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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. Its aim is to ensure a higher proportion of people in work than ever before by 2010. Worklessness, particularly on a long-term basis, is a constraint on the economy's growth potential and a major cause of poverty and deprivation. A dynamic and flexible labour market, that equips people to adapt to changing economic conditions, and which has the institutional flexibility to deliver high employment and low unemployment across the economic cycle, is key to achieving the Government's goal. Any decision to join the single currency would place a further premium on UK labour market flexibility, as well as other flexibilities, just as it does for existing members. Budget 2003 describes the action the Government is taking to increase flexibility in the labour market, including:

- **extra help for unemployed people searching for jobs**, with additional interventions in the first six months;
- **greater flexibility for Jobcentre Plus districts** to respond to local labour market conditions, with a new discretionary fund, more flexible options within the New Deal for young people, and greater rewards for successful managers;
- **significant reform of Housing Benefit** to improve financial gains to work, facilitate labour mobility, and deliver greater reliability in the service to claimants;
- **extension of Employment Zones** to lone parents and people returning to the New Deal for a second time, and the introduction of multiple providers;
- **increases in the National Minimum Wage** from October 2003 for adult and youth workers and for those in approved training;
- **improved support for lone parents**, with a flexible fund to improve access to debt advisory services and pilots of a new worksearch premium to cover the extra costs of looking for work;
- **an enhanced New Deal for partners** from April 2004, bringing support for partners of benefit claimants into line with that available to lone parents; and
- **extra support to help people from ethnic minorities**, with a new £8 million policy fund for Jobcentre Plus managers, and specialist advisers in Jobcentre Plus areas with high ethnic minority populations.

INTRODUCTION

4.1 The Government's long-term goal is to ensure a higher proportion of people in work than ever before by 2010. Worklessness, particularly on a long-term basis, is a constraint on Britain's growth potential – the strength of the economy depends on how many people are in work and on how productive they are. It is also a major cause of poverty and deprivation – for most families and individuals, employment is the single most effective means of avoiding poverty. The Government's strategy for delivering employment opportunity for all – the modern definition of full employment – involves maintaining macroeconomic stability and ensuring a dynamic and flexible labour market that equips people to adapt to change.

Labour market flexibility 4.2 There are many aspects to labour market flexibility, including the speed with which the labour market can adjust to economic shocks, the structural and institutional factors that influence wage setting and supply and demand in the labour market, and the equilibrium unemployment rate. While these aspects are interrelated, a flexible labour market can be defined as one that has the ability to adjust to changing economic conditions in a way that maintains high employment, low inflation and unemployment, and continued growth in real incomes.

4.3 An efficient and flexible labour market, that creates jobs, increases competitiveness, and raises productivity, is essential to the UK, whether or not it is a member of Economic and Monetary Union (EMU). Any decision to join the single currency would place a premium on adjustment mechanisms, which in the labour market equates with wage flexibility. While EMU membership has the potential to create more jobs, through greater trade opportunities and market integration, sufficient flexibility in wages, as well as other forms of flexibility, would be necessary to realise those gains. The preliminary and technical analysis supporting the five tests assessment includes an analysis of labour market flexibility which will be published as a supporting study alongside the assessment.

Flexibility and fairness 4.4 The UK labour market generally exhibits a high degree of flexibility and this has helped to deliver a strong performance in recent years, despite uncertain global conditions. With the right type of flexibility in British and European labour, capital and product markets, economic efficiency, employment opportunity and fairness can advance together. In the UK, as in the rest of the EU, labour markets must foster job creation and provide the right work incentives, while maintaining minimum standards in work and providing security for those who cannot work. However, significant sources of inflexibility remain, and this chapter explains how the Government is working to advance flexibility and fairness in the labour market by:

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

Principles of intervention in the labour market 4.5 The Government believes that intervention to deliver a more effective, efficient, flexible and fair labour market must be driven by a set of key principles, described in Box 4.1. Key Government reforms exemplify principles-driven intervention. For example, the National Minimum Wage was introduced in response to the long-standing economic and social problem of low paid work, is kept under review by the Low Pay Commission and has successfully raised the incomes of low paid workers without jeopardising employment growth or wage stability. Similarly, the Working and Child Tax Credits were introduced to tackle poverty and improve gains to work following extensive consultation, a full Regulatory Impact Assessment and careful study of similar policies in other countries. The Government will continue to apply these principles as it considers future employment policies. The principles commit the Department of Trade and Industry to implement changes to employment regulation only in April and October, unless European obligations require otherwise. Where appropriate, other government departments will adopt the same approach.

Box 4.1: Key principles of intervention in the labour market

In a globally competitive environment, full employment can be achieved only by creating a more flexible and dynamic economy in which firms and individuals are equipped to respond quickly and easily to change. Flexibility and fairness in the labour market are not opposites but complements; labour market policy can and must promote both. Measures to ensure well-functioning markets must incorporate a social dimension, just as social objectives are most effectively realised when based on well-functioning markets. Intervention should be driven by the following principles:

- intervention only where there is a recognised and significant problem requiring a government response;
- full consideration of policy alternatives, to keep distortions and regulatory burdens to a minimum;
- benchmarking of new proposals against existing requirements in other OECD countries;
- assessment of the consequences for small firms in particular, and consideration of small firms' exemption where appropriate;
- testing for the impact on labour flexibility and employment opportunities, especially among disadvantaged or vulnerable groups;
- testing for the impact on productivity and growth;
- intervention will be subject to cost-benefit analysis and, for regulation, Regulatory Impact Assessment;
- proper consultation in compliance with the Government's code on written consultation, prior to a decision being taken;
- the Department of Trade and Industry will implement changes to employment regulations only in April and October each year, unless European obligations require otherwise;
- information and support packages for firms, for all measures which have a potentially large impact on businesses. This will include a strategy to help businesses comply with any new legal duties;
- promotion of alternative means of resolving employment disputes; and
- where EU regulation might affect competitiveness, evaluation by the Competitiveness Council prior to a decision being taken to ensure proposals are not harmful to economic and employment objectives.

The Government will present a submission to the EU Employment Taskforce, led by Wim Kok, setting out in detail this principled approach to labour market intervention.

4.6 At an EU level, labour market policy must also take account of the principle of subsidiarity – intervention should be undertaken at national level where possible, and at EU level where necessary. If institutions, social and legal frameworks and individual preferences vary substantially across Member States, EU level legislation removing existing flexibilities that help the labour market work more efficiently can harm the employment chances of those that it seeks to protect. Over-rigid legislation capping working time, for example, may not be the most appropriate means of protecting workers from the obligation to work excessive hours. As well as failing to target the problem, such an approach could constrain choice over working arrangements and income and, by adding to the regulatory burden, damage employment growth. Progress at an EU level towards more principles-based intervention, such as the Commission's commitment to impact assessment and consultation, is welcome but must be built upon.

4.7 EU Member States share common economic ambitions – high productivity and full employment – and a common commitment to social values. The Lisbon economic reform agenda recognises the multi-faceted economic, social and environmental nature of policy-making. While appropriate intervention in the labour market serves both economic and social goals, poorly targeted policy which distorts employer and employee decisions may lead to lower employment and increased duration of unemployment, thereby putting at risk both the EU's employment objectives and the longer term aim of employment opportunity for all. Since the Lisbon employment targets were agreed, the EU has created five million new jobs. However, much more progress is still needed:

- reaching the 70 per cent overall employment target requires the creation of a further 15 million jobs;
- meeting the 60 per cent goal for female employment requires a further 6 million jobs for women; and
- meeting the 50 per cent employment target for older workers would require at least 5 million more jobs for older people.

4.8 To ensure that labour market policy across the EU promotes flexibility and fairness, the Government will present a submission to the new Employment Taskforce setting out a principled approach to intervention in the broader context of a full employment strategy for Europe. The Employment Taskforce – launched at the March 2003 European Council, and chaired by the former Prime Minister of the Netherlands, Wim Kok – has been mandated to report by spring 2004 on the practical steps that Member States might take to achieve the Lisbon employment targets. The Government strongly welcomes this important and imaginative initiative, and looks forward to giving the Taskforce its full support.

Box 4.2: Delivering full employment in the European Union

The European Union contains 15 diverse labour markets, with different cultures, traditions, frameworks and institutions, but one common goal – employment opportunity for all. The EU has three employment targets for 2010: 70 per cent total employment, 60 per cent female employment, and 50 per cent employment among older workers. While the UK currently meets all of these targets, the labour market performance of other Member States has been less strong, and the EU as a whole falls short of meeting each target. A step change in the pace of reform is essential if these targets are to be met.

The European Employment Strategy (EES) is the key vehicle for labour market reform in the EU. The Government welcomes the recent agreement to align the new EES with the Lisbon 2010 timeframe and to incorporate within it the 2010 employment targets. The revised Strategy should focus on promoting employability and removing obstacles to work, and should be simplified with fewer guidelines.

Labour market reform is essential to achieve the EU's common goals, but must not come at the expense of those on the margins of the labour market. All employees should have a right to decent minimum standards in work and should not suffer unfair discrimination or inequality of opportunity. The challenge facing EU labour markets is to raise employment and increase social cohesion by making labour markets respond more efficiently to changes in economic conditions. Flexible working patterns and working hours are an important first step back into the labour market for vulnerable groups, such as lone parents and older workers, and enable firms to respond to difficult economic conditions. Badly targeted legislation on the other hand can reduce labour market flexibility and damages prospects of achieving the EU's employment targets.

EQUIPPING PEOPLE TO COPE WITH CHANGE

4.9 In an uncertain global environment it is more important than ever that labour markets are flexible enough to respond quickly to change. New technologies, changing consumer preferences, and evolving demands for particular skills require businesses and individuals to adapt so that resources remain in productive use and high employment can be maintained. Earlier this year, EU Member States agreed that measures to address change and promote adaptability, while ensuring a proper balance between flexibility and security, should be a priority area for reform across the EU¹.

4.10 Faced with economic shocks, regions or countries must have labour markets in which local wage setting is characterised by a low degree of rigidity, the institutional labour market framework is supportive of adjustment and job creation, and workers have opportunities to train and acquire new skills. Labour market flexibility helps particular regions, industries, and groups of workers to adapt to changing economic circumstances, preventing pockets of high and persistent unemployment emerging in the face of negative shocks. Flexibility also improves the ability of the economy to take advantage of the opportunities generated by positive shocks arising from changing consumer preferences, falling input prices, or the impact of innovation. A decision to join the single currency would place a premium on adjustment mechanisms, such as wage flexibility, that allow the labour market to respond rapidly to shocks.

¹ Employment Committee of the Employment, Social Policy, Health and Consumer Affairs Council, February 2003.

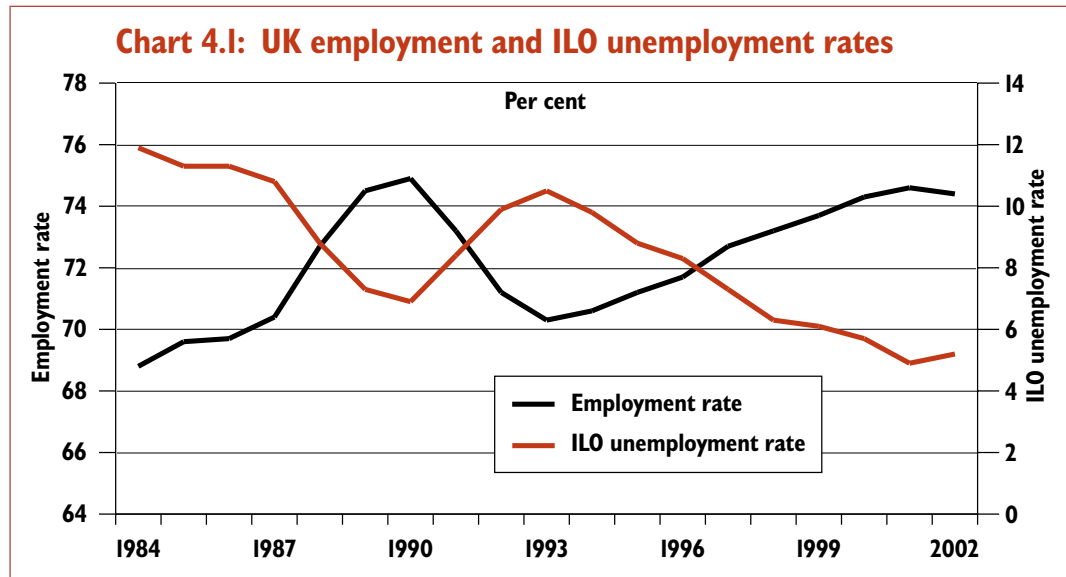
Functional flexibility

4.11 The ability of individuals to undertake a wide range of tasks – functional flexibility – allows people to adapt to changing patterns of demand and production techniques, promoting employment and productivity by ensuring that resources shift rapidly to more efficient roles. In a dynamic labour market, such as that in the UK, functional flexibility also ensures that those who become unemployed are able to return rapidly to employment. It will tend to be higher if there are more skilled people in the workforce and if active labour market policies are effective at re-attaching people to the labour market.

Workforce skills 4.12 The quantity and quality of skilled labour in an economy are important determinants of economic performance. Skilled workers often adapt faster and more effectively to change, making the labour market and the economy more flexible. International evidence suggests that the UK suffers from skills shortages, especially at the lower-intermediate level, and other EU Member States, such as Sweden, have demonstrated what can be achieved through a focus on skills and lifelong learning. As described in Chapter 3, the Government is taking action to raise levels of skills in the workforce, including through:

- **the introduction of Enterprise Advisers** and school pilots to promote enterprise learning throughout the education system and strengthen the links between education, enterprise and employment;
- the launch of a new employer-led National Modern Apprenticeship Taskforce to help increase the number of apprenticeship opportunities available for young people;
- **the extension of Employer Training Pilots**, to tackle the barriers which exclude people from the training they need to develop and progress; and
- **a package of measures to facilitate migration** as a source of skills and labour in the economy, building on previous reforms.

Active labour market policies 4.13 The performance of the labour market over recent years has been strong by international and historical standards. At 5.0 per cent, UK unemployment on the International Labour Organisation (ILO) definition is the lowest among the G7 economies. Claimant count unemployment has fallen by more than 700,000 since 1997 to levels last seen a generation ago, and since the start of 2001 has remained consistently below one million – the first time this has happened since 1975. Employment is currently at record highs, having risen by nearly 1.5 million since spring 1997. Labour market policies, including the New Deal and the Jobseeker's Allowance regime, which balance rights and responsibilities, have enabled the labour market to function better and are likely to have increased its flexibility.



Jobseeker's Allowance 4.14 The Jobseeker's Allowance (JSA) regime helps the labour market to adjust to changing economic conditions, by re-allocating labour as relative demand changes. Delivered through Jobcentre Plus, JSA provides individuals who are out of work and actively seeking employment with the advice and support they need to find jobs, helping to ensure that, for the majority of claimants, unemployment is a short-term experience. Compared with 1997, when nearly 40 per cent of claims lasted for more than a year, 69 per cent of JSA claims are now of less than six months duration. However, nearly 300,000 current JSA claims have lasted for over six months, and further support is therefore needed to ensure that a greater number of claimants find work earlier.

4.15 Budget 2003 introduces a series of reforms to build on the success of the JSA regime in maintaining low levels of unemployment, and to improve its effectiveness at helping people adapt to changing conditions. From April 2004, the reforms will:

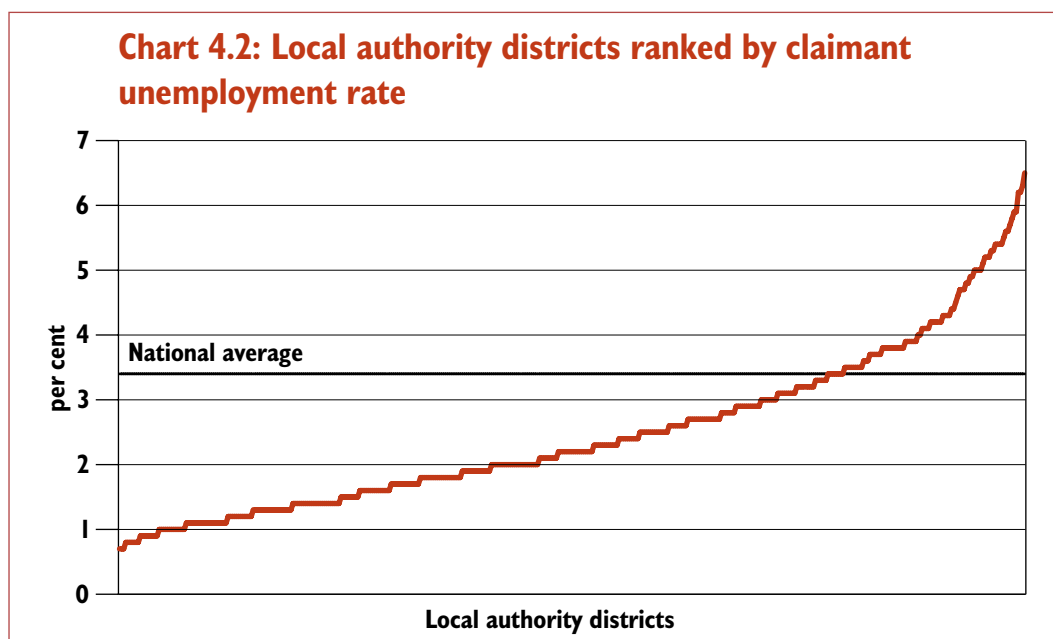
- **increase the minimum number of steps that JSA claimants are required to take to search for jobs**, strengthening the emphasis on jobsearch; and
- **increase the number of interventions in the first six months**, with weekly signing for six weeks after the existing 13 week interview for all JSA claimants.

Welfare to Work 4.16 For those who remain unemployed for longer, the Government's Welfare to Work strategy ensures that they remain attached to the labour market, helping to sustain a dynamic and flexible labour market. The strategy seeks to tackle long-term unemployment by equipping people with the skills and opportunities they need to compete successfully for the vacancies generated by the labour market.

4.17 The New Deal for young people (NDYP), for 18 to 24 year olds, and the New Deal for those aged 25 and over (ND25+), provide a range of support for young and older long-term unemployed jobseekers. These programmes involve comprehensive support for jobsearch and have helped to deliver significant reductions in long-term and youth long-term unemployment. Almost 415,000 long-term unemployed 18 to 24 year olds have found jobs through NDYP, while ND25+ has helped more than 135,000 older people back into work. Independent research confirms the positive impact of the New Deal². In addition, the New Deal for over 50s, introduced nationally in 2000, has helped to increase the employment rate of those aged between 50 and state retirement age to 69 per cent from 65 per cent in 1997.

² See, for example, *The New Deal for young people: implications for employment and the public finances*, National Institute of Economic and Social Research, December 2002; and *New Deal for young people: national follow through*, National Centre for Social Research, April 2000.

Local flexibility 4.18 To deliver full employment throughout the country, local and regional economies must be equipped to adjust and respond to change. While the national New Deal programmes have successfully led to increases in overall employment, as shown in Chart 4.2, local concentrations of unemployment persist. Local staff are often best placed to identify the needs of local labour markets, and to adapt programmes to provide local solutions to employment problems in specific areas. Flexibility in regional and local employment policies can therefore help to ensure that people move back into employment quickly and are able to change jobs in response to changing local conditions, advancing the Government's goal to reduce the persistent gap in growth rates between different regions and localities.



4.19 The Rapid Response Service (RRS) provides enhanced support to help local areas adapt to large-scale redundancies. While all areas will naturally experience and absorb flows in and out of work, areas with existing high unemployment or that are heavily dependent on one industry can suffer long-term damage when redundancies occur. The RRS seeks to address localised employment problems by offering flexible help tailored to meet the needs of individuals, employers, and the local economy.

4.20 Budget 2003 takes further steps to enhance flexibility in local employment policies. From April 2004, Jobcentre Plus districts will be given greater flexibility and discretion to increase their effectiveness in moving people quickly into work:

- a new discretionary fund will give District Managers enhanced flexibility to direct resources, including to address specific barriers to work affecting the local community;
- advisers will have greater discretion over which clients qualify for early entry to the New Deal;
- districts will be able to adopt a more flexible approach to the length and design of the options within the New Deal for young people, with the minimum length of options reduced from 26 weeks to 13 weeks;
- Jobcentre Plus will develop a partnership strategy to work more closely with private recruitment agencies; and
- with immediate effect, managers in the most successful districts will receive greater rewards, while those who fail to deliver a high standard of service will be replaced.

Employment Zones 4.21 Alongside the New Deal, Employment Zones are testing an innovative approach to helping long-term unemployed people aged 25 and over back into work. Currently operating in 15 areas of England, Scotland and Wales, Employment Zones allow jobseekers and their personal advisers to use funds with complete flexibility to overcome individual barriers to work. The Government is taking further steps to extend the help provided by Employment Zones more widely and to encourage innovation among providers:

- from October 2003, the Employment Zone approach will be extended to people who would otherwise return to the New Deal for young people for a second or subsequent time in existing Employment Zone areas;
- from April 2004, multiple providers will be introduced in the five London Employment Zones, as well as in the Birmingham, Liverpool and Glasgow Zones. Multiple providers will each be allocated a random cross-section of clients with similar characteristics so that performance can be compared on a like-for-like basis; and
- from April 2004, Employment Zones will replace the New Deal for lone parents (NDLP) in the five London Zones, and will replace the NDLP for lone parents returning for a second or subsequent work-focused interview in the other Zones.

Labour market information 4.22 Access to good quality information about local labour markets can help people to make well-informed decisions about their employment choices and respond to changes in local conditions. To improve the availability of such information, the Department for Work and Pensions and the Department for Education and Skills, working with local, regional and national partners, will **publish an action plan later this year, setting out proposals to improve collation of the numerous sources of labour market information that exist, and to make these accessible to a wide range of users.**

Geographic labour mobility

4.23 Geographic labour mobility refers to the ability and willingness of workers to commute or move location to find employment. The extent of geographic mobility depends on a range of factors, including the flexibility of the housing market, the ease of commuting, and the degree to which economic migrants are attracted to, and able to move to, high demand areas. In the UK, as elsewhere in Europe, geographic mobility tends to be relatively low. However, Government policies aim to exert a positive impact on mobility and make it easier for people to move location in response to change, including through:

- **an increase in the area over which JSA claimants are expected to travel in order to find work, from one hour to one and a half hours travelling time, after 13 weeks on JSA;**
- reforms to facilitate migration as a source of skills and labour in the UK. As described in Chapter 3, **Budget 2003 introduces new measures to maximise the economic benefits of migration and to help employers facing recruitment difficulties**, building on the success of the Highly Skilled Migrant Programme and the Work Permits system;
- **new proposals to increase flexibility in the housing market**, through a step change in housing provision and reforms to the planning system described in Chapter 3. Reforms to Housing Benefit, described later in this chapter, will also help people move between different jobs and localities; and
- **a review of Government support for local bus services**, described in Chapter 7, to ensure that these better meet the needs of local people and communities.

Employment flexibility

4.24 Employment flexibility is the ability, or willingness, of employers and employees to adjust working patterns to meet new challenges. Flexible working patterns that allow people to balance work with other responsibilities can have a positive influence on the overall supply of labour, encouraging people to take up jobs they might not otherwise have done. The UK labour market exhibits a significant degree of employment flexibility, with a high incidence of part-time working and widespread adoption of flexible working practices, generally as a result of workers' choices. Around 25 per cent of total UK employment is part-time and the distribution of hours worked is far wider than in most other EU countries. The Government believes that the European regulatory framework should continue to support individual choice over flexible working patterns and hours.

4.25 The Government has taken steps to improve levels of employment flexibility in the UK. As described in Chapter 5, reforms to the tax and benefit system since 1997, including the introduction of the Child and Working Tax Credits and new maternity, paternity and adoption leave rights, are helping to deliver a step change in choice and support for parents, increasing the flexibility of the labour market. Chapter 5 also describes the Government's strategy³ for enhancing this support, in particular by supporting parents to secure the benefits of more flexible working arrangements.

Flexibility in wage setting

4.26 A dynamic and flexible labour market requires wages to respond flexibly to shocks and to imbalances between supply and demand. Adjustment of wages would be even more important within a single currency since changes in external competitiveness would be driven by inflation differentials alone. Historically, real wage flexibility has appeared relatively low in the UK and may have contributed to the high levels of unemployment experienced in the 1980s and early 1990s. Real wages have tended to be rigid in the face of high levels of unemployment but have grown strongly when unemployment has fallen. The preliminary and technical analysis supporting the five test assessment of labour market flexibility includes an analysis of wage flexibility.

4.27 Relative wage flexibility – the extent to which wages vary between different sectors or regions in response to changing conditions – also needs to be sufficiently high to provide incentives for labour to move in response to changes in demand between industries and sectors. Flexible relative wages reduce the likelihood of mismatch between labour supply and demand occurring at the sectoral or regional level.

4.28 Evidence suggests that wages in the UK do tend to adjust across regions and across skills. There is considerable scope for variation in wage settlements between individual industries and regions, and this responsiveness appears to have increased over time.⁴

Public sector wage flexibility

4.29 However, while relative wage flexibility is generally high in the private sector, where wage setting is highly decentralised, institutional constraints remain. The Government's cross-cutting review of the public sector labour market, conducted as part of the 2002 Spending Review, found that public sector wages vary far less by region compared with those in the private sector, with relatively little variation between regions outside London. The review concluded that there was significant scope to increase the flexibility and responsiveness of the public sector labour market through the setting of pay and workforce conditions.

³ *Balancing work and family life: enhancing choice and support for parents*, HM Treasury and the Department of Trade and Industry, January 2003.

⁴ See, for example, *Wage Flexibility and EMU*, Chapter 4 in UK Selected Issues, IMF Staff Country Report No. 00/106, IMF (2000).

4.30 To recognise local and regional conditions in pay, especially for the low paid, the Government will therefore make sure that the remit for the Pay Review Bodies and for public sector workers includes a stronger local and regional dimension. Further information on public sector pay and workforce initiatives is set out in Chapter 6.

MAKING WORK PAY

4.31 A flexible and dynamic labour market requires work incentives that make it worthwhile for all individuals to compete in the labour market. In March this year the European Council agreed on the need for EU-wide reform of tax and benefit systems in Europe in order to increase work incentives across the Union. In Britain, with the introduction of tax credits, the Government has already made the shift from a benefit system that created barriers to work to a system that advances labour market flexibility by providing greater rewards from work while promoting stability in incomes. The Government's strategy to make work pay tackles two problems:

- the unemployment trap, when those without work find the difference between in-work and out-of-work income too small to provide an incentive to enter the labour market. The unemployment trap reduces labour market flexibility as people choose not to take jobs even if vacancies are available; and
- the poverty trap, when those in work are discouraged from working longer hours or from taking a better paid job because it may leave them little better off. The poverty trap restricts functional and employment flexibility since workers see little gain from adjusting their working patterns.

National Minimum Wage **4.32** The National Minimum Wage provides fair minimum incomes from work, while allowing wages to respond to labour market conditions. In March 2003, the Government published the Fourth Report from the Low Pay Commission (LPC). The Report found that the National Minimum Wage had no discernible negative impact on overall employment, inflation or the wider economy. The LPC also found that the increase in the National Minimum Wage in October 2001 had particularly benefited disabled people and women and had helped to make flexible working patterns more attractive – they estimate that 70 per cent of employees benefiting from the increase were women, 13 per cent were disabled, and two-thirds worked part-time.

4.33 In the light of these findings, the rate for adult workers aged 22 or over will be increased to £4.50 an hour from October 2003 and, subject to consideration of the LPC's review early next year, to £4.85 from October 2004. The youth and development rate, for workers aged between 18 and 21 or in approved training, will also rise, to £3.80 from October 2003 and to £4.10 from October 2004. The increased differential between the adult and youth rates will help to address the problem of low pay among adult workers, who are more likely to face in-work poverty or poor work incentives, while providing flexibility for employers to hire less experienced younger workers. The LPC estimates that at least 1.3 million low paid workers will benefit from the new rates of the National Minimum Wage in October 2003, and that at least 1.7 million will benefit in October 2004.

4.34 As described in Chapter 5, the Government has also agreed that the LPC should look into the advantages and disadvantages of a minimum wage for 16 and 17 year olds and will conduct a wider, cross-government, review of financial support for 16 to 19 year olds, including the financial incentives for young people to participate in education and training and the interaction between this support and any new minimum wage for 16 and 17 year olds. The review will report in spring 2004.

The Working Tax Credit 4.35 The tax and benefit system also influences the extent to which the labour market responds to economic shocks. Building on the success of earlier reforms, Budget 2002 introduced a new system of support to help families, tackle child poverty and make work pay. Paid from this month, **the Child and Working Tax Credits consolidate and improve existing streams of child and in-work support.** Details of the Child Tax Credit are set out in Chapter 5.

4.36 The Working Tax Credit is designed to help tackle poor work incentives and persistent poverty among working people, providing support on top of the guarantee provided by the National Minimum Wage. It replaces the adult elements of the Working Families' Tax Credit and the Disabled Person's Tax Credit and extends in-work support to workers aged 25 or over without children or disabilities working 30 or more hours a week. The Working Tax Credit also replaces the New Deal 50+ Employment Credit, by including a return-to-work element for people aged 50 or over who have received certain out-of-work benefits for at least six months.

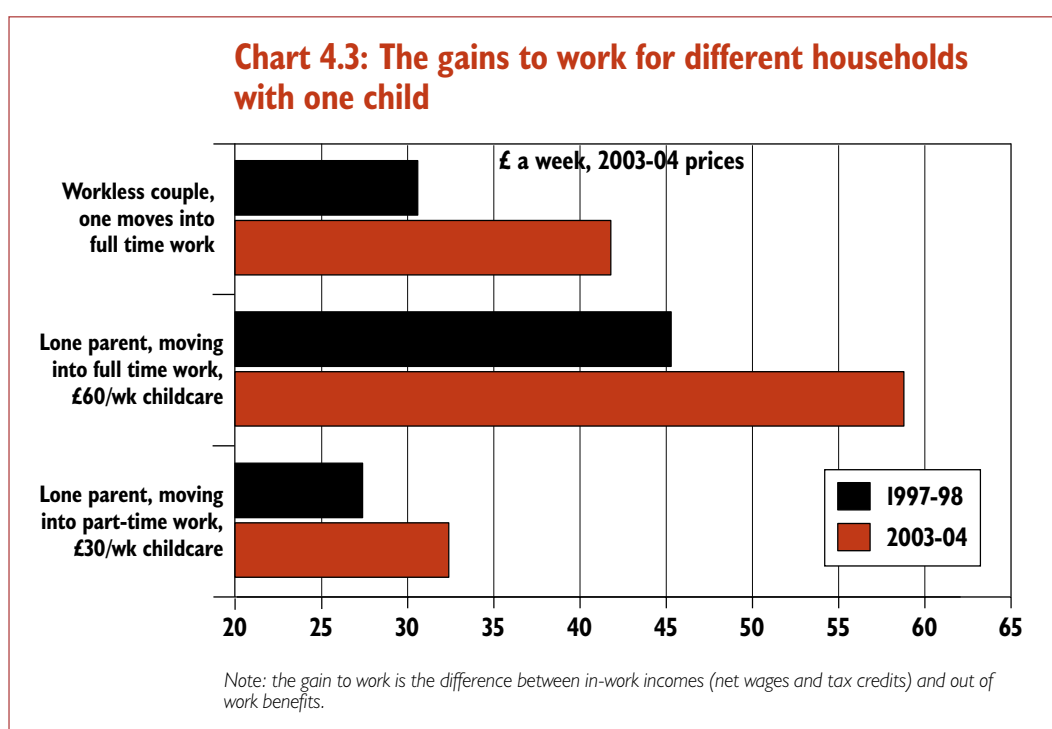
Tackling the unemployment trap 4.37 Table 4.1 shows how, since the introduction of the National Minimum Wage in April 1999 and the Working Families' Tax Credit in October 1999, the Government has increased the minimum income that people can expect when moving into work, including through increases in the National Minimum Wage in October 2003.

Table 4.1: Weekly minimum income guarantees

	April 1999	October 1999	October 2003
Family 1 child, full-time work (35 hours)	£182	£200	£241
Family 1 child, part-time work (16 hours)	£136	£144	£184
Single person, no children, 25 or over, full-time work (35 hours)	£113	£113	£158
Couple, no children, 25 or over, full-time work (35 hours)	£117	£117	£187

Note: assumes prevailing rate of National Minimum Wage and that the family is eligible for the Working Families' Tax Credit and, from April 2003, the Working Tax Credit/Child Tax Credit.

4.38 The Government's reforms, including the introduction of the Child and Working Tax Credits, have increased the gains to work for households with children. Chart 4.3 shows the effect on households with one child.



4.39 The Working Tax Credit improves work incentives for workers aged 25 and over without children. From October 2003, a couple aged 25 and over in full-time work without children or a disability will be guaranteed at least £187 per week. This represents an increase in gains to work to £40 per week, compared with £15 per week before the introduction of the Working Tax Credit. The reforms also mean that a single person aged 25 or over without children working full-time on the National Minimum Wage will be more than £25 a week better off from October 2003 compared with the previous system – an 18 per cent increase in income.

Tackling the poverty trap

4.40 While improved gains to work are tackling the unemployment trap, the Government also wants to ensure that workers have incentives to move up the earnings ladder. Tackling the poverty trap improves labour market flexibility by providing stronger incentives for people to respond to the opportunities generated by change – for example, by adjusting their working patterns, or moving into better paid jobs. Marginal deduction rates 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 benefit or tax credits. As a result of the Government's reforms, over half a million fewer low-income households now face marginal deduction rates in excess of 70 per cent than did so in April 1997. The increase in the number of households facing marginal deduction rates of between 60 and 70 per cent is primarily due to the introduction of tax credits, and more recently the extension of support to workers aged 25 or over without children.

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

Marginal deduction rate ¹	Before Budget 1998	2003-04 system of tax and benefits
Over 100 per cent	5,000	0
Over 90 per cent	130,000	30,000
Over 80 per cent	300,000	135,000
Over 70 per cent	740,000	185,000
Over 60 per cent	760,000	1,490,000

¹ Marginal deduction rates are for working households in receipt of income-related benefits or tax credits where at least one person works 16 hours or more a week.

Note: Figures are cumulative. Before Budget 1998 based on 1997-98 estimated caseload and take-up rates; the 2003-04 system of tax and benefits is based on 2001-02 caseload and take-up rates, and projected caseload estimates of Working Tax Credit and Child Tax Credit in 2003-04 based on 1999-2000 caseload and take-up rates.

Income stability

4.41 The Government's reforms are designed to advance flexibility and fairness together, providing people with incentives to adapt to change while tackling the insecurities that surround it. The National Minimum Wage and the Child and Working Tax Credits guarantee a minimum income from work, helping to tackle the unemployment trap and ensuring that work pays more than benefits. The National Minimum Wage and the tax credits also interact to help the labour market respond flexibly to economic shocks, while preserving a degree of stability in workers' incomes.

4.42 The National Minimum Wage sets a floor to earnings at a cautious level, preventing the worst instances of low pay. Above that level, the tax credits respond to changes in income, cushioning the effect that temporary fluctuations in earnings have on overall income while preserving incentives to work. For example, if a family with one child, in receipt of the new tax credits and earning £12,000 a year, faced a £3,000 reduction in their gross earnings in a given tax year, the level of support provided through the Working Tax Credit would adjust to provide an additional £20 a week, offsetting some of the reduction in income. However, if the same

family saw their earnings rise by £3,000, the level of support provided through the Working Tax Credit would fall by a much smaller amount, since the new tax credits respond only to rises in income of more than £2,500 in the current tax year.

FULL EMPLOYMENT IN A FLEXIBLE LABOUR MARKET

4.43 As well as adjusting rapidly to changing economic conditions, a dynamic and flexible labour market must also have the institutional and structural flexibility to deliver sustained high employment and low unemployment across the economic cycle.

4.44 The UK labour market has historically suffered from important structural inflexibilities. Macroeconomic instability during the 1980s and early 1990s left large numbers of people detached from the labour market, while institutional barriers and the tax and benefit system provided insufficient incentives and support to help people return to work. Offered too little help, many who lost their jobs drifted into economic inactivity, often on disability-related benefits. The failure of the labour market to adapt to changing conditions in the short term reduced employment opportunities for many over the longer term.

4.45 While the performance of the labour market has improved markedly in recent years, areas of concern remain – in particular, to address persistent levels of economic inactivity. Inactivity is as much of a constraint on the economy's growth potential as unemployment and, in contrast to previous economic cycles, has not fallen as unemployment has declined in recent years. A disproportionate number of the inactive are found in particular groups of the population, including lone parents and the long-term sick and disabled. Tackling inactivity is therefore key to improving the employment prospects of these groups. Some areas also have persistently high levels of unemployment, inactivity and deprivation and have failed to share in the rising national prosperity that economic stability has brought. The remainder of this chapter sets out the next steps in the Government's strategy to address the structural and institutional inflexibilities that stand in the way of its ambition to deliver employment opportunity for all.

Reforming Housing Benefit

4.46 Housing Benefit provides help with rental costs for low income tenants in and out of work. Around 3.8 million tenants rely on it for help with their rent. Box 4.3 shows how the design and administration of Housing Benefit can create powerful disincentives to move into work and constrain flexibility in the labour market.

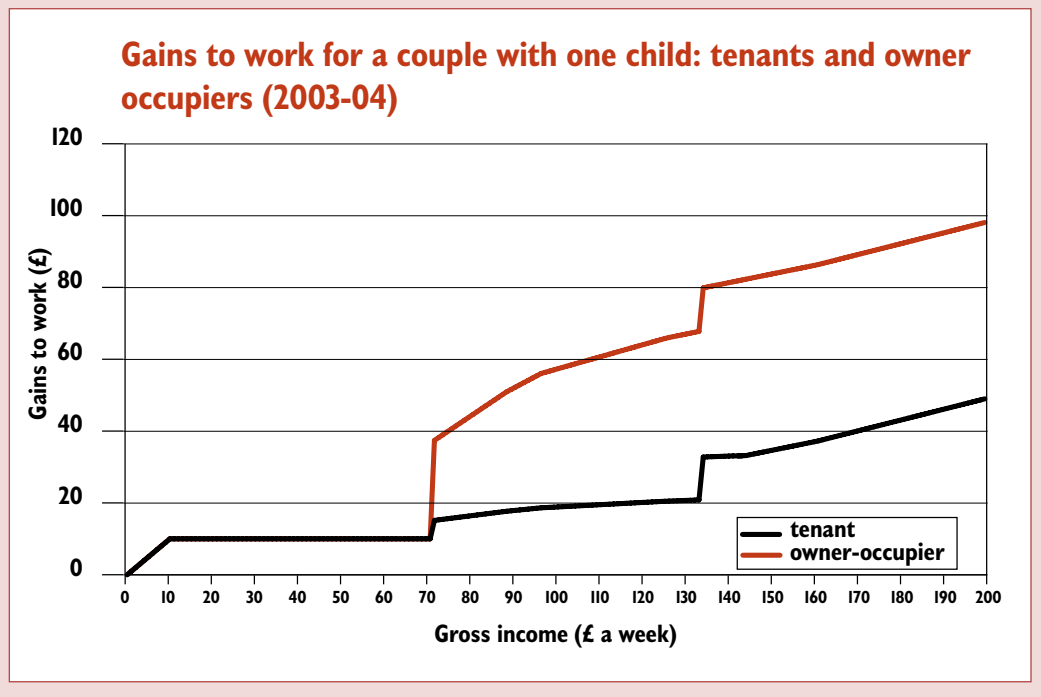
4.47 The Government is determined to alleviate the problems associated with Housing Benefit in order to reduce its capacity to act as a barrier to work. It has already published detailed proposals to reform the administration and design of Housing Benefit⁵ and from October 2003, will **pilot a new standard local housing allowance for tenants in the private sector in ten Pathfinder areas**. This will ensure that private sector tenants know how much Housing Benefit they will be entitled to in advance of signing a tenancy agreement, regardless of the accommodation they choose to live in. The Government intends to introduce the flat rate system in the private sector throughout the country as soon as possible, giving all private sector tenants greater choice and information when taking decisions about where to live. This reform will also promote improved labour mobility by making it easier for tenants to move localities in response to changing labour market conditions.

⁵ *Building choice and responsibility: a radical agenda for Housing Benefit*, Department for Work and Pensions, October 2002.

Box 4.3: Housing Benefit – the need for reform

The current system of Housing Benefit is complex and difficult to administer, and performance in delivering a quick and efficient service is highly variable. The requirement on claimants to submit new claims each time they find a job leads many claimants to worry that their benefit payments will be interrupted if they move into work. Moreover, claimants in the private rented sector often do not know the level of their entitlement until they have signed a tenancy agreement, with 70 per cent of private tenants subsequently finding that their rental costs are not fully covered by their benefit payment. These factors inhibit labour market flexibility by discouraging people from moving to areas of higher employment to look for work.

The interaction of Housing Benefit and Council Tax Benefit with tax credits can also erode financial incentives to work. For each additional £1 of income earned through work or tax credits, entitlement to Housing Benefit and Council Tax Benefit is withdrawn at a rate of 85 pence, restricting financial gains to work to just 15 pence in the pound. Areas with high rental costs are particularly affected, as Housing Benefit continues to be payable on relatively high incomes. The chart below demonstrates how gains to work are diminished under the existing system.



4.48 Claimants should also expect a swift and reliable service regardless of where they make their claim. To reduce variations in service and errors in processing, **the Government therefore intends to implement a series of radical reforms to simplify the administration of Housing Benefit.** From April 2004:

- **claimants will no longer be required to submit a new claim each time they return to work** and will need only to report their change in circumstances to the local authority instead. Housing Benefit will be paid at their previous out-of-work rate until the new benefit level is recalculated, even if this goes beyond the four-week run-on period;
- **claimants will no longer be required to reclaim Housing Benefit periodically;**
- **claimants of Incapacity Benefit or Severe Disablement Allowance will be treated in the same way as JSA and Income Support claimants** when they return to work and will benefit from the Housing Benefit run-on; and
- **the calculation of Housing Benefit will disregard the first £11.90 of earnings for all tenants who are claiming, or are entitled to claim, the Working Tax Credit,** rather than the current disregard of the 30 hour premium. This will improve gains to work for tenants with children or a disability working between 16 and 30 hours per week, replacing the current disregard of the 30 hour premium. For a typical lone parent working part-time at the National Minimum Wage and renting their property, this change will mean that their weekly income will be at least £40 more than they could expect to receive if claiming benefits.

4.49 In addition, as described in Chapter 5, from May 2003 the period over which hospital inpatients receive most benefit entitlements, including Housing Benefit, will be extended to 52 weeks.

Reform in the social sector

4.50 Tenants in the social sector should benefit from having the same fair and transparent help with housing costs as those in the private sector, and should also be able to make decisions based on value and price when choice is available to them. The process of restructuring rents in the social sector in England is well underway and will be substantially completed by 2011. Restructuring will ensure that the pattern of social housing rents represents more closely the relative attractiveness of properties to tenants. The Government's targets to ensure that 25 per cent of local authorities adopt some form of choice-based letting scheme by 2005, and that all local authorities offer choice to applicants by 2010, will complement and reinforce this process.

4.51 **The Government therefore intends to implement a flat rate Housing Benefit system in the social sector,** similar to that anticipated in the private rented sector, as soon as rent restructuring and increased choice create a better market. In extending the flat rate system to the social sector the Government will take into consideration a number of factors, including:

- the fact that social sector rent levels vary significantly between localities;
- differences in rents and occupancy restrictions between those social tenants housed by Registered Social Landlords and those housed by local authorities;
- the fact that social housing, unlike private accommodation, is partly funded through capital subsidies;
- the need to ensure adequate protection of the most vulnerable groups, such as pensioners and people with disabilities; and
- the need to ensure overall comparability of treatment between tenants in the social and private rented sectors.

Further reform 4.52 The Government is committed to further structural reform of Housing Benefit in order to ease the transition to work for all working age tenants and ensure that they see appropriate gains to work as they progress within employment. Such action will address the problem of steep benefit withdrawal rates in order to deliver a more effective system of housing cost support that works with, rather than against, the new tax credits. The Government will look at ways of aligning the rules of Housing Benefit and tax credits – in particular, with regard to the way they treat child maintenance.

Tackling wider worklessness

4.53 The Government's strategy to improve structural flexibility in the labour market has delivered important reductions in worklessness. The number of workless households has fallen by over 350,000 from its peak of almost 3½ million in 1995, while the proportion of children living in workless households has fallen from over 19 per cent to less than 16 per cent in the same period.

4.54 Nonetheless, there are still more than 4¼ million people of working age living in households in which no-one is working, and in many workless households there is at least one person claiming an inactive benefit. The delivery of effective, work-focused support to all working age benefit recipients is key to ensuring that employment opportunity is extended to all and to tackling child poverty.

Jobcentre Plus 4.55 The creation of Jobcentre Plus brings together the Employment Service and those parts of the Benefits Agency dealing with working age people to provide inactive benefit claimants with the same level of work-focused support available to other benefit claimants. Anyone making a claim for benefit at a Jobcentre Plus office receives a meeting with a personal adviser to discuss the opportunities available for work and can access job vacancies, advice, training and support. This balancing of rights and responsibilities is central to the Government's strategy of work for those who can and security for those who cannot. Jobcentre Plus also helps employers find the right employees for their vacancies, enabling the labour market to adjust to changes in the pattern of employment more quickly.

4.56 Since its launch in April 2002, more than 200 new Jobcentre Plus offices have opened and **the Government aims to have opened more than 500 offices in total by April 2004, completing the nationwide roll out in 2006.** While levels of customer satisfaction are already high, the Government continues to seek improvements in the performance and accountability of Jobcentre Plus as it rolls out new offices nationwide, and has begun publishing quarterly district performance tables on the Jobcentre Plus website to encourage such improvements.

4.57 **Budget 2003 announces plans to enhance the relationship between Jobcentre Plus and employers,** in order to provide employers with increased help to find suitable candidates for their vacancies. Steps being taken include:

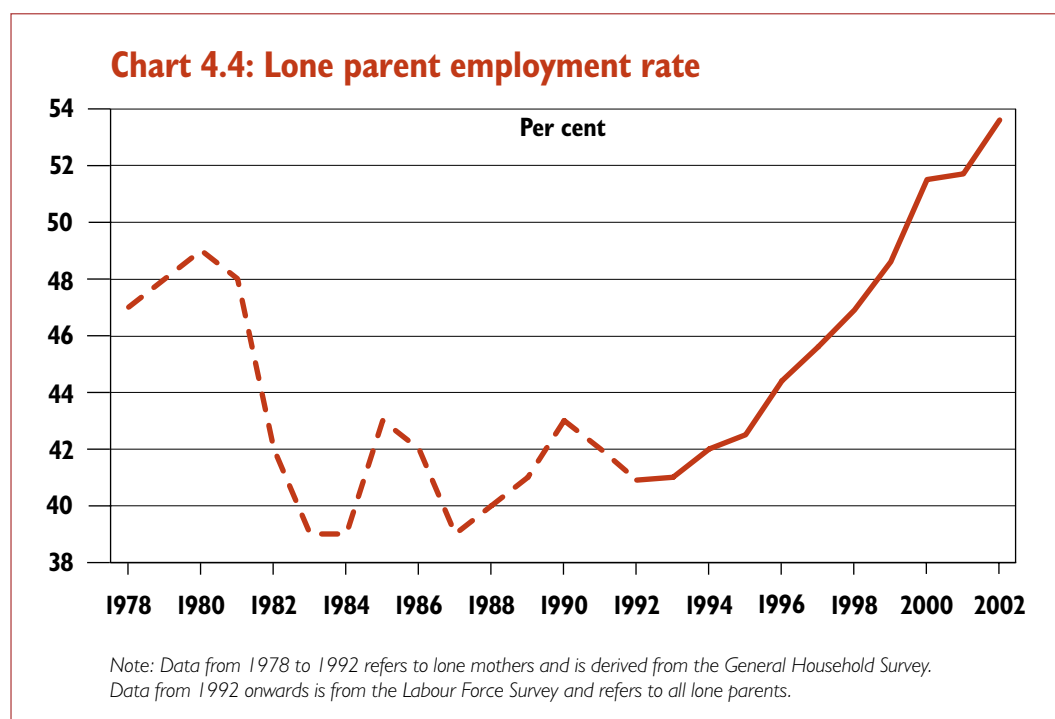
- **specialist sector managers to provide a highly responsive job placement service to ten key industrial sectors;**
- **specialist managers to develop an enhanced relationship with small businesses, and to increase co-ordination of Jobcentre Plus activities across small business networks;** and
- **detailed advice to employers on the supply of labour in their local area.**

Helping lone parents

4.58 Over the last 20 years increases in participation among women, especially among mothers, have contributed significantly to labour supply. However, lone parent employment rates have lagged substantially behind those of mothers in couples. Lone parents face particularly difficult choices when seeking to balance work and caring responsibilities. The overwhelming majority of lone parents want to work and helping them to find employment is key to reducing the number of workless households and the incidence of child poverty. The Government's target is to ensure that 70 per cent of lone parents are in work by 2010.

New Deal for lone parents

4.59 The New Deal for lone parents (NDLP) provides a comprehensive package of support, including access to a personal adviser; help with training, education and childcare; and advice on benefits, in-work financial support and self-employment. Eligibility for NDLP has been extended to all lone parents who are either not working or who work less than 16 hours a week, and more than 175,000 lone parents have moved into work with its support. Employment among lone parents has risen substantially, from just over 40 per cent throughout the early 1990s to 54 per cent in spring 2002, while the number of lone parents claiming Income Support has fallen by almost one-fifth since 1997. Evaluation evidence⁶ confirms the overwhelmingly positive impact of NDLP in helping lone parents into work and suggests that the programme more than doubles the employment chances of participants.



4.60 Despite the significant progress made so far, the Government recognises that it must continue to improve and enhance the help it offers to lone parents to ensure that the 2010 target is met. The Government therefore intends to enhance the level of work-focused support provided through Jobcentre Plus and NDLP, improve incentives for lone parents to work, and increase access to good quality and affordable childcare.

⁶ *New Deal for lone parents: findings from the quantitative survey*, Department for Work and Pensions, March 2003.

Enhancing work-focused support

4.61 The delivery of work-focused support to lone parents through Jobcentre Plus is central to the Government's strategy. Compulsory personal adviser meetings already ensure that most lone parents are aware of the help available to them and have access to this support when they need it. These meetings have significantly increased the take-up of NDLP – more than a quarter of lone parents who attend a meeting decide to join the programme. The Government seeks continuously to improve the quality of personal adviser meetings, to ensure that they meet the needs of lone parents, even as their circumstances change. As announced in Budget 2002, from April 2004, **the requirement to attend a personal adviser meeting will be extended to lone parents on Income Support with children under the age of five**, completing the extension of compulsory adviser meetings to all lone parents.

4.62 Following the success of recent pilots, **the Government has begun introducing a new national mentoring service for lone parents**, to provide confidential advice and support on a wide range of issues and increase the help available to those who wish to make the transition to work.

4.63 As announced in the 2002 Pre-Budget Report, the Government has also asked the National Employment Panel to consult leading employers on how they might help lone parents into employment. A group chaired by Ben Verwaayen, chief executive of British Telecom, and involving representatives of leading employers and lone parents' interest groups has now reported. In line with the recommendations of the group, the Government now intends to:

- **pilot immediately a new communications and outreach strategy in six cities with high lone parent populations**, working closely with employers;
- **pilot a Discovery Week in the same six cities from autumn 2003 to boost soft skills**, such as confidence, and increase the familiarity of lone parents with the help and support available to them. British Telecom has already agreed to work with Jobcentre Plus on the first Discovery Week, in London;
- **pilot childcare tasters from April 2004** to allow lone parents on NDLP to access formal childcare for up to one week to test whether it suits their needs; and
- **encourage employers to consider flexible working arrangements, recruitment and staff benefit packages**, so that a broader range of people, including lone parents, consider work opportunities in a wider range of occupations.

Help with the costs of finding work

4.64 For many lone parents, the costs involved in looking for work act as a disincentive to worksearch. To help overcome this problem, the Government intends to provide additional support to those lone parents who are actively searching for a job. **From October 2004, a new worksearch premium of £20 per week, paid on top of normal benefit entitlements, will be available in eight pilot areas to lone parents who have been on Income Support for more than one year and who voluntarily choose to actively search for a job**. The premium will be continued at the higher rate of £40 per week for the first year in work. In a further four pilot areas, the in-work element will be tested separately.

Improving incentives to work **4.65** Reform of the tax and benefit system, including the introduction of tax credits, has helped to make work pay for lone parents and enabled many to adopt flexible working arrangements without losing out financially. Nonetheless, the transition from welfare to work can be an uncertain time and the Government recognises that there is a need for further action. **Budget 2003 therefore introduces a new flexible fund for Jobcentre Plus managers to improve access to debt advisory services in areas where provision is limited from April 2004.** This will allow lone parents and other benefit claimants to access advice on debt issues before they take up work, helping to ensure that employment is financially sustainable.

Help with childcare **4.66** For many working families, and for lone parents in particular, access to good quality and affordable childcare is key to participation in the labour market. Financial support to help low- and middle-income working parents meet the costs of childcare is now provided through the Working Tax Credit. As described in Chapter 5, eligibility for the childcare element of the Working Tax Credit has also been extended to include those who use approved childcare in their own home.

4.67 The Government is also investing record amounts to help meet the growing demand for childcare, and has supported the creation of places that have helped more than 1.1 million children since 1997. To increase access to affordable and good quality childcare, the level of funding for childcare will more than double in real terms between 2002-03 and 2005-06, as part of an increase in the budget of the Sure Start Unit to £1.5 billion. These additional funds are designed to:

- ensure the creation of at least 250,000 new childcare places by 2006, including childcare provided directly in Children's Centres; and
- support the creation and operation of Children's Centres in disadvantaged areas, building, where possible, on Sure Start local programme facilities and other existing provision. By 2006, an additional 300,000 children will have access to Children's Centre services.

4.68 As described in Chapter 5, the Government is also consulting⁷ on a series of proposals to encourage more employers to help their staff meet the costs of safe, good quality childcare.

Help for partners

4.69 Women in couples with a partner claiming benefit have much lower levels of labour market participation than those in couples where the partner is in work. Even in the 1990s, the benefit system treated partners of unemployed people – overwhelmingly women – as 'adult dependants' of the claimant – overwhelmingly men – offering them no help in accessing opportunities in the labour market. The 1980s and early 1990s also saw a rise in the number of workless households, as the tax and benefit system failed to provide incentives for either partner to move into work. The overall effect was to constrain labour supply, reducing flexibility in the labour market.

4.70 Everyone who is workless should have access to the work-focused support provided by Jobcentre Plus. The Government's long-term aim is to extend rights and responsibilities in the benefit system further, so that all partners of benefit claimants have access to the help and support they need and are not excluded from support as they have been in the past.

⁷ *Employer supported childcare*, Inland Revenue and HM Treasury, February 2003.

4.71 Steps have already been taken to extend the rights and responsibilities of JSA claimants to partners on an equal basis and childless partners of the unemployed, where at least one partner was born after 1957, are now joint JSA claimants. As announced in the 2002 Pre-Budget Report, the Government also intends to introduce **compulsory work-focused interviews for partners of all new benefit claimants and existing claimants without children from April 2004**, beyond those having joint claim status for JSA. This will be extended to existing claimants with children once the roll out of Jobcentre Plus is complete. The Government is currently considering whether further changes could be made to the benefit system to provide additional support to workless households, building on the success of joint claims for JSA.

New Deal for partners **4.72** Targeted support for households in which both partners are workless is provided through the New Deal for partners – a personal adviser service for partners of benefit claimants. To improve the support offered under the programme, **the New Deal for partners will be enhanced from April 2004**, to coincide with the introduction of compulsory work-focused interviews. The enhanced New Deal will provide the same package of support as that currently available to lone parents, including a training allowance and help with childcare. **Partners will also be eligible for the enhanced Job Grant from October 2004.**

Help for people with disabilities

4.73 Despite the strong performance of the labour market in recent years, inactivity rates among people with disabilities have been slow to fall. While annual flows onto incapacity-related benefits have fallen by nearly a quarter since 1996, the average length of claim for those with claims lasting over a year has increased to eight years. As a consequence, more than 2.7 million people are now in receipt of incapacity-related benefits – many more than the combined total of lone parents and unemployed people on benefit.

New Deal for disabled people **4.74** The New Deal for disabled people (NDDP) was introduced nationally in 2001. NDDP engages those moving onto incapacity-related benefits and provides a national network of innovative job brokers to help disabled people locate and move into secure employment. Around 9,000 people have been helped into work through the programme.

Support in work **4.75** The Government also provides financial support to help disabled people meet the additional costs they face when in work. Last year, almost 40,000 people received in-work support through the Disabled Person's Tax Credit (DPTC) – more than double the number who received Disability Working Allowance at its peak in June 1999. From this month, financial support for disabled people in work is provided through the Working Tax Credit which increases the guaranteed minimum income for a single disabled person working 35 hours to £194 a week – £19 a week more in real terms than in April 2002.

Next steps **4.76** The Government is considering the scope for further action to help people with health problems and disabilities find work and will **pilot a series of measures from October 2003 to provide new recipients of incapacity-related benefits with greater support earlier in their claims**. The 2002 Spending Review allocated £97 million over three years to support the new pilots, which will test the effectiveness of more responsive work-focused interviews, rehabilitation measures, and a return to work payment of £40 per week for 52 weeks. The measures will also be available to current recipients of incapacity-related benefits. Details of the pilots were set out in the November 2002 Green Paper.⁸ The Government will publish its response to the consultation on the Green Paper proposals shortly.

⁸ *Pathways to work: helping people into employment*, Department for Work and Pensions, November 2002.

Box 4.4: Work and income security for disabled people

Transforming disability into ability, an OECD report into work and income security for disabled people, was published in February 2003. The report made a series of policy recommendations designed to help people with disabilities into work:

- disability status should be recognised as independent of the claimant's work and income situation, and be the basis for benefits that are designed to compensate for the extra costs of medication, care or mobility needs. It should be paid only for as long as these additional costs arise, and eligibility should be reassessed regularly. Some countries unbundle disability status and benefit receipt – for example, in Denmark, pensions are allowed to “rest” while claimants work, while in Sweden, disability pensions are “frozen”. In the UK, “linking rules” allow people in receipt of Incapacity Benefit to try out work, returning to the same level of benefit if they lose their job within a year;
- in return for benefits, claimants should have an obligation to participate in activities deemed appropriate by the State so as to prevent isolation and exclusion from society. Several countries, including Denmark, Austria and Sweden, require claimants of disability benefits to participate in vocational rehabilitation schemes, with receipt of a disability settlement conditional upon completion of this process. In most cases however, this obligation is subject to a high degree of flexibility and discretion, depending on, for example, the age and work experience of the disabled person. Conditionality in Germany and Norway operates in a moderated way. In the UK, disabled people will be required to participate in work-focused interviews, but involvement in rehabilitation and NDDP is voluntary;
- work and benefit packages should be individually designed, and should include rehabilitation, vocational training and work experience. In the UK, NDDP offers vocational training experience, while those on Incapacity Benefit can try out work for up to a year;
- early intervention is the most effective means of insuring against long-term benefit dependence. In the UK, the Government is consulting on a proposal to introduce intensive work-focused interviews for new claimants, before they become benefit dependent;
- existing employer-employee relationships should be utilised by establishing positive incentives and legal obligations. In Italy, employers have been made responsible for assigning people who become disabled tasks equivalent to their previous role, or a lower-grade role, under the same terms and conditions. In the UK, new pilot schemes are testing a variety of measures to improve job retention and rehabilitation, while, from October 2004, the Disability Discrimination Act will require all employers to make reasonable adjustments to enable people with disabilities to work; and
- benefit systems should be restructured to remove the disincentives to work that can occur as a result of income replacement benefits, with claimants instead offered financial incentives to return to work. In the UK, the Working Tax Credit includes an element to support workers with a disability and the Government intends to pilot a new £40 a week return to work credit for people who have claimed incapacity-related benefits for three months or more.

Ethnic minority employment

4.77 The labour market position of ethnic minority groups tends to be worse than that of the rest of the population. With concentrations in areas of Britain with the highest levels of worklessness, unemployment rates among ethnic minorities can be up to four times higher, and employment rates significantly lower.

4.78 The Government has taken steps to improve the employment prospects of people from ethnic minorities. Action Teams have been introduced in 63 disadvantaged areas of Britain, many of which contain large ethnic minority communities, and a new outreach service is now operating in five urban areas that are home to three quarters of Britain's ethnic minority population. This outreach service aims to attract people to mainstream services, improve the links between communities and employers, and provide specialist training where it may help individuals to find work. The Jobcentre Plus target system is also being re-structured to re-direct funding towards areas with both higher unemployment and high ethnic minority populations.

4.79 The Government is, however, determined to go further and has accepted all of the recommendations of the recent Cabinet Office Strategy Unit report⁹ on steps to improve the position of ethnic minorities in the labour market. Building on the conclusions of the report, Budget 2003 therefore introduces further support, including:

- from April 2004, specialist advisers in Jobcentre Plus districts with high ethnic minority populations; and
- from April 2004, a new policy fund of £8 million over the next two years will be available to Jobcentre Plus managers to provide innovative solutions to helping people from ethnic minorities into work.

Local worklessness

4.80 Rising concentrations of worklessness have given rise to communities in which worklessness is no longer the exception, but the norm. Local areas that suffer from low employment rates often do not simply lack jobs. Many combine high vacancies with low employment or are found alongside other districts with large numbers of vacancies. A high proportion of residents may face multiple barriers to work.

4.81 As announced in the 2002 Pre-Budget Report, **the Government therefore intends to pilot a programme of intensive support in neighbourhoods with very high concentrations of worklessness.** Starting in April 2004, the pilots will focus on 12 of the most deprived neighbourhoods of the country, offering intensive support to help local residents access the jobs that are often found within travelling distance of where they live.

4.82 In each pilot area, residents claiming JSA will benefit from accelerated access onto the New Deal after just three months of unemployment. More frequent work-focused interviews will also be introduced for partners and lone parents, and new Incapacity Benefit claimants will be given more help to ensure that employment opportunities and barriers to work are regularly discussed. Each neighbourhood will also receive a discretionary fund, allowing personal advisers to tackle the substantial and varied barriers that prevent residents from returning to work. The fund will provide personal advisers, working in cooperation with Local Strategic Partnerships, with flexibility to deliver services in ways that best meet the needs of the local community.

⁹ *Ethnic minorities and the labour market*, Cabinet Office Strategy Unit, March 2003.

Helping ex-offenders back to work

4.83 The Government is taking steps to extend employment opportunity to ex-offenders, recognising that work is often the best route away from crime. From later this year, **Jobcentre Plus will offer dedicated employment and benefit surgeries in prisons across England, Scotland and Wales.** These surgeries will ensure that ex-offenders are aware of the work opportunities available ahead of their release, and will be followed by a guaranteed Jobcentre Plus appointment after release to enable jobsearch to start immediately. The Government also intends to **offer jobs in a wide range of sectors to young offenders across the country who have successfully undertaken training in prison,** building on an existing successful private sector initiative.

Funding for Welfare to Work

4.84 The Welfare to Work programme has been funded by the one-off Windfall Tax on the excess profits of the privatised utilities. The majority of the Welfare to Work programme is delivered by the DWP, and the associated resources are generally now included within its Departmental Expenditure Limit (DEL). The 2002 Spending Review allocated extra resources to Welfare to Work programmes, including the national roll-out of Jobcentre Plus.

Table 4.3: Allocation of the Windfall Tax

£million	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03 ²	2003-04 ³	TOTAL
Spending by programme¹								
New Deal for young people ⁴	50	200	310	300	240	270	200	1570
New Deal for 25 plus	0	10	90	110	200	240	180	830
New Deal for over 50s	0	0	5	20	10	10	10	60
New Deal for lone parents	0	20	40	40	40	80	80	300
New Deal for disabled people ⁵	0	5	20	10	10	30	30	100
New Deal for partners	0	0	5	10	10	10	10	40
Childcare ⁶	0	20	10	5	0	0	0	35
University for Industry ⁷	0	5	0	0	0	0	0	5
Workforce development ⁸	0	0	0	0	0	30	170	200
ONE pilots ⁹	0	0	0	5	5	0	0	10
Action Teams	0	0	0	10	40	50	50	150
Enterprise development	0	0	0	10	20	10	0	40
Modernising the Employment Service	0	0	0	40	0	0	0	40
Total Resource Expenditure	50	260	480	560	570	730	730	3380
Capital costs¹⁰	90	270	260	750	450	0	0	1820
Estimated Windfall Tax Margin								0
Windfall Tax receipts	2600	2600						5200

¹ Rounded to the nearest £10 million, except where expenditure is less than £5 million. Constituent elements may not sum to totals because of rounding. Figures include Windfall Tax spending in Annually Managed Expenditure omitted at Budget 2002, and exclude resources from mainstream employment programmes in DEL included at Budget 2002.

² Figures for 2002-03 and 2003-04 are provisional.

³ Windfall Tax expenditure is significantly reduced in 2003-04 as Windfall Tax resources are exhausted. Remaining in-year expenditure will be topped up with general government revenues.

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 until 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 funding for the second year of the 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.