range of provision aimed at improving labour market readiness and opportunities. This includes NDDP and the Condition Management Programmes.



Incapacity Benefit Reform 4.22 The current system of incapacity benefits is complex and has perverse incentives. Over a third of claimants come from other benefits, receiving (often higher) incapacity benefits before satisfying the main medical test. The system also does little to re-engage claimants with the labour market, tending to focus on what a person is unable to do rather than on what their capabilities are.

4.23 To address this, the Welfare Reform Green Paper proposes a new, simplified Employment and Support Allowance. This new benefit will replace the current incapacity benefits system from 2008. It builds on the successful Pathways to Work model, and strengthens the right and responsibilities agenda.

4.24 Alongside introduction of the new benefit, the Green Paper also proposes:

- steps to improve workplace health;
- improving the Gateway onto the benefit – the Personal Capability Assessment – to ensure that it focuses on assessing people’s capability for work rather than their entitlement to benefits;
- supporting GPs and primary care teams in the key role they play in helping people back into work; and
- reforming Statutory Sick Pay, to simplify it and ensure that it helps people stay in work.

Contestability 4.25 Private sector and third sector organisations can bring a distinctive approach to service delivery, based on their specialist knowledge, experience and skills. Since 2000, the Government has been systematically testing the impact of opening up the design and delivery of labour market support to competition. Thirteen Employment Zones have been providing support to unemployed adults, young people who have already been through the New Deal, and lone parents. These sectors have also made a key contribution to the delivery of the New Deal for disabled people job broking service, Action Teams and Working Neighbourhood pilots.

4.26 The third sector is already playing an important role in delivering public services, but has the potential to contribute even more. The Government will continue to identify ways of working with the private and third sectors in the delivery of a wider range of programmes. The Green Paper announced that the roll out of Pathways to Work to the remaining two-thirds of the country will be delivered primarily by the private and third sectors, and that the Government would explore ways of engaging a wider array of local partners, combining strategies and pooling resources in local efforts to reduce unemployment and inactivity.

Lone Parents

4.27 Helping lone parents move into, remain in, and progress in work, is one of the key elements in achieving the Government's commitment to halve child poverty by 2010 and eradicate it by 2020 (set out in more detail in Chapter 5). Between the mid 1970s and the late 1990s, the lone parent population almost doubled in size and the distribution of work across households polarised. As a result, the proportion of children in workless households increased nearly three-fold. Of the 1.76 million children currently in workless households, nearly 70 per cent live in a household headed by a lone parent.¹³ The Government accordingly set the challenging target of achieving a 70 per cent lone parent employment rate by 2010. It is estimated that meeting this target would lift at least a further 200,000 children out of poverty.

4.28 Considerable progress in raising the lone parent employment rate has already been made, as Chart 4.7 shows. The lone parent population has risen by 255,000 since 1997, to nearly 1.8 million in Spring 2005. Employment among this group has, however, risen even more strongly over this period, with an increase of 318,000 taking the number of lone parents in employment to over 1 million. More lone parents are now in work than not, and the employment rate of 56.6 per cent in spring 2005 represented an increase of over 11 percentage points¹⁴ since 1997. In addition, the number of lone parents claiming Income Support has fallen by almost a quarter of a million since 1997.¹⁵

4.29 Key to this success has been a package of initiatives and reforms to support lone parents into work including: increased work focused advice through Jobcentre Plus to ensure that lone parents are aware of the opportunities available to them; the New Deal for lone parents (NDLP); and policies to make work pay. Evaluation evidence suggests that the support introduced since 1997 has been a significant reason for the rising employment rate, with Government policies accounting for about half of the gains.¹⁶ Further independent evaluation suggests that participating in NDLP doubles an individual's chances of finding employment, relative to that of non-participants.¹⁷ Since 1998, almost 659,000 lone parents have joined NDLP, of whom over 420,000 have been helped into work.¹⁸

¹³ LFS Autumn 2005.

¹⁴ LFS Spring data.

¹⁵ August 2005.

¹⁶ *Welfare Reform and Lone Parents Employment in the UK*, CMPO working paper no 72, Gregg and Harkness, 2003

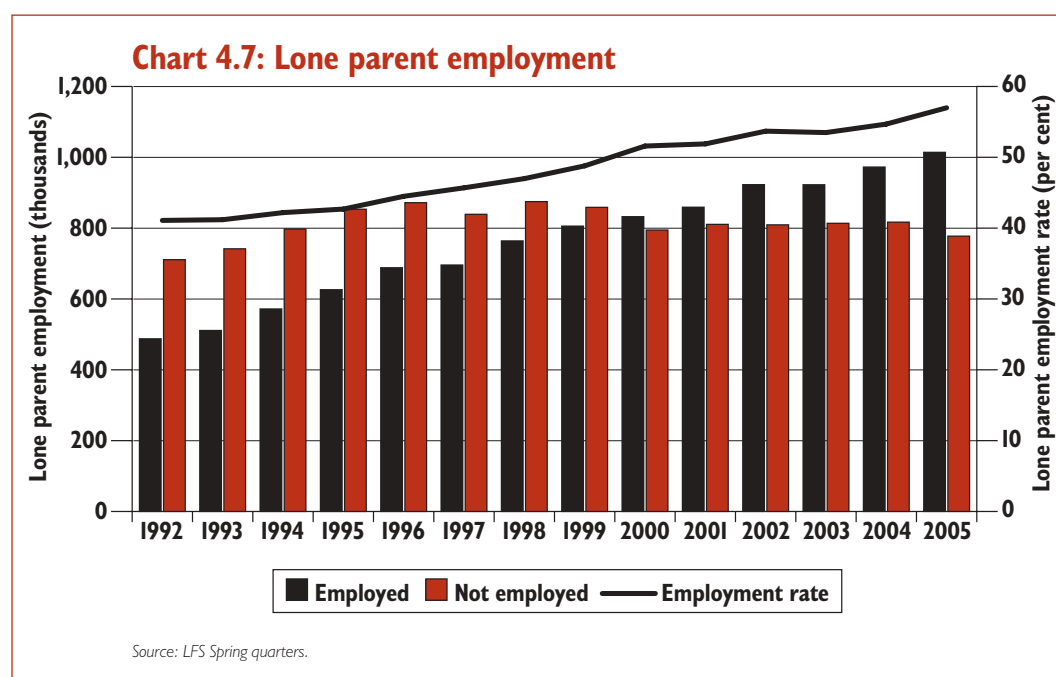
¹⁷ *New Deal for Lone Parents: Second synthesis Report of the National Evaluation*, DWP, June 2003

¹⁸ NDLP starts to November 2005; NDLP jobs to August 2005.

4.30 Despite the gains that have been made in the lone parent employment rate and the extra support that is now available, the 70 per cent lone parent employment rate target remains challenging. Further progress is essential in order to continue to reduce the number of workless households and eradicate child poverty. The Welfare Reform Green Paper sets out proposals to provide further support to enable lone parents to work. The Government believes that lone parents, in return, have a responsibility to make a serious effort to return to work, especially once their youngest child goes to secondary school. The proposals include:

- holding more frequent Work Focused Interviews (WFIs) and piloting more intensive support during the first year of a claim; and
- piloting a new premium – the Work Related Activity Premium – so that lone parents are better off if they take serious steps towards preparing for work.

4.31 WFIs with skilled Personal Advisers ensure that lone parents are fully informed of the help and support available to them. Independent evaluation¹⁹ shows that take up of NDLP rises by more than 14 percentage points among lone parents attending a WFI. Since October 2005, lone parents who have been claiming income support for 12 months or more, and who have a youngest child aged 14 years or over, are required to attend an interview once every 3 months to help them prepare for the transition to work when their child reaches 16. **This Budget announces that, from April 2007, six-monthly work focused interviews will be rolled out to all lone parents who have been on benefit for at least a year and whose youngest child is under 14.** This means that all lone parents will benefit from a WFI at least every six months.



New Deal Plus for lone parents **4.32** Lone parents remain less likely to participate in the labour market than partnered parents with children of the same age. In order to reduce further the barriers to work faced by lone parents, the DWP Five Year Strategy announced that all current lone parent initiatives would be brought together in a coherent package and to deliver a step change in support for lone parents on benefits. The New Deal Plus for lone parents (NDLP+) pilots were launched at the end of April 2005 in five Jobcentre Plus areas.²⁰

¹⁹ Integrated findings from the evaluation of the first 18 months of work-focused interviews, Insite Consulting (DWP evaluation series, w184), March 2004.

²⁰ Leicestershire; Bradford; London SE; North London; and Dudley and Sandwell.

4.33 The NDLP+ pilots combine the provision of good quality and affordable childcare with work focused support, and strong financial incentives to both look for and to stay in work. The package includes the In-Work Credit and Work Search Premium payments, and Extended Childcare support. Based on positive feedback from both Personal Advisers and lone parents, the Government announced in the Pre-Budget Report 2005 that it would:

- extend the support offered through the NDLP+ pilots in the existing five locations for a further two years, to 2008; and
- extend the NDLP+ pilots to two further districts in Scotland and Wales from October 2006.²¹

Retention 4.34 While the probability of lone parents leaving work has fallen from 14 per cent in 1992 to around 10 per cent in 2003, lone parents are still more likely to leave their job than non-lone parents and single childless women.²² The Government is committed to reducing the risk of lone parents alternating between work and benefits. As announced in the 2005 Pre-Budget Report the Government will explore ways to incentivise Personal Advisers to continue to support lone parents when in work, to ensure they are helped into sustainable employment.

4.35 Lone parents can already contact Jobcentre Plus for advice on the full range of support that is available to them, including help with housing costs, tax credits and childcare. The Green Paper proposes to explore new ways of increasing the support that Jobcentre Plus can give to lone parents who are moving into work, or who are already in work.

4.36 A number of in-work support measures are being piloted in NDLP+ and Working Neighbourhoods pilot areas. These include: the In-Work Emergency Fund to overcome barriers that might otherwise make it difficult to remain in work during the first 60 days in employment; Personal Adviser support during the first two months of employment; a Flexible Discretionary Fund; and specific retention payments. Employment Zone contractors, meanwhile, offer flexible in-work assistance to customers who require assistance.

4.37 Since October 2003, the Government has also been testing a new strategy, the Employment Retention and Advancement (ERA) pilots, for people in low-paid employment or who have moved into work from benefits. Alongside financial incentives to encourage retention in work, ERA is testing the effectiveness of continued support, for up to 33 months, from a dedicated Advancement Support Adviser. Preliminary evidence on the pilots will be available towards the end of 2006.

4.38 The In Work Credit (IWC), which covers almost 50 per cent of lone parents who have been on benefit for over a year, is a £40 a week payment for lone parents who have been on Income Support for more than 12 months, for their first 12 months back in work. The credit was first piloted in April 2004, and subsequently extended in October 2005 to a further six areas²³ in the South East of England, covering an extra 84,000 lone parents.

²¹ Edinburgh, Lothian and Borders in Scotland; the former Cardiff and Vale sites within the enlarged South East Wales district: <http://www.dwp.gov.uk/mediacentre/pressreleases/2006/feb/emp025-080206.asp>

²² *Lone Parents cycling between work and benefits*, DWP Research report 217, September 2004.

²³ Surrey and Sussex; Essex; Kent; Berkshire, Buckinghamshire and Oxfordshire; Bedfordshire and Hertfordshire; and Hampshire and the Isle of Wight.

Partners

4.39 Between the 1970s and the 1990s, there was a shift away from single earning households as the working age employment rate of women increased from 56 per cent to 66 per cent, and that of men decreased from 92 per cent to 80 per cent. Work also became polarised between ‘work rich’ double earner households and ‘work poor’ workless households, contributing to higher levels of child poverty and social exclusion. To meet the Government’s goals of extending employment opportunity to all and tackling child and pensioner poverty, it is important that work-focused support is provided to every adult in a household who is without work.

4.40 Mandatory WFIs were introduced for partners of benefit claimants in April 2004. The New Deal for partners (NDP) includes assistance with job search, advice on training and skills, and the identification and provision of support for registered childcare, offering similar levels of support to NDLP. The Government recognises that the costs of looking for work may act as a disincentive to non-working partners in single earner families. From October 2005, a work search premium of £20 per week became available in six pilot areas with high levels of worklessness to those in a family in receipt of the Working Tax Credit who are not working, and who agree to join the enhanced NDP and search actively for a job. Since April 2004, over 72,000 WFIs have been attended, and more than 3,600 job entries have been recorded by partners of benefit claimants who have either attended a WFI or joined NDP.

Unemployed people (Jobseeker’s Allowance claimants)

4.41 For the majority of jobseekers, unemployment is a short-term, transitional state; nearly 80 per cent move off benefit within 6 months. JSA makes financial support conditional on taking the necessary steps to move back into work as quickly as possible. The intervention regime supports, monitors and enforces independent jobseeking for short-term claimants; the New Deal is reserved for the small minority who fail to find work quickly. As Chart 4.2 showed, as well as reductions in long-term unemployment, the regime has contributed to a fall in the claimant count from 1,619,600 in 1997 to 919,700 in February 2006.

4.42 In order to maximise the impact of the JSA intervention regime in bearing down on unemployment, Jobcentre Plus Personal Advisers need to ensure that jobseekers move off benefit as quickly as possible. It is critical, therefore, that advisers have the opportunities and the tools they need to set agreements on jobseeking activity, offer support, monitor agreed activity, and enforce activity where necessary. Frequent face-to-face interventions are key to this, and the Government has already taken steps to increase their frequency. All claimants who reach three months of unemployment now have to participate in a series of weekly signings. For the small proportion of adults who reach six months of unemployment, Jobseeker Mandatory Activity pilots will be introduced in twelve areas from April 2006, with mandatory participation in a three-day work course and three additional follow-up interviews.

Fortnightly Job Review **4.43** The Fortnightly Job Review (FJR) is the focal point of the JSA intervention regime: the point at which advisers are able to ensure that individuals are carrying out their responsibilities to look for work. The FJR checks that claimants continue to be available for, and are actively seeking, work. Nearly 2 million FJR’s are carried out every month. The effectiveness of these interventions in increasing independent jobsearch activity and ensuring that only those who are eligible remain on benefit, is critical for maintaining flows off the benefit and maintaining downward pressure on the claimant count. **From June 2006, the Government will therefore introduce a strengthened, refocused, Fortnightly Job Review, the primary function of which will be to ensure that only those claimants who are able to**

demonstrate that they have undertaken their responsibilities to look for work are allowed to continue to claim JSA. Personal Advisers will be able to direct claimants towards further support where necessary, and will have effective powers to sanction those who are unable to demonstrate that they have undertaken sufficient jobsearch.

Women and Work Commission

4.44 The Women and Work Commission (WWC), set up in September 2004 to consider how to close the gender pay gap and opportunities gap within a generation, reported at the end of February.²⁴ The Government welcomes the broad range of the Commission's recommendations and values the ambition of closing the pay gap within a generation. **In response to *Shaping a Fairer Future*, the Government today announces a package of measures to enhance lifelong learning opportunities for women in training and work,** described further in Box 4.2.

Box 4.2: Supporting Women and Work

The Government has already done much to improve the rights of working mothers and work-life balance (set out in more detail in Chapter 5). The National Minimum Wage will increase to £5.35 this October and around 70 per cent of the beneficiaries will be women. The New Deal employment programmes have helped many women into work, and the Government has taken steps to extend the support available. As announced in 2005 Pre-Budget Report, new private and third sector led employment teams will deliver outreach support for people who are neither in work nor on benefit, especially the non-working partners of people in low income families, in groups which face particular barriers to employment. Ethnic minority outreach projects are committed to reaching customers who do not usually access existing provision, using voluntary and community sector organisations to identify and support them. The London Development Agency (LDA) and the East Midlands Development Agency (EMDA) will also be running pilots to better understand the particular barriers that women returners face.

Progress in helping more women move into work has been reflected in an increase in the employment rate of women from 67 per cent in 1997 to nearly 70 per cent today. Nevertheless, over 1 million women who are currently not working would like to work, and nearly 15 per cent of the 5.1 million women working part-time would like to increase their hours.^a The aspiration of an employment rate equivalent to 80 per cent of the working age population will only be reached if more women are helped into work, and both the economy and individuals will be richer if the skills of women not currently working can be harnessed.

The Government recognises the scale of the challenge and is committed to helping more women into work. This Budget therefore announces, in response to the Women and Work Commission's report:

- doubling the number of existing Skills Coaching pilots to 16 Jobcentre Plus districts with a specific focus on helping low-skilled women return to work;
- increasing, by 50 per cent, the number of pilots delivering level 3 skills and focusing an additional pilot on women with low skills; and
- funding for Sector Skills Councils, matched by employers in industries with skills shortages, to develop new ways of recruiting and training low skilled women, benefiting over 10,000 women.

^a LFS 2005.

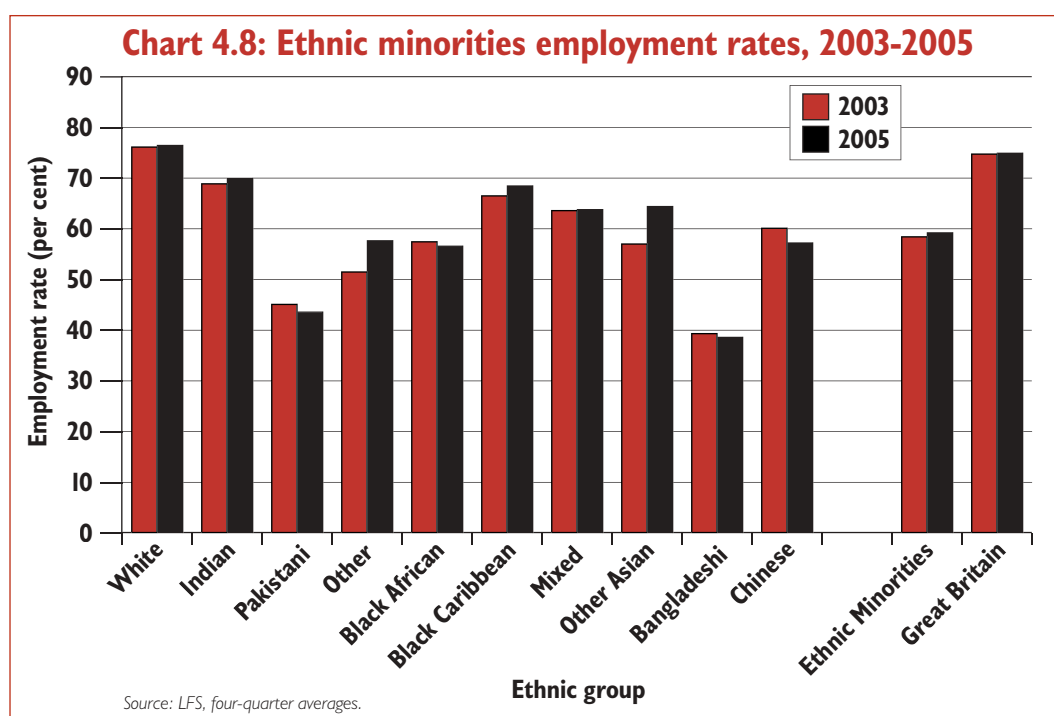
²⁴ *Shaping a Fairer Future*, Women and Work Commission, February 2006.

Ethnic Minorities

4.45 The gap between the employment rate of ethnic minorities and the employment rate overall has narrowed by around 1 percentage point between 2003 and 2005,²⁵ as Chart 4.8 shows. The overall ethnic minority employment rate now stands at 59 percent. New Deals, Employment Zones, Action Teams, Ethnic Minority Outreach, the Flexible Fund and Specialist Employment Advisers have together helped over 213,000 ethnic minority people find work. As reported in the 2005 Pre-Budget Report, however, while some ethnic minority groups are doing relatively well in the labour market, some are facing distinct disadvantages. These disadvantages may be caused by barriers to succeeding in education or accessing employment opportunities, or sometimes through job discrimination.

4.46 In 2003, and in response to a Cabinet Office report *Ethnic Minorities in the Labour Market*, the Government established a Ministerial Ethnic Minority Employment Task Force to take forward a cross-government strategy to overcome the barriers faced in education, employment and discrimination. The Task Force has made good progress and the majority of the original Cabinet Office recommendations have been implemented. Nevertheless, and as Chart 4.8 shows, employment progress for some ethnic minority groups has still been slow.

Enterprising People, Enterprising Places **4.47** In Budget 2005, the Government therefore agreed to implement the main recommendations of the report by the National Employment Panel (NEP), *Enterprising People, Enterprising Places*, incorporating them into the overall cross-government strategy. In the 12 months since publication, the Government has made strong progress towards implementing the main recommendations of the report, as outlined in Box 4.3.



²⁵ Spring four-quarter average.

4.48 In the 2005 Pre-Budget Report, the Government introduced two further measures based on the NEP's recommendations: new private and third sector led employment teams to deliver outreach support for people who are neither in work nor on benefit based in areas of disadvantage and high ethnic minority populations; and a new Commission of private sector business leaders who will be asked to advise on helping to tackle race discrimination in employment. The Commission will report to the Chancellor in early 2007.

4.49 Another key recommendation of the NEP was to introduce new partnerships for employment and skills delivery in the UK's major cities, led by new Workforce Investment Boards, to better co-ordinate efforts to tackle the employment problems of the most disadvantaged groups, including some ethnic minority groups. The Welfare Reform Green Paper announced the intention to pilot new partnerships between Jobcentre Plus, Local Authorities, Learning and Skills Councils, employers, the third sector and other partners to deliver employment and skills support in UK cities. The NEP recommendations on Employment and Skills frameworks will be incorporated into these pilots.

Box 4.3: Update on NEP recommendations

The 2005 National Employment Panel report *Enterprising People, Enterprising Places* set out measures to improve employment and business growth for ethnic and faith minority groups. The report recommended a focus on 5 main cities where two thirds of the UK's ethnic minority population live (London, Birmingham, Manchester, Bradford and Leicester).

The main measures recommended by the NEP included: new Centres of Vocational Excellence (CoVEs) for Entrepreneurship as part of the overall support for ethnic minority enterprise; Workforce Investment Boards to oversee new integrated employment and skills frameworks; and ensuring outreach support is targeted specifically at those who are not in work, not on benefit and may have been traditionally excluded from the labour market.

The NEP also called for improved leadership on race and diversity within the public and private sector to end discriminatory practices and promote equality. Its recommendations included creating a high level commission of business leaders to advise on tackling discrimination and greater incorporation of race equality into procurement.

In the 12 months since the report was published, the Government has:

- been developing two new pilot Centres of Vocational Excellence (CoVEs) for Entrepreneurship in London and Birmingham;
- set aside resources for additional outreach to partners of benefit claimants in the five designated cities, beginning in 2007;
- given Regional Development Agencies responsibility for assessing the needs of ethnic minority businesses within their Regional Economic Strategies;
- proposed piloting new flexible and integrated local arrangements that will incorporate the NEP's recommendation that employer-involved partnerships co-ordinate employment and skills support for disadvantaged groups;
- announced the intention to invite business leaders to join a Commission to advise, by Budget 2007, on increasing ethnic minority employment in the private sector; and
- worked across four central departments to develop an approach to public procurement that provides greater assurance that race equality conditions are being met, and that procurement is helping the Government meet its wider objectives on race equality.

Extending Working Lives

4.50 The Government is committed to ensuring that everyone who wishes to extend their working life should have the opportunity to do so. Evidence suggests that remaining in work can increase social inclusion and improve health; it also enhances the ability to save for retirement, helping address the impacts of demographic change. Raising employment among older people of working age will be a key element in realising the Government's long-term aspiration of an employment rate equivalent to 80 per cent of the working age population.

4.51 The Government has improved the back to work support available to older people through Jobcentre Plus and the New Deal for people aged 50 and over, which is estimated to have supported around 150,000 job starts. The Welfare Reform Green Paper proposes that employment support for jobseekers aged over 50 should be aligned with that for younger age groups. DWP also signalled the intention to work with employers to extend flexible working opportunities to older workers. Facilitating this, in October 2006 (subject to Parliamentary approval), and in line with the European Employment Directive, the Government will introduce legislation that outlaws age discrimination in employment and vocational training. The financial incentive to work, meanwhile, has been enhanced through the Working Tax Credit, which includes additional support for people over 50. The increase in the UK female state pension age from 60 years to 65 years between 2010 and 2020 is expected to lead to significant growth in female labour-market participation rates.

4.52 These measures have, in the context of a strong and stable economy, delivered impressive results. Since May 1997, the employment rate of people aged between 50 and State Pension Age has increased from less than 65 per cent to over 70 per cent. Furthermore, there are now nearly 1.1 million people over State Pension Age in employment.

HOUSING BENEFIT REFORM

Housing Benefit 4.53 The structure and effective delivery of Housing Benefit are important factors in promoting labour mobility and participation. The Government has initiated a comprehensive reform programme to address the complexity of the current system, and this has already led to considerable improvements in delivery. In the second quarter of 2002/03, for example, local authorities took an average of 57 days to process new claims. This had improved to 46 days in 2004/05 and, by the second quarter of 2005/06, to 36 days. The latest data show that the 60 worst performing authorities now take an average of 59 days to process new claims; a reduction of 48 days since 2002/03. The Government has also introduced regulations, effective since 6 March, that consolidate more than 200 sets of amending regulations to the Housing Benefit (General) Regulations 1987 and the Council Tax (General) Regulations 1992. This will make it much easier for administrators and advisers to understand and apply the correct legislation.

4.54 The Government will continue its drive to simplify the administration of Housing Benefit by introducing **a package of measures aimed at reducing anomalies in, and further simplifying, the system, including:**

- **applying regulations more equally to customers and their partners; and**
- **implementing regulations that clarify the treatment of owner-occupiers and former owner-occupiers and their partners.**

4.55 The Government will also continue to promote home ownership and the greater involvement of private sector providers in offering shared ownership opportunities. Bringing arrangements into line with those where ownership is shared with a social sector landlord, **the Government will enable tenants to receive Housing Benefit on the rental portion of a shared ownership arrangement where the tenancy is granted by an organisation other than a Housing Association or Housing Authority.**

Local Housing Allowances

4.56 The Government is also making progress with structural reform of Housing Benefit. The flat-rate Local Housing Allowance (LHA) was first introduced in 9 pilot areas between November 2003 and February 2004, and in a further 9 areas from April 2005. The LHA provides a simpler, more transparent way of calculating payments and, through payment to the recipient rather than the landlord, helps to promote personal financial responsibility and ease the transition to work. Early evidence from the pilots is promising and, building on this evidence, the Government is currently consulting on proposals for a scheme suitable for rolling out across the country.

Tackling fraud and error

4.57 Spending on Housing Benefit has been rising in real terms since 2000-01. There have been a number of reasons for this, including above inflation increases in private sector rents. While ensuring that tenants continue to receive an appropriate level of benefit, the Government will take steps to maintain overall Housing Benefit spending at a more stable level, building on progress to date in reducing fraud. The Government will take forward a number of measures to reduce fraud and error, including:

- as announced in the 2005 Pre-Budget Report, **providing funding to ensure that all local authorities can take steps to reduce housing benefit fraud and error by reviewing or visiting at least 50 per cent of their claimants each year, in line with best practice;**
- **introducing new methods of identifying predictable changes of circumstances that would affect a claim, and taking early action to prevent overpayments; and**
- **providing new IT links between the Housing Benefit Matching Service and local authorities to speed up the transmission of data.**

MAKING WORK PAY

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

The National Minimum Wage

4.59 The National Minimum Wage guarantees a fair minimum income from work. Since October 2005, the adult rate has been £5.05 an hour. In February 2005, the Low Pay Commission recommended that the rate should rise to £5.35 from October 2006, subject to a review to check that this remained appropriate in the light of economic circumstances. It has now reviewed the most recent evidence on the labour market and economy, and confirmed that the rate should rise as planned. It has also made other recommendations, including that the rate for 16-17 year olds, first introduced in October 2004 at £3 per hour, should rise to £3.30. The Government has accepted this, and its full response was set out in a statement on 20 March.

The Working Tax Credit **4.60** The Working Tax Credit provides financial support on top of earnings for households with low incomes. By December 2005, 2.2 million working families and over 250,000 low-income working households without children were benefiting from the Working Tax Credit. Tax credits have reduced the burden of tax for low-income households and for workers with a disability.

4.61 The 2005 Pre-Budget Report set out a series of improvements to the Tax Credits system, based on lessons learned from the first two years of its operation. These measures will mean that there will be greater certainty for claimants, while maintaining the flexibility to respond to changes in income and circumstances. In particular, the disregard for increases in earnings will rise from £2,500 to £25,000. Financial support for childcare is discussed in more detail in Chapter 5.

Tackling the unemployment trap **4.62** The unemployment trap occurs when those without work find the difference between in-work and out-of-work incomes too small to provide an incentive to enter the labour market. Table 4.1 shows that, since the introduction of the National Minimum Wage in April 1999, the Government has increased the minimum income that people can expect when moving into work, thereby reducing the unemployment trap.

Table 4.1: Weekly Minimum Income Guarantees (MIGs)

	April 1999	October 2006	Percentage increase real terms ²
Family ¹ with one child, full-time work	£182	£268	23%
Family ¹ with one child, part-time work	£136	£210	29%
Single person, 25 or over, full-time work	£113	£175	30%
Couple, no children, 25 or over, full-time work	£117	£206	48%
Single disabled person in full-time work	£139	£218	31%
Single disabled person in part-time work	£109	£160	23%

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

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

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

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

Tackling the poverty trap **4.63** The poverty trap occurs when those in work have limited incentives to move up the earnings ladder because it may leave them little better off. Marginal deduction rates (MDRs) measure the extent of the poverty trap by showing how much of each additional pound of gross earnings is lost through higher taxes and withdrawn benefits or tax credits.

4.64 The Government's reforms are ensuring that workers have improved incentives to progress in work. Table 4.2 shows that, as a result of these reforms, around half a million fewer low-income households now face MDRs in excess of 70 per cent than in April 1997. The increase in the number of households facing MDRs of between 60 and 70 per cent is primarily due to the introduction of tax credits, which have extended financial support so that far more families benefit.

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

Marginal deduction rate¹	Before Budget 1998	2006-07 system of tax and benefits
Over 100 per cent	5,000	0
Over 90 per cent	130,000	35,000
Over 80 per cent	300,000	170,000
Over 70 per cent	740,000	240,000
Over 60 per cent	760,000	1,730,000

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

Note: Figures are cumulative. Before Budget 1998 based on 1997-98 estimated caseload and take-up rates; the 2006-07 system of tax and benefits is based on 2004-05 caseload and take-up rates.

FUNDING FOR WELFARE TO WORK

4.65 The Welfare to Work programme is delivered by DWP. The programme was originally funded from the Windfall Tax on the excess profits of the privatised utilities. Since 2003-04, Welfare to Work has increasingly been funded from within DWP's own resources, as the Windfall Tax receipts are exhausted. The DWP Annual Report sets out expenditure plans and outturn information.

Table 4.3: Allocation of the Windfall Tax

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

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

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

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

⁴ Includes funding for the Innovation Fund.

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

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

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

⁸ Includes £219 million funding for Employer Training Pilots.

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

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

