

## WORK FOR THOSE WHO CAN AND FINANCIAL SUPPORT FOR FAMILIES

The 2004 Spending Review announces a new Public Service Agreement (PSA) target, shared by the Department for Work and Pensions and HM Treasury to:

- *halve the number of children in relative low-income households between 1998-99 and 2010-11, on the way to eradicating child poverty by 2020.*

Achieving this target will require further steps to help parents into work as work is the best route out of poverty for most families. The Government will continue to help parents into work, particularly those in workless households, lone parents, those with disabilities and those from ethnic minority groups. Providing financial support to families, with more help to those who need it most, when they need it most is also a key element of the child poverty strategy. Next steps include:

- more work-focused interviews, and work search premiums to encourage lone parents and non-working partners in low-income families into work;
- *reducing the proportion of children living in workless households by 5.0 per cent between spring 2005 and spring 2008;*
- *increasing the proportion of Parents with Care on Income Support and income-based Jobseeker's Allowance who receive maintenance for their children to 65 per cent by March 2008;*
- enhancing the provision of good quality, accessible childcare. The Sure Start Unit has a new target: *as a contribution to reducing the proportion of children living in households where no one is working, by 2008: increase the stock of Ofsted-registered childcare by 10 per cent; increase the take up of formal childcare by lower income working families by 50 per cent; and introduce, by April 2005, a successful light-touch childcare approval scheme;*
- a long-term aspiration to improve the financial support available to large families; and
- analysing data on take-up of income related benefits and tax credits to assess whether there are systematic differences by ethnic group.

### INTRODUCTION

**3.1** One defining feature of poor children's lives is that their family's economic situation will often limit their opportunities in life. Children's economic well-being is largely determined by the employment status of their parent or parents. Family income is also affected by the nature and levels of state financial support and child support and degree of financial inclusion. This last point is considered in Chapter 4.

**3.2** The likelihood of parents engaging in work depends on a wide range of interlinked factors. Macroeconomic stability and a flexible labour market are key and are complemented by policies to encourage and support people to move off welfare and into work. This can be achieved through a combination of bringing parents into contact with the labour market, improving the financial returns to work and addressing key barriers to work such as problems acquiring childcare and a lack of appropriate transport. Transport is covered in Chapter 5.

**3.3** Certain groups, such as ethnic minority and disabled people, may face additional barriers to work. Tackling them is critical. Skills are a crucial determinant of employment prospects, including progression in work and potential earning power; while Chapter 5 explores education more generally, adult skills are considered here.

## RELEVANCE TO TACKLING CHILD POVERTY

### The importance of family income

**3.4** Low income is often used as a proxy for poverty and there is growing evidence that low income itself, even controlling for other key factors related to poverty, has a direct impact on outcomes. Children in low-income families have a lower quality home learning environment which leads directly to worse academic achievement. Studies show that poor children have access to fewer books and toys, make fewer trips to places of interest such as museums and libraries, live in poorer neighbourhoods, have access to less good quality childcare and are less likely to have a computer in the home. All of these have been found to have substantive influences on children's academic development.<sup>1</sup>

**3.5** Data for 2002-03 show there were 2.6 million children living in low-income households in Great Britain.<sup>2</sup> In general these children will be exposed to a range of risk factors linked to their families' characteristics resulting in one or more bad outcomes.

**3.6** Children who grow up in low-income households are more likely than others to:

- achieve less at school: achievement gaps between children in high and low-income families emerge from a very early stage. Using data from major longitudinal studies of 1958 and 1970, a drop in family income of £150 per week was estimated to produce a 16 per cent increase in the probability of leaving school with no 'O' levels.<sup>3</sup> Family money problems have been linked to absenteeism from school;<sup>4</sup> and
- become unemployed or do low paid jobs. Children growing up in poverty are more likely to become economically inactive. This finding was strongest when the child experienced poverty in pre-school years or in adolescence.<sup>5</sup>

**3.7** Some of the mechanisms through which low income leads to poor outcomes are beginning to be understood. But a large part of the influence of income on outcomes is unexplained – income matters, but the reasons why are not always clear. This is probably because income is correlated with a range of factors that also influence children's achievements, but are rarely picked up in studies: for example, the existence of positive role models within a community and the aspirations, expectations and self-confidence of parents.<sup>6</sup>

### The role of parental employment

**3.8** For around 85 per cent of children in the UK, the main source of family income will be earnings from employment. Whilst young children generally benefit from parental care, parental employment, in addition to providing income for a family, can have a range of other direct and indirect benefits for children:

- qualitative evidence suggests that children benefit from growing up with adults who are connected to the labour market, perhaps helping them make the link between educational achievement and fulfilment in later life;<sup>7</sup>

<sup>1</sup> *Family income and educational attainment: a review of approaches and evidence for Britain*, J. Blanden and P. Gregg, Centre for Market and Public Organisation, University of Bristol, working paper 04/101, April 2004.

<sup>2</sup> Data from *Households below average income, 1994-95 – 2002-03* Department for Work and Pensions, March 2004. Low income is defined as less than 60 per cent of contemporary median income, before housing costs.

<sup>3</sup> *Family income and children's educational attainment: evidence from the NCDS and BCS*, J. Blanden, P. Gregg and S. Machin, working paper 2001.

<sup>4</sup> *Links between school absenteeism and child poverty*, M. Zhang, Pastoral Care in Education, March 2003.

<sup>5</sup> *Outcomes for children of poverty*, J. Ermisch, M. Francesconi and D.J. Pevalin, Department for Work and Pensions Research Report 158, 2001.

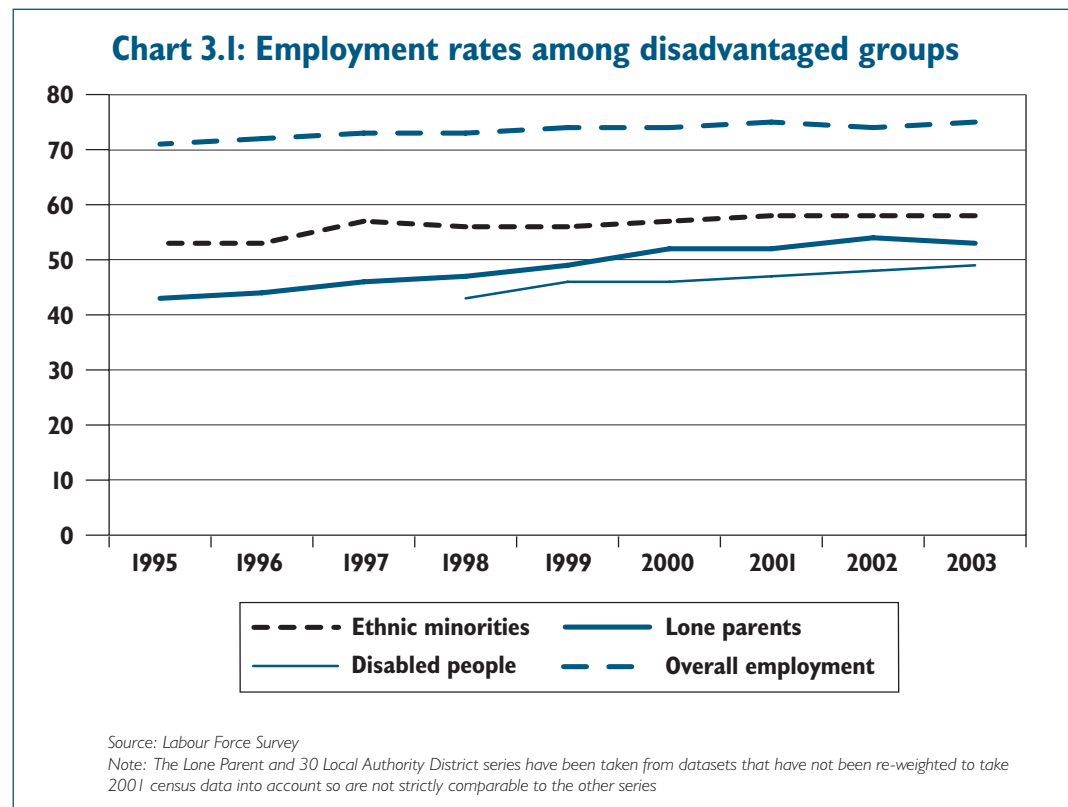
<sup>6</sup> *The relative economic importance of academic, psychological and behavioural attributes developed in childhood*, in *What do we know about brain development and childhood interventions?*, L. Feinstein, Centre for Economic Performance, London School of Economics, July 2000. Feinstein found that psychological and behavioural characteristics at age ten were linked to social class and that they subsequently affect labour market outcomes.

<sup>7</sup> *Making an Impact? Exploring the role of Government policies in household change - findings from qualitative case studies*, J. Graham, A. Mowlam, K. Woodfield and J. Dixon, Social Exclusion Unit, forthcoming 2004. See also *Low income families and household spending*, C. Farrell and W. O'Connor, Department for Work and Pensions research report 192, July 2003.

- in many cases, parental employment can bring benefits to the adults involved through extended social networks and a greater sense of control, reducing mental health problems and producing knock-on benefits for children<sup>8</sup>; and
- maternal employment in particular can be an important protection against future hardship: eight out of ten mothers who had jobs before becoming lone parents continued in paid employment after separation from their partner.<sup>9</sup>

**3.9** So the employment status of parents and family income are closely linked. Children in workless households are at substantially higher risk of being in low-income households and do not enjoy the benefits outlined above. There are around 1.8 million children living in workless households in the UK. Over half these children are also categorised as being in low income.<sup>10</sup>

**3.10** Lone parents, along with disabled people and people from ethnic minorities all have relatively low employment rates compared to the population as a whole. Chart 3.1 shows that progress has been made in raising the employment rates of these groups, but that these remain well below overall employment levels.



**3.11** Low employment rates in these groups are largely due to barriers to work such as health problems, low skills, discrimination, lack of support in the workplace, problems accessing childcare, other care responsibilities, and limited access to key public services such as transport. Examples of such interlinked barriers and their prevalence include:

- a third of lone parents on benefits have a health condition or disability. Over two thirds of workless couple parents report that at least one parent has a

<sup>8</sup>Mental Health and Social Exclusion, Social Exclusion Unit, June 2004. See also *Lone parents, Health and Work*, J. Casebourne and L. Britton, DWP Research Report, forthcoming August 2004. and *Making an Impact?*, Graham et al., Social Exclusion Unit, forthcoming 2004.

<sup>9</sup>*Families and children 2001: living standards and the children*, S. Vegeris and J. Perry, Department for Work and Pensions Research Report 190, 2003.

<sup>10</sup>*Households below average income 1994-95 – 2002-03*, Department for Work and Pensions, March 2004.

health condition or disability. There are around 1 million workless, disabled parents. A significant proportion say they would like to work;<sup>11</sup>

- people with poor literacy, language or numeracy skills are less likely to be employed and if in work, more likely to have lower levels of productivity and earn less. There are around 5.2 million adults in England with poor literacy skills and 6.8 million with poor numeracy skills;<sup>12</sup>
- lone parents, disabled people and people from certain ethnic minority groups such as Pakistanis and Bangladeshis, are more likely to have no or low skills compared to the rest of the working population;<sup>13</sup>
- non-working mothers cited childcare costs and availability as key barriers preventing them looking for work. 16 per cent of lone parents and 9 per cent of couple mothers reported costs as a barrier and 8 per cent and 4 per cent respectively cited availability;<sup>14</sup>
- it is estimated that only 3 per cent of mothers with disabled children work full-time compared to 22 per cent of mothers with non-disabled children. The figures for part-time workers are 13 per cent and 39 per cent respectively;<sup>15</sup> and
- two out of five jobseekers say that lack of transport is a barrier to getting a job. Almost a quarter of lone parents cannot afford a car.<sup>16</sup>

**3.12** These barriers are also associated with poor outcomes for children, compounding the potential ill-effects of low income and lack of employment.

## THE GOVERNMENT'S AIM

### Work for those who can

**3.13** The Government believes that helping parents into work is the most sustainable way to tackle child poverty and give children better opportunities to succeed in later life. The Government's long-term goal of employment opportunity for all is therefore central to the child poverty agenda. It aims to ensure a higher proportion of people in work than ever before by 2010. The Government believes that everyone who is able and wants to work should have the opportunity to do so, and should be given support appropriate to their individual needs.

**3.14** This vision is supported by the Government's commitment to:

- macroeconomic stability and an efficient and flexible labour market;
- investing in education and training to equip workers with the right skills for the labour market today and in the future;
- helping people move from welfare to work, preventing them from becoming detached from the labour market and overcoming barriers to work. This includes:

<sup>11</sup> *Labour Force Survey*, Office for National Statistics, Spring 2003.

<sup>12</sup> *Departmental Report 2004*, Department for Education and Skills, April 2004. Reporting on the findings of the 'Skills for life' survey in 2003.

<sup>13</sup> *Families and children in Britain: findings from the 2002 Family and Children Study (FACS)*, Department for Work and Pensions Research Report 206, 2004. *In Demand: adult skills in the 21st century*, Performance and Innovation Unit report, November 2001. *Disabled for life?* Department for Work and Pensions Research Report, 173, 2002.

<sup>14</sup> *Families and children in Britain: findings from the 2002 Families and Children Study (FACS)*, Department for Work and Pensions Research Report 206, 2004.

<sup>15</sup> *Disabled children, their families and child poverty*, Briefing Paper produced by End Child Poverty with the Council for Disabled Children, 2003. Data are based on Family Fund Trust 2002 data and General Household Survey data for 2002.

<sup>16</sup> *Making the connections: final report on transport and social exclusion*, Social Exclusion Unit, February 2003.

- access to flexible, affordable, good quality childcare delivered locally and conveniently with parents able to choose between providers;
- financial help to lower and middle income parents to meet the costs of childcare;
- more choice and support for parents so they can balance their work and family lives, including parental leave and rights; and
- a transport system that is safe, efficient, clean and fair. Public transport should be available to all, responding efficiently to the needs of individuals and businesses;
- extending support to areas and groups suffering from the greatest employment disadvantage, working towards full employment in every region; and
- reforming the tax and benefit system to make work pay and eliminating perverse incentives.

**Financial support for families** **3.15** While work is the best long-term way to lift families out of poverty, the Government believes that a child’s life chances should not be determined by their parent’s capacity to earn. The Government wants to support families through a modern welfare system, recognising the additional costs that families face, alongside maintaining incentives to work.

**3.16** The Government’s reform of the tax and benefit system is based on the principle of progressive universalism, delivering help for all families and more help for those who need it most, when they need it most.

**3.17** The Government’s aim is to provide a secure stream of income for families with children which does not depend on the employment status of their parents, thereby creating a stable income bridge to help families to move into work. The Government wants the system of support to be transparent, non-stigmatising and responsive.

**Child Support** **3.18** The Government wants to ensure that where children do not live with both parents the non-resident parent contributes to the financial support for their children. To help parents fulfil their responsibilities to their children, the child maintenance service should be simple, flexible and efficient.

## PROGRESS AND NEXT STEPS

**3.19** This section summarises progress in helping parents into work through active labour market policies and making work pay. It outlines progress in tackling key barriers to work. Reforms to the tax and benefit system and their impact on family incomes are outlined and next steps summarised.

**Child poverty target** **3.20** Chapter 1 outlined the current Public Service Agreement (PSA) target for tackling child poverty and progress to date. **The 2004 Spending Review announces a new child poverty PSA target**, shared by the Department for Work and Pensions and HM Treasury:

*halve the number of children in relative low-income households between 1998-99 and 2010-11, on the way to eradicating child poverty by 2020.* As a contribution to this DWP is also committed to:

- *reducing the proportion of children living in workless households by 5.0 per cent between spring 2005 and spring 2008; and*

- *increasing the proportion of Parents with Care on Income Support and income-based Jobseeker's Allowance who receive maintenance for their children to 65 per cent by March 2008.*<sup>17</sup>

**3.21** As explained in *Measuring child poverty*, low income will be measured on a before housing costs basis. This is in line with international practice. The Government will continue to monitor progress against a range of other indicators including income measured on an after housing costs basis and regional data.

**3.22** The Government will also set an additional target in the 2006 Spending Review to **halve by 2010-11 the number of children suffering a combination of material deprivation and relative low income.**<sup>18</sup> Data necessary for a baseline for this target are being collected and will be available in early 2006. A higher income threshold will be combined with material deprivation to help capture more of the poverty faced by families with low disposable incomes, as they face certain unavoidably high costs, for example, in areas where rents are high.

**3.23** The Government will judge whether child poverty has been halved by 2010-11 not only on the basis of the relative low-income indicator but also on the basis of the additional combined material deprivation and relative low-income indicator.

## Work for those who can and making work pay

**Employment 3.24** Employment is currently at record highs, having risen by over 1.8 million since spring 1997. The proportion of children living in workless households has fallen from 17.9 per cent in spring 1997 to 15.0 per cent in autumn 2003 and the number of children in workless households has fallen by nearly 400,000 since 1997. The employment rate of lone parents has increased from 46 per cent in 1997 to 53 per cent in 2003.

**3.25** This Spending Review demonstrates the Government's continued commitment to **employment opportunity for all with a PSA target:** *as part of the wider objective of full employment in every region, over the three years to spring 2008, and taking account of the economic cycle:*

- *demonstrate progress on increasing the employment rate (joint target with HM Treasury);*
- *increase the employment rates of disadvantaged groups (lone parents, ethnic minorities, people aged 50 and over, those with the lowest qualifications and those living in the Local Authority wards with the poorest initial labour market position); and*
- *significantly reduce the difference between the employment rates of the disadvantaged groups and the overall rate.*

**3.26** The Government's commitment to helping people move from welfare to work through active labour market policies has been a key driver of the increases in employment rates. Since 1997, a range of active labour market policies have been implemented, providing support for groups disconnected from the labour market to help them tackle barriers to work and find employment. Table 3.1 summarises the key Jobcentre Plus measures.

<sup>17</sup>The PSA Technical Note gives further details and will be available on the HM Treasury and Department for Work and Pensions websites: <http://www.hm-treasury.gov.uk> and <http://www.dwp.gov.uk>.

<sup>18</sup> Success in halving the number of poor children on this measure will be judged if there is an equivalent reduction to that required on relative low income between 2004-05 and 2010-11.

**Table 3.1: Jobcentre Plus measures contributing to tackling child poverty**

Measures already implemented or currently in delivery	
Oct 2003	<p><b>Employment Zones (EZ)</b> – offered as an alternative to New Deal for Lone Parents (NDLP) in 7 Zones with further Zones added from April 2004 (see below). (Area-based initiative operating until 2007).</p> <p><b>Employment Retention and Advancement Demonstration (ERA)</b> A pilot testing new financial incentives and support mechanisms in six Jobcentre Plus districts, aimed at supporting customers – including lone parents – when they are in work and helping them advance from their entry level job.</p>
April 2004	<p><b>Continuing rollout of Work Focused Interviews (WFIs) for lone parents</b> – Making WFIs compulsory for lone parents with an existing claim to Income Support whose youngest child is under 5. Rollout of this final phase is due to complete April 2006.</p> <p><b>Employment Zones</b> Extending EZ approach to NDLP clients in Liverpool, Birmingham and Glasgow. In the three London Zones, NDLP ceases and EZ support is offered as a replacement.</p> <p><b>Extended Schools</b> – Sure Start working with LEAs and Jobcentre Plus to help lone parents to return to work by improving provision of childcare through extended schools initiative. The first three areas (from April 2004 – March 2006) are Bradford, Lewisham and Haringey LEAs. The pilot is now being extended to Leicester, Leicestershire, Greenwich and Sandwell from October 2004.</p> <p><b>Childcare Tasters</b> – Offering the lone parent a discussion with a Childcare Broker about childcare options. Tasters allow up to 5 days trial of childcare provider. Pilot in Extended Schools areas only.</p> <p><b>Debt Counselling</b> A new fund available for districts to procure local debt counselling provision for lone parents, partners and other non-JSA customers where debt is a barrier to employment or debt advice is not currently accessible.</p> <p><b>Working Neighbourhoods</b> Pilot in 12 Local Authority Wards, testing increased frequency of WFIs for lone parents and partners, and a flexible discretionary fund.</p> <p><b>Relaunch of New Deal for Partners</b> Offering the same package of training and support options for the partners of unemployed people as is currently available to lone parents.</p> <p><b>WFIs for Partners</b> Supporting the re-launched New Deal for Partners, all integrated Jobcentre Plus offices to introduce compulsory WFIs for all partners of new and existing benefit claimants. Rollout of WFIs for Partners will not conclude until April 2006</p>
June 2004	<p><b>Tailored Mentoring / Discovery Weeks</b> In six metropolitan areas, part of the ‘Work Works’ recommendations:</p> <ul style="list-style-type: none"> <li>mentors offer support and encouragement to lone parents who are not ready to join NDLP or look for work; and</li> <li>Discovery Weeks offer lone parents the opportunity, over the course of one week, to explore the benefits of work outside of the work environment. (Both elements are voluntary.)</li> </ul>
Measures not yet implemented	
Sept 2004	<p><b>Quarterly WFIs in Extended Schools Areas</b> Lone Parents whose youngest child is 12 or over to attend for a WFI every 13 weeks (26 weeks elsewhere). Pilot in Extended Schools areas only.</p>
Oct 2004	<p><b>In Work Emergencies Fund in Extended Schools Areas</b> A new fund in six cities offering financial support to lone parents for emergency expenses in their first 60 days of work.</p> <p><b>In Work Credit</b> A weekly payment of £40 per week, for up to 52 weeks, for lone parents when they move into work. Piloted in 12 Jobcentre Plus districts.</p> <p><b>Job Grant</b> A new grant of £250 for Lone Parents entering work. This replaces the existing Lone Parent Run-On and Back to Work Bonus (because the value of the current Run-On is eroded once the lone parent migrates to Child Tax Credit).</p> <p><b>Mandatory Action Plans</b> At the WFI, advisers will be required to complete an action plan for every lone parent. There is no compulsion on the lone parent to participate or sign up to any of these actions.</p> <p><b>Work Search Premium</b> A weekly payment of £20 for up to 26 weeks for lone parents agreeing to and following an action plan aimed at helping them move closer to the labour market. Available in eight of the in-work credit pilot areas.</p>
April 2005	<p><b>Childcare Assist</b> A new initiative to provide funding for childcare costs for New Deal for Lone Parent and New Deal for Partners participants in the week before they start work.</p>
Oct 2005	<p><b>Quarterly WFIs</b> A WFI every 13 weeks for all lone parents claiming whose youngest child is between 14-15 years old.</p>

**Lone parent employment 3.27** The New Deal for Lone Parents (NDLP) has been crucial in helping to tackle child poverty and contributing towards the Government's target for 70 per cent of lone parents to be in work by 2010. It is described in Box 3.1.

### **Box 3.1: The New Deal for Lone Parents**

The NDLP is a flexible, generous programme with a highly personalised approach, individually tailored to meet a lone parent's needs to move into work. Evaluation evidence shows that this approach is effective.

Of the 541,100 lone parents who have joined NDLP, over 247,000 have been helped into employment. Independent evaluation of NDLP suggests that the programme doubles the employment chances of participants: 50 per cent of participants entered work compared to 26 per cent of non-participants.

Job information is provided to lone parents through: compulsory work-focused interviews at Jobcentre Plus offices with trained advisers; mentoring targeted at lone parents furthest from the labour market; and Discovery Weeks designed to boost soft skills such as the confidence of lone parents, and promote contact with local employers.

Lone parents who decide to join the NDLP can receive support from specially trained personal advisers in order to help them address their barriers to employment. The type of help available may include:

- work towards job readiness through mentoring, confidence building and personal support;
- building skills through training (including a grant of £15 per week);
- in-work training through the Employment Retention and Advancement Demonstration project;
- childcare, including expert advice on local provision, childcare taster sessions and financial assistance with the costs of childcare through the Adviser Discretionary Fund; and
- financial assistance for example through the 'better off in work' calculation, debt advice and help claiming tax credits.

Job search assistance is provided through measures including a worksearch premium of £20 per week (in certain areas from 2004); a full range of Jobcentre Plus worksearch assistance; and employer engagement, especially to encourage flexible working.

From October 2004, in six cities<sup>19</sup> with high lone parent populations, the Government will continue to develop the strategy of ensuring that lone parents are aware of the opportunities available to them and have the support they require to maximise their potential in the labour market.

The new measures will include a new communications strategy and access to NVQ level 3 training in sectors where local employers identify a demand for skills, including NVQ level 3 training in childcare (a sector in which remedying an acute skills shortage is critical to addressing barriers to work). Lone parents in these areas will also be eligible for enhanced support from personal advisers and funding in their first two months in work to overcome barriers that might otherwise make it difficult to remain in work.

<sup>19</sup> Birmingham, Glasgow, Leeds/Bradford, Liverpool, London and Manchester. See *Work Works: Final Report of the National Employment Panel's steering group on lone parents*, National Employment Panel and British Telecommunications, April 2003.

**3.28** Work-focused interviews (WFIs) ensure that lone parents are aware of the help and support that is available to them. Independent evaluation shows that WFIs have significantly increased participation in the NDLP while maintaining the rate at which participants find jobs.<sup>20</sup> The Government is continuing to roll out WFIs to ensure that all lone parents are able to make informed choices about the labour market and by April 2006 the rollout to existing claimants will be complete. **From October 2005, lone parents will be required to attend an interview once every three months when their youngest child is aged 14 or over to help them prepare for the transition to Jobseeker's Allowance when their child reaches 16. In addition, from October 2004, a compulsory action plan will be completed for all lone parents during their regular WFI.**

**3.29** Making work pay is key to the Government's strategy of helping workless people back into employment. Budget 2003 announced that in 12 locations across the country, including four in London, the Government would pilot a £40 per week in-work credit for lone parents who have been on Income Support for one year or more from October 2004. To tackle the particular problem of work incentives in London, this in-work credit will be available to all parents in London who have been out of work and on certain benefits for more than a year.<sup>21</sup>

**3.30** To help with the costs involved in looking for work, Budget 2003 announced that **from October 2004 a new worksearch premium of £20 per week, paid on top of normal benefit entitlements, will be available in eight of the in-work credit pilot areas to lone parents who have been on Income Support for more than a year, and who voluntarily choose to search actively for a job.** Lone parents taking part in the pilots will also be entitled to free formal childcare while undertaking worksearch activities.

#### Helping partners into work

**3.31** Around 800,000 children live in couple single-earner families with low incomes. Tackling child poverty requires the extension of work-focused support for non-working partners in these families. As announced in the 2003 Pre-Budget Report, **from October 2004 the Government will extend eligibility of the New Deal for Partners (NDP) to those in a family in receipt of the Working Tax Credit (WTC) who are either not working or are working less than 16 hours a week.**

**3.32** In recognition of the fact that the costs of looking for work may act as a disincentive to non-working partners in single-earner families, Budget 2004 announced that **from October 2005 a new worksearch premium of £20 per week will be available to those in a family in receipt of the WTC who are not working, who agree to join the enhanced NDP and voluntarily choose to search actively for a job, in six pilot areas with high levels of worklessness.**

**3.33** The 2004 Spending Review also supports the development of new ways of focusing resources on those most in need of support. In *Building on New Deal*,<sup>22</sup> the Government announced its plans for **a new framework for devolving more responsibility for the allocation of resources to local managers to help them make more efficient use of the funding available to tackle local and national priorities. As part of its Spending Review settlement, the DWP will be developing and testing this model in a number of prototype areas.**

<sup>20</sup> *New Deal for Lone Parents: second synthesis report of the national evaluation*, M. Evans, J. Eyre, J. Millar and S. Sarre, Centre for Analysis of Social Policy, University of Bath, June 2003.

<sup>21</sup> In-work credit is available in all areas of London except North East London, which is covered by the Employment Retention Advancement Demonstration, (ERAD) which provides in-work advice as well as financial support.

<sup>22</sup> *Building on New Deal*, Department for Work and Pensions, June 2004.

**Employment opportunities for sick and disabled people**

**3.34** There are around 800,000 dependent children living in households with adult claimants of benefits for sick or disabled people.<sup>23</sup> In order to do more to help people on Incapacity Benefit (IB) return to work the Government is spending almost £100 million over the three years 2003-04 to 2005-06 piloting IB reforms in seven Jobcentre Plus districts. The key elements are: more skilled adviser support; a series of additional work-focused interviews; rehabilitation programmes; improved financial incentives; and engagement of key stakeholders including employers and General Practitioners.

**3.35** Through the Pathways to Work pilots the Government is significantly increasing support for IB customers to help them realise their aspirations of moving into work. As announced in Budget 2004, **the support available in the existing Pathways pilot areas will be extended from early 2005 with the piloting of a mandatory work-focused interview regime for some existing customers and a job preparation premium.** The new and existing provision will be evaluated robustly and rigorously to assess what interventions are most effective and to shape the scope for rollout to other areas.

**3.36** In the three years to March 2008 the Department for Work and Pensions has a PSA target to:

- *further improve the rights of disabled people and remove barriers to their participation in society, working with other Government departments, including through increasing awareness of the rights of disabled people;*
- *increase the employment rate of disabled people, taking account of the economic cycle; and*
- *significantly reduce the difference between their employment rate and the overall rate, taking account of the economic cycle.*

**3.37** The Prime Minister's Strategy Unit will soon conclude a project on *Improving the life chances of disabled people*. The recommendations will include a clear vision of the Government's policy commitment to disabled people, principles to ensure that the rights of disabled people are fully mainstreamed into policy design and delivery and specific policy recommendations aimed at removing the barriers disabled people may face.<sup>24</sup>

**3.38** Many people with a mental health condition want to work, but fewer than a quarter actually do. A recent report by the Social Exclusion Unit sets out a comprehensive action plan to bring improvements to the full range of services for adults with a mental health condition.<sup>25</sup> It identifies a number of policies to help adults into, and remain in, work and will support the delivery of the Government's objective to increase employment opportunities for people with a health condition or disability.

**Employment opportunities for ethnic minority groups**

**3.39** In recognition of the persistence of disparities in employment outcomes for people from ethnic minority groups, the Prime Minister's Strategy Unit reported to Government in March 2003.<sup>26</sup> The recommendations included specific policy measures, reviews of current policy and carrying out research where evidence on the best policy response is required. These were accepted by the Government and are now being taken forward by five Government departments working together through the Ethnic Minority Taskforce.<sup>27</sup> Recommendations include action to:

<sup>23</sup> This includes families with an adult claiming Incapacity Benefit, Severe Disability Allowance, Disability Living Allowance and Income Support with a disability premium. Source: Client Group Analysis, Department for Work and Pensions, November 2003.

<sup>24</sup> *Improving the life chances of disabled people: interim analytical report*, Cabinet Office Strategy Unit, June 2004.

<sup>25</sup> *Mental Health and Social Exclusion*, Social Exclusion Unit, June 2004.

<sup>26</sup> *Ethnic minorities and the labour market*, Cabinet Office Strategy Unit, March 2003.

<sup>27</sup> Department for Education and Skills, Department of Trade and Industry, Department for Work and Pensions, Home Office and the Office of the Deputy Prime Minister.

- improve employability by raising levels of educational attainment and skills;
- connect people with work by reforming existing employment programmes, tackling specific barriers to work in deprived areas, and promoting self-employment; and
- promote equal opportunities in the workplace through better advice and support to employers, and through more effective use of levers such as public procurement.

**3.40** Since April 2004, specialist employment advisers have been introduced in Jobcentre Plus districts with high ethnic minority populations, to work with employers on diversity issues and open up vacancies to ethnic minority jobseekers. In recognition of the important role that employers play in enabling people from disadvantaged ethnic groups to overcome barriers to their participation in the labour market, Budget 2004 announced **the introduction of ‘Fair Cities’ initiatives in three areas later this year, to work with employers and other local stakeholders to develop strategies in order to improve employment outcomes for people from disadvantaged ethnic minority groups.**

**3.41** Over this Spending Review period, the Government will incorporate lessons on what works from targeted initiatives such as these in order to further improve outcomes for ethnic minority clients within mainstream employment programmes. The Government will also examine other ways to address barriers to ethnic minority participation in the labour market, for example improving the approaches to tackling employer discrimination.

**3.42** The Government has recently examined the range and availability of its employment provision, and has announced its proposals for the evolution of the New Deal, founded on movement towards greater local flexibility and less central prescription, while retaining central control over core elements.<sup>28</sup> This extension of greater freedom and flexibility to front-line staff will enable all groups, including people from ethnic minorities, to receive support more closely tailored to their individual needs. The Government will pilot this new approach, and in doing so will specifically test the effectiveness of different degrees of flexibility on improving employment outcomes for ethnic minority clients in order to inform the final design of the new framework.

**3.43** When the new flexible framework is implemented nationally, the Government will introduce mechanisms to monitor the effect that the new flexibilities have on the proportion of resources being directed towards different ethnic groups, as well as continuing to drive forward improvements in ethnic minority outcomes. Ministers will retain the ability to override local flexibilities on some occasions in order to provide robust pilots or to tackle particular priorities; there will continue to be scope to test new approaches to improving outcomes for ethnic minorities as the Government strives to ensure that no one is disadvantaged by their ethnicity.

**3.44** Tackling race inequalities is a powerful lever in addressing child poverty. **The 2004 Spending Review establishes a PSA target for the Home Office: to reduce race inequalities and build community cohesion.** The target will be underpinned by monitoring across Government in tackling inequalities of outcomes for ethnic minority groups in key public services. The Government will assess how the benefits of the duty to promote race equality in the RR(A)A could be achieved more widely, and will consider the case for extending the duty to private sector and voluntary organisations carrying out functions of a public nature, without imposing excessive regulatory and bureaucratic burdens.

<sup>28</sup> *Building on New Deal*, Department for Work and Pensions, June 2004.

**3.45** The Commission for Equality and Human Rights (CEHR), which will be formed over the 2004 Spending Review period and take on agreed responsibilities for equality, will be central to delivering many of these outcomes. The CEHR will take on the responsibilities of the Commission for Racial Equality, on which the Home Office lead, as well as other existing equality and human rights commissions into a single, unified and independent body. The Home Office, with other interested sponsor departments, will be responsible for ensuring that the CEHR offers a coherent and cost-effective way of providing support across all strands of discrimination.

**3.46** The voluntary and community sector (VCS) plays an important role in reducing disparities in employment outcomes for people from ethnic minority groups. Following the Voluntary and Community Sector Review 2004, **DWP will publish in the autumn of this year an action plan for effective VCS involvement in ethnic minority employment.**

#### **Making work pay**

**3.47** The Government's strategy to make work pay has improved incentives for individuals to participate and compete in the labour market, making it more flexible and dynamic. Through the National Minimum Wage (NMW) and WTC, the Government has created a system of in-work support that provides greater rewards for work.

**3.48** The NMW guarantees a fair minimum income from work. It was introduced in April 1999. It has had no discernible negative impact on overall employment, inflation or the wider economy;<sup>29</sup> indeed since its introduction, employment in the UK economy has increased by 1.3 million. It is estimated that between 1.6 and 1.9 million workers will benefit from the next increase in the NMW in October 2004.<sup>30</sup>

**3.49** The WTC, introduced together with the Child Tax Credit (CTC) in April 2003, provides support on top of the earnings guaranteed by the NMW, tackling poor work incentives and persistent poverty among working people. By April 2004, there were 2.3 million low- and moderate-income working families benefiting from the new tax credits and 75,000 families benefiting from the disabled worker element of WTC, around double the number who received support through the Disabled Person's Tax Credit.

**3.50** Taken together the NMW and WTC are helping to tackle the unemployment trap – when those without work find the difference between out-of-work and in-work incomes too small to provide an incentive to enter the labour market. Table 3.2 sets out increases in the minimum incomes provided by part-time and full-time work since 1999.

<sup>29</sup> *Fourth report of the Low Pay Commission*, Low Pay Commission, March 2003.

<sup>30</sup> *Low Pay Estimates*, Office for National Statistics, spring 2003.

**Table 3.2: Weekly minimum income guarantees**

	April 1999	October 1999	October 2004
Family with 1 child, full-time work (35 hours)	£182	£200	£252
Family with 1 child, part-time work (16 hours)	£136	£144	£195
Family with 2 children, full-time work (35 hours)	£206	£229	£294
Family with 2 children, part-time work (16 hours)	£161	£173	£237
Family with disabled worker, 1 child, full-time work (35 hours)	£213	£231	£292
Family with disabled worker, 1 child, part-time work (16 hours)	£168	£175	£235
Family with 1 disabled child, full-time work (35 hours)	£182	£200	£294
Family with 1 disabled child, part-time work (16 hours)	£136	£144	£238

Notes: assumes a single earner household; the prevailing rate of the National Minimum Wage; that the family is eligible for Family Credit/Disability Working Allowance and Working Families' Tax Credit/Disabled Person's Tax Credit and the Working Tax Credit/Child Tax Credit; and that children are aged between one and 11. All figures apply to one parent families and couples with children alike.

**3.51** Recent research shows that the Government's strategy to make work pay has had a positive impact on labour market outcomes. It is estimated that the introduction of the Working Families' Tax Credit, which was succeeded by the Child and Working Tax Credits, increased the employment rate of lone parents by as much as 7 percentage points,<sup>31</sup> contributing to an overall reduction in the number of workless households with children by around 95,000.<sup>32</sup>

**3.52** In October 2004, the adult and youth rates of the NMW will increase to £4.85 and £4.10 respectively. These substantial increases of over 7 per cent each are well above the expected rate of average earnings growth. The NMW's success results from an effective institutional framework: the independent Low Pay Commission monitors the effects of the NMW and makes recommendations to the Government, including on appropriate rates.

**Childcare 3.53** Since 1997, the Government has increased support for childcare through a combination of supply-side support to providers in disadvantaged areas and demand-side help to parents to make childcare more affordable and support parental employment. Progress includes:

- allocating funding to support new childcare places for 2 million children by March 2006;
- a substantial increase in Government support for the childcare costs of working parents, from annual expenditure of £50 million under Family Credit in 1999 to £350 million under Working Families' Tax Credit in November 2002, which has doubled to over £700 million under the WTC in 2003-04. In April 2004 help towards childcare was reaching 318,000 families, up from 180,000 in November 2002;
- allowing parents to access financial support for good quality childcare in their own homes; and
- a tax and national insurance exemption for £50 per week on vouchers provided by an employer for approved childcare, to start in April 2005.

<sup>31</sup> *Welfare reform and lone parent's employment in the UK*, P. Gregg and S. Harkness, CMPO Working Paper No 03/072, June 2003 and *The consequences of "in-work" benefit reform in Britain: new evidence from panel data*, M. Francesconi and W. Van der Klaauw, University of Essex, 2004.

<sup>32</sup> *Did Working Families' Tax Credit work? Analysing the impact of in-work support on labour supply and programme participation*, M. Brewer, A. Duncan et al., Institute for Fiscal Studies, December 2003.

**3.54** Building on the record levels of investment for childcare since 1997, the Government has announced **the new spending settlement for the Sure Start Unit, delivering £669 million extra funding by 2007-08 compared to 2004-05. This will lead to 100,000 new childcare places by 2008.** Further details of the new settlement in relation to early years education and care are set out in Chapter 5.

**3.55** As part of the Government's agenda to increase the range of quality childcare that is eligible for financial support, Budget 2004 announced **a new light-touch scheme that will enable working parents to access financial support for a broader range of good quality childcare,** including home-childcarers and those caring for children over the age of seven.

**3.56** A new stretching PSA target for the Sure Start Unit reflects its cross-cutting role in welfare to work:

- *as a contribution to reducing the proportion of children living in households where no one is working, by 2008: increase the stock of Ofsted-registered childcare by 10 per cent; increase the take up of formal childcare by lower income working families by 50 per cent; and introduce, by April 2005, a successful light-touch childcare approval scheme.* Joint target between the Department for Education and Skills (DfES) and DWP.

**Work-life balance 3.57** To help parents choose how to balance their work and family responsibilities the Government has implemented new rights for working parents. Mothers now have a right to up to one year of maternity leave, with 26 weeks paid Ordinary Maternity Leave and a further 26 weeks unpaid Additional Maternity Leave. Statutory Maternity Pay (SMP) is £102.80 a week from April 2004, compared to £60.20 in 2000. New fathers have the right to take two weeks paternity leave, paid at the same rate as SMP. Since April 2003, mothers and fathers of children under six and of disabled children under 18 have had a right to request flexible working.

**3.58** The Government is considering next steps in helping parents balance their work and family responsibilities and will continue to consult with parents and employers.

**Adult skills 3.59** Skills for life was launched in 2001 and is linked to the PSA target *to improve the literacy and numeracy skills of 1.5 million adults between 2001 and 2007, with a milestone of 750,000 by 2004.* From April 2001 to July 2003, it is estimated that 1.9 million learners took up Learning and Skills Council funded basic skills learning opportunities, while more than 500,000 were awarded Skills for life qualifications. In 2002-03, 79,000 parents and carers were on family literacy, language and numeracy (FLLN) programmes to help families improve their skills and to help parents to help their children learn. New programmes are being developed and piloted for childminders, working parents, fathers, lone parents and for parents with learning difficulties or disabilities.

**3.60** Building on this, in the 2002 Spending Review, a PSA target was set to: *reduce by at least 40 per cent the number of adults in the workforce who lack NVQ2 or equivalent qualifications by 2010. Working towards this, one million adults already in the workforce to achieve level 2 between 2003 and 2006.* In July 2003 the Government launched its national skills strategy, '21st Century Skills'. The skills strategy White Paper set out the Government's programme to tackle the skills gap between the UK and its main economic competitors. This includes demand-led provision of skills, recognised by reformed qualifications, steered by the needs of employers through the new Skills for Business network, and given a regional focus through new Regional Skills Partnerships.<sup>33</sup>

<sup>33</sup> *21st Century Skills: Realising our Potential*, Department for Education and Skills, July 2003.

**3.61** The strategy includes measures to remove barriers to learning and to support participation, and re-focuses public investment where it is most needed, namely a universal entitlement to NVQ2 qualification and in specific shortage areas above Level 2. The skills strategy also looks beyond the economic benefits of improved adult skills to encompass social benefits, particularly through Skills for Life, which includes FLLN programmes.

### Financial support for families with children

**3.62** Since 1997 the Government has radically reformed the system of financial support for families to deliver real progress on its targets for tackling child poverty, based on the principle of progressive universalism. Support is provided through a combination of:

- Child Benefit – available to all families with children, and which for the first child has increased by 25 per cent in real terms since 1997; and
- Child Tax Credit (CTC) – around nine out of ten families with children are eligible for some support through CTC, with greater support targeted on low-income families.

**3.63** Introduced together with the WTC in 2003, the CTC represents the biggest single change in the way the Government provides financial support for families since the Beveridge reforms in the 1940s. CTC delivers a single, seamless system of income-related support for families with children, integrating the various child elements previously provided through the Working Families’ Tax Credit, Disabled Person’s Tax Credit, Income Support, Jobseeker’s Allowance, and the Children’s Tax Credit.

**3.64** The table below shows the levels of support that CTC and Child Benefit currently provide for families.

**Table 3.3: Levels of support for families from April 2004**

Family income (£ a year)	less than £13,480	less than £50,000	all families
<i>Per cent of families</i>	<i>30</i>	<i>85</i>	<i>100</i>
1 child	£3,030	£1,405	£855
2 children	£5,235	£1,980	£1,430
3 children	£7,435	£2,550	£2,005

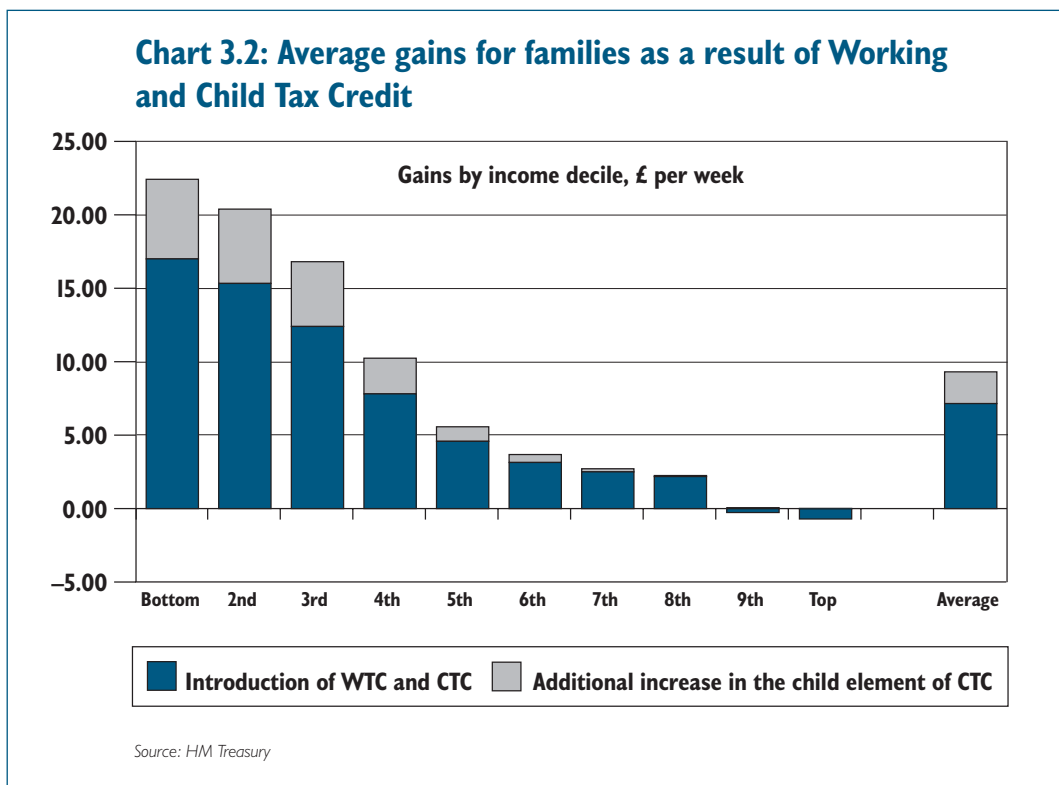
**3.65** This new system of support is already having a major impact on child poverty:

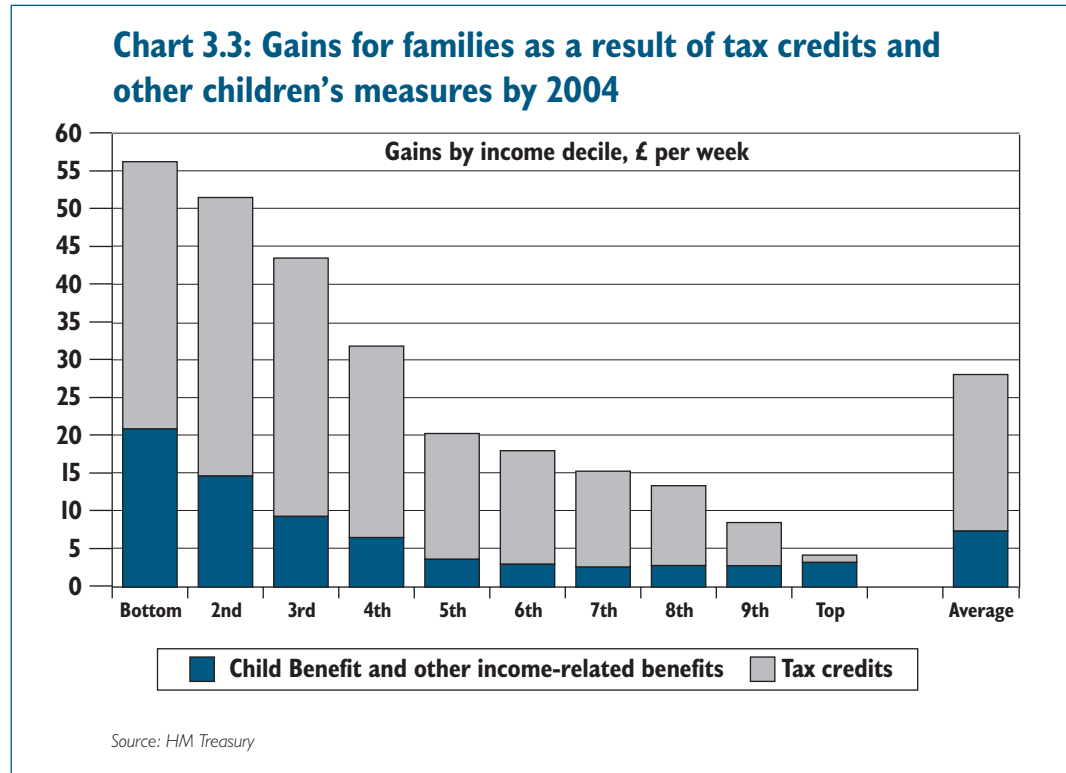
- by 2004-05, financial support for children through tax credits, Child Benefit and other benefits will have increased by £10.4 billion in real terms from its 1997 level, a rise of 72 per cent. The poorest 20 per cent of families have received over 40 per cent of the additional provision;
- the tax credits are benefiting 10.4 million children in six million families, including those receiving improved support through the child allowances in Income Support and Jobseeker’s Allowance;
- CTC is reaching 2.3 million low- and moderate-income families with children, 65 per cent more than the old tax credit systems; and

- support for children under the age of 11 in low-income families has roughly doubled since 1997. For a workless family with one child under 11, the maximum amount of support for children will have risen from £27.70 per week in 1997 to £58.22 a week from April 2004 – a real terms increase of 85 per cent.

**3.66** Chart 3.2 shows the average gains for families as a result of the introduction of the CTC and WTC and identifies the additional increase in the CTC as announced in the 2003 Pre-Budget Report. Chart 3.3 shows the impact by income decile of the Government's reforms to the tax and benefit system since 1997, on families with children. As a result of the Government's tax and benefit reforms since 1997, by October 2004, in real terms:

- families with children will be, on average, £1,350 per year better off, while those in the poorest fifth of the population will be, on average, £3,000 per year better off;
- a single-earner family on half average earnings with two young children will be £3,790 a year better off; and
- a single-earner family on average earnings with two young children will be £285 a year better off.





**3.67** The Government is committed to increasing the child element of the CTC at least in line with earnings until the end of this Parliament. Rates for future years will be based on careful monitoring of the effects of current policies on both employment and child poverty, recognising that work is the best long-term route out of poverty for most families. Future rates will be announced at the time of the Pre-Budget Report, to take effect in the following financial year.

**3.68** The CTC has proved a success, both in terms of reaching more families than any other income related support for families and in providing an effective tool for achieving the children in low-income households PSA target for 2004-05. In order to meet its longer-term child poverty goals, the Government is considering structural refinements to the CTC. As the number of children in low-income households declines, the Government will pay particular attention to those population groups that continue to experience a relatively high risk, and consider ways in which the tax and benefit system can respond to their needs, balancing this against the need to maintain a simple and transparent system.

**Large families 3.69** Last year *Opportunity for all* set out the evidence that children in large families (defined as families with three or more dependent children) suffer disproportionate risk of poverty. Half of all poor children live in large families. *Opportunity for all* described the interaction between family size, personal characteristics, low income, work status and child outcomes. Despite improvements since 1997, large families experience increased prevalence of worklessness and low income. This is partly explained by factors such as ethnicity, having a child under school age, childcare barriers and longer spells of worklessness. The association of large families with these factors suggests that they could benefit from wider strategies to improve work incentives, childcare and tackle ethnic minority labour market disadvantage.

**3.70** Large families have benefited from the increased generosity of financial support for children since 1997. Over time, the risk of low income in large families has been converging with the risk in small families. In addition, recent reductions in the proportions of children in low-income households up to 2002-03 have been concentrated in large families. The increase in the child element of CTC by £3.50 a week from April 2004 is disproportionately benefiting large families. This is because eligible families will receive the increase for each and every dependent child in their family.

**3.71** The child elements of CTC are structured to deliver the same level of support to each child in the family, according to household income. The family element of CTC is available to nine out of ten families with children in recognition of the costs of children, but does not respond to family size. By contrast, Child Benefit pays more for the first than subsequent children. In a comparison of 22 countries the UK and Ireland were the only countries that pay more for the first child.<sup>34</sup> Most countries in the study pay the same, or virtually the same amount for each child, with seven countries paying more for the third and subsequent children.<sup>35</sup>

**3.72** Building on the reforms to date, **the Government has a long-term aspiration to improve the financial support available to large families and will consider the best mechanism for achieving this.**

**Take-up of benefits by ethnicity**

**3.73** During the child poverty review's seminar on ethnicity, concern was raised that ethnic minority families may not be claiming the benefits and tax credits to which they are entitled. **The DWP and Inland Revenue will review data on take up of income-related benefits and tax credits to assess whether there are systematic differences by ethnic group.** In the light of this evidence, the Government will consider whether further targeted initiatives are required to ensure families are receiving the financial support they are entitled to.

**Additional support for disabled children**

**3.74** Since 1997 the Government has introduced financial support via tax credits for all low-income families with a disabled child. CTC provides a supplement of up to £42.49 a week for each disabled child, and a further £17.08 a week for each severely disabled child, subject to household income but not dependent on the employment status of the parents. This represents an increase of 70 per cent in real terms on the equivalent support offered in 1997, which at that point was only available to parents who were out of work or working less than 16 hours a week, or to parents who had a disability themselves.

**3.75** In April 2004, 103,000 families were benefiting from the additional support provided by CTC for disabled children, which is more than three times the number of families who benefited from the disabled child credits in the previous systems.

**3.76** Entitlement to the disabled child elements of CTC is passported off Disability Living Allowance (DLA). Over 256,000 severely disabled children under the age of 16 currently receive DLA. In the five years to February 2004 the number of children receiving DLA increased by 30 per cent and by almost 5 per cent in the 12 months to February 2004.

<sup>34</sup> *A comparison of Child Benefit packages in 22 countries*, J. Bradshaw and N. Finch, Department for Work and Pensions, Research Report 174, February 2002.

<sup>35</sup> Belgium, France, Germany, Israel, Italy, New Zealand and Portugal.

**3.77** The Government has supported a wide range of targeted activities to raise awareness of DLA and enhance take-up. For example, in 2003-04 a session to raise awareness of DLA and other benefits was held at Brislington School in Bristol, a talk about DLA was given to parents of children with autism at the Wirral Autistic Society and information about child claims for DLA was provided through the Diabetes Association at Wishaw General Hospital. These activities and others were undertaken by the Disability and Carers Service working with local authorities and other organisations.

**3.78** The DWP is working towards improving the claim process for disability benefits and developing a new DLA form appropriate for those looking after disabled children. It will be much shorter and responsive to customer needs. A more personal and responsive service will remove barriers and encourage people to claim. The DWP have already commenced consultation with groups representing disabled children and will be testing the new forms in 2005.

**Child Support 3.79** The Government has also reformed the child maintenance system. The new child support scheme, introduced for new cases in March 2003, puts children at the centre of child support and will get money to more children more quickly. The Government aims to double the number of parents with care on Income Support who receive maintenance to 60 per cent by March 2006. This will mean an extra £150 million a year will go to support 600,000 children through the child maintenance premium. Overall, the Government expects more than a million children to receive more maintenance as a result of these reforms.

**3.80** Once fully rolled out, the new child support scheme will offer simpler calculation and faster payment of child maintenance for all parents with care. **The Government aims to further increase the number of parents with care on Income Support who receive maintenance to 65 per cent by March 2008.**