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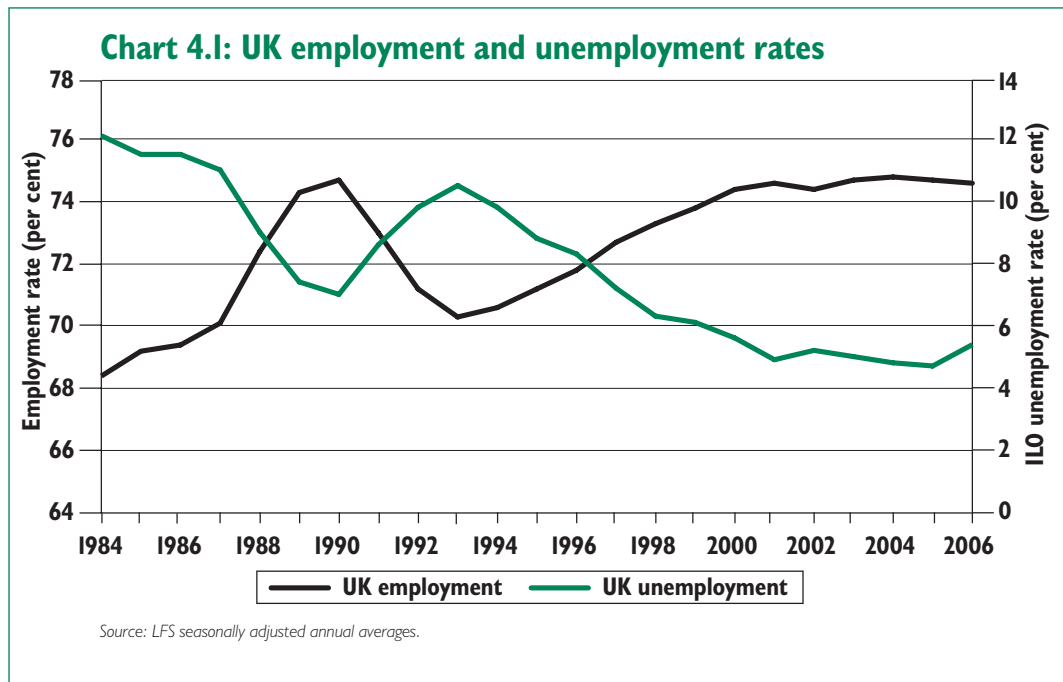
INCREASING EMPLOYMENT OPPORTUNITY FOR ALL

The Government's long-term goal for the labour market is to achieve employment opportunity for all – the modern definition of full employment. This means that everyone should be given appropriate support and advice to enable them to find and retain a job, with the opportunity to gain skills and experience, thereby helping to meet the productivity challenge. This chapter describes the further steps the Government is taking towards the attainment of employment opportunity for all. They include:

- **extending the support offered to lone parents who move into work by maintaining the In-Work Credit in the current pilot areas for a further six months;**
- **improving the Jobseeker's Allowance intervention regime by offering expert work-search support at the new claim stage, and extending the Job Grant of £100 (£250 to claimants with children) to 18-24 year old jobseekers;**
- **improving enforcement of the National Minimum Wage by increasing by 50 per cent the resources allocated to tackle non-compliance and raising penalties for the seriously non-compliant;**
- **providing funding to improve the administration of Housing Benefit and to raise awareness that Housing Benefit is available to those in work;**
- **taking forward measures to simplify and reduce error in the benefits system; and**
- **raising the earnings disregard to Housing Benefit and Council Tax Benefit in line with indexation to £15.45 in April 2007, ensuring that claimants gain from increases in the rate of Working Tax Credits.**

Government's employment objective 4.1 The Government's long-term objective for the labour market is to realise employment opportunity for all – the modern definition of full employment. There has been considerable progress on this objective, particularly in those areas and among those groups of people who had previously been most disadvantaged. The Government aims to go further, however, and has set a long-term aspiration for an employment rate equivalent to 80 per cent of the working-age population. This will involve reaching out to the hardest to help, moving people from inactivity to labour market participation and encouraging more individuals to take personal responsibility to move from welfare to work.

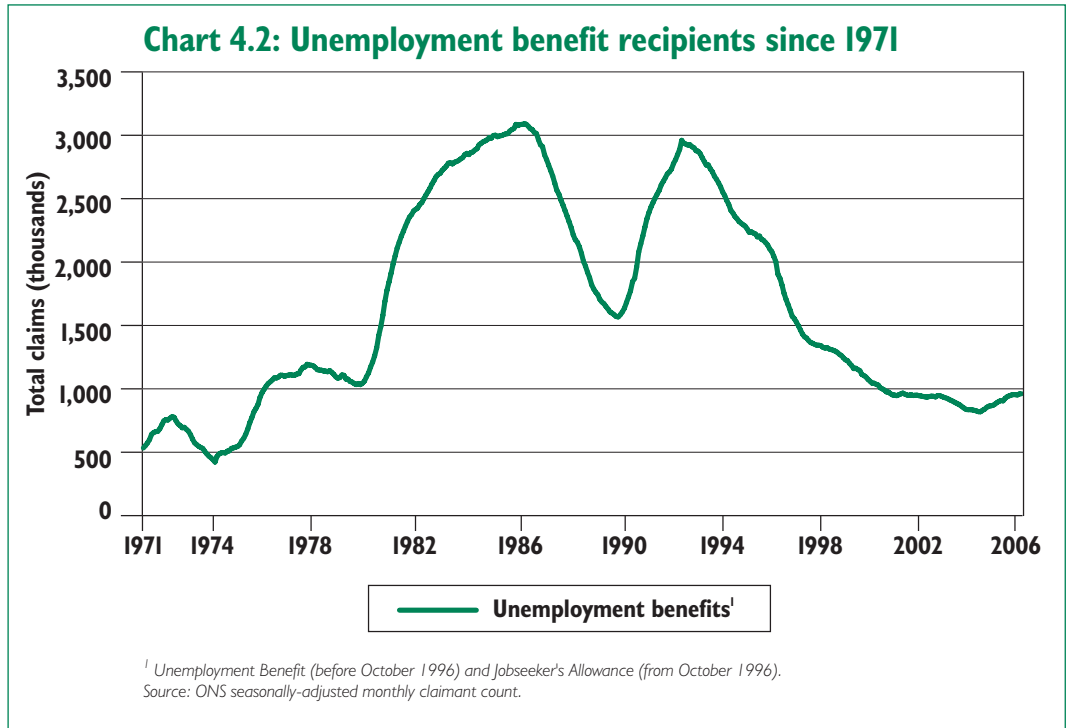
Labour market performance 4.2 Employment in the UK reached 29 million for the first time in 2006. This is the highest figure since comparable records began in 1971. The working age employment rate is now 74.5 per cent, up from 72.7 per cent in 1997. Chart 4.1 shows the UK employment and unemployment rates over time.



4.3 The International Labour Organisation unemployment rate is 5.6 per cent, down from 7.2 per cent in 1997. While the unemployment rate has risen slightly over recent months, this should be seen in the context of the sustained decline of the past decade and the steady growth in the numbers of people entering the labour market. The UK unemployment rate remains significantly below the EU average of 8 per cent.

Inactivity 4.4 The counterpart of a rise in both employment and unemployment over recent months has been an ongoing fall in inactivity, especially among people with a health condition or disability. The working age inactivity rate decreased by 0.3 percentage points over the year to July – September 2006, with 75,000 people moving out of inactivity and into the labour market.

Working age benefits 4.5 The number of people who claim Jobseeker's Allowance (JSA) has been reduced by over 42 per cent since 1997, from 1,662,600 in April 1997 to 961,300 in October 2006. As Chart 4.2 shows, the claimant count has now remained below 1 million for 69 consecutive months; the longest period since the 1970s.

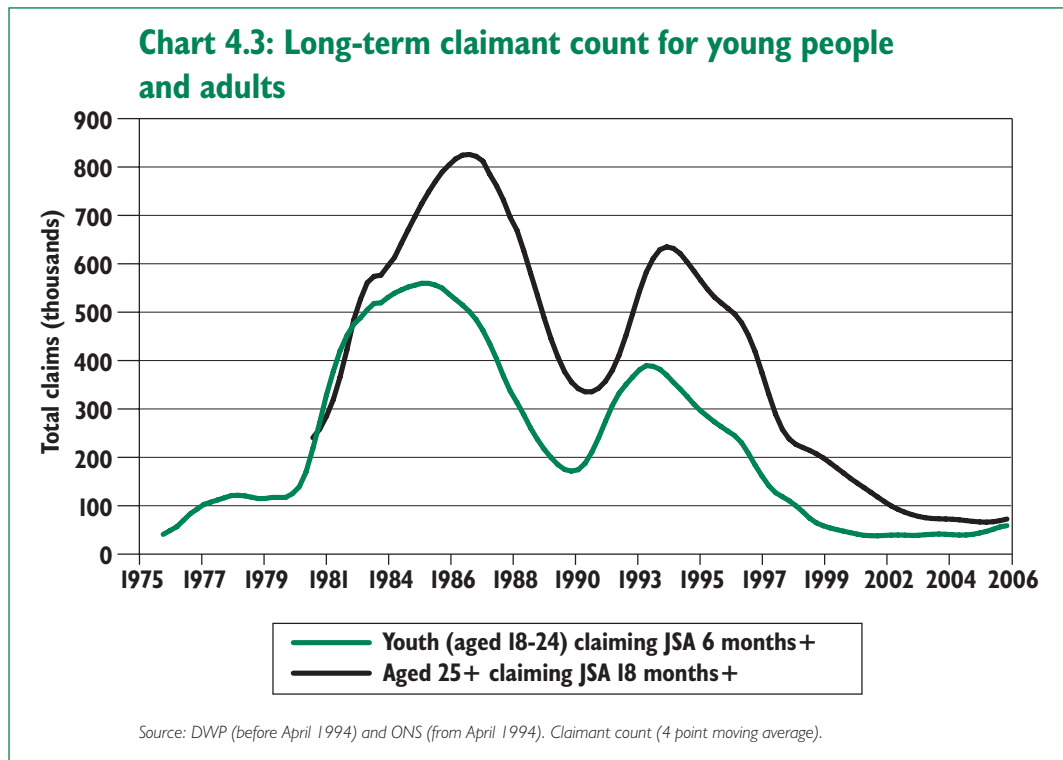


4.6 The fall over the past decade in the number of JSA claimants has been accompanied by a decline in the number of people claiming Income Support and, more recently, incapacity benefits.¹ In total, there are now 1 million fewer people of working age who are out of work and claiming benefits than there were in 1997. As well as its positive effect on individuals, the reduction in benefit claims has had a noticeable impact on government spending, with the cost of benefits for the unemployed alone now being £5 billion lower in real terms than in 1996-97.

DELIVERING EMPLOYMENT OPPORTUNITY FOR ALL

New Deal 4.7 Since the New Deal was introduced in 1998, nearly 694,000 young people and over 272,000 adults have gained a job through the programme. The New Deal has contributed to a reduction in the number of long-term unemployed, as Chart 4.3 illustrates.

¹ The current system of incapacity benefits includes: Incapacity Benefit, Income Support on the grounds of incapacity and Severe Disablement Allowance.



4.8 Independent evaluations have repeatedly highlighted the New Deal's success and cost effectiveness. The National Institute of Economic and Social Research (NIESR) concluded in 2000 that the level of long-term unemployment would have been twice as high without the New Deal for young people (NDYP), and that the economy as a whole is richer by £500 million as a result of NDYP.² More recent studies show that: NDYP has significantly increased exit rates from unemployment in all regions;³ overall youth unemployment has been reduced by between 30,000 and 40,000;⁴ young men are now 20 per cent more likely to find work as a result of the NDYP;^{5,6} and the social benefits of NDYP outweigh the costs.⁷

Flexibility 4.9 The degree of flexibility in the labour market helps to determine the speed and efficiency with which individuals, firms and markets are able to respond to shocks. A flexible and efficient labour market has the ability to adjust to changing economic conditions in a way that maintains high levels of output and employment, minimizing the cost of adjustment and maintaining economic stability. The Government's labour market policies are intended to advance flexibility and fairness together, ensuring that everyone in society has the support they need to achieve their full potential in a dynamic, global economy. This chapter reports on the progress the Government has made to increase and enhance flexibility in the labour market.

² *The New Deal for Young People: implications for employment and the public finances*, NIESR, December 2000.

³ *How well has the New Deal for Young People worked in the UK?* McVicar and Podivinsky, Northern Ireland Economic Research Centre, April 2003.

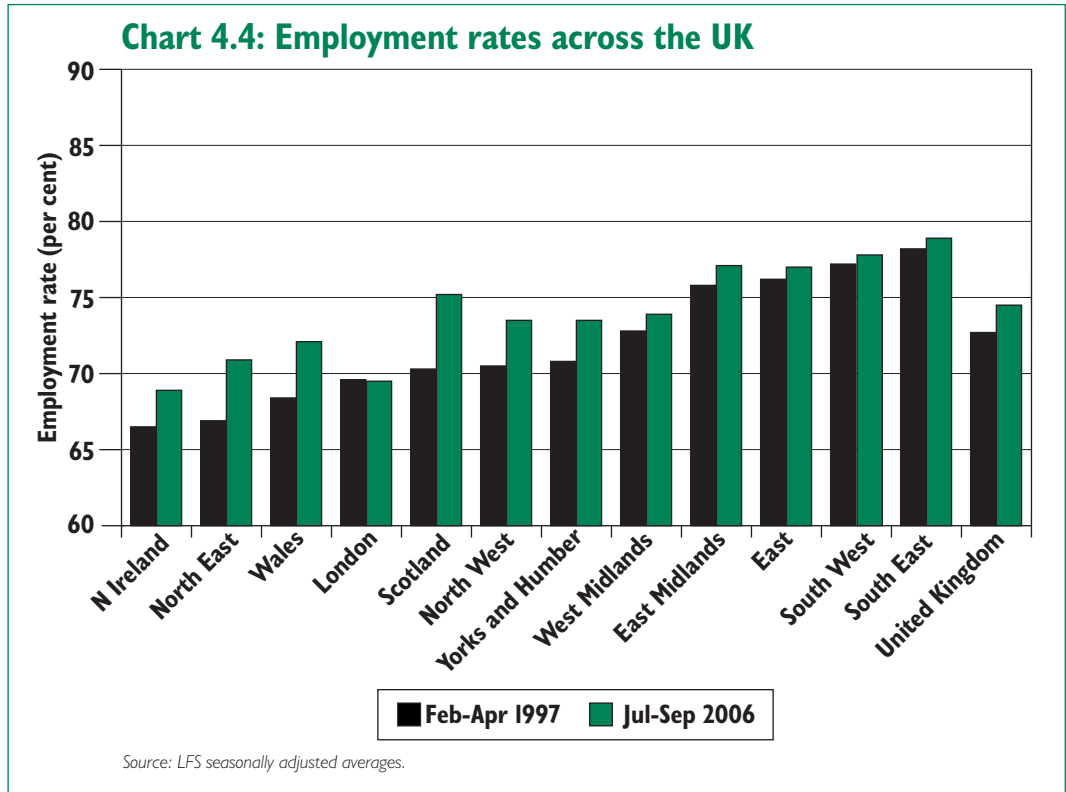
⁴ *New Deal for young people: evaluation of unemployment flows*, D. Wilkinson, Policy Studies Institute, 2003.

⁵ *Evaluating the employment impact of a mandatory job search program*, Blundell, R., Costa Dias, M., Meghir, C., Van Reenen, J., in *Journal of the European Economic Association*, June 2004.

⁶ *Active labour market policies and the British New Deal for unemployed youth in context*, Van Reenan, J., in *Seeking a premier league economy*, Blundell, R., Card, D., and Freeman, R., (eds) University of Chicago Press, June 2004.

⁷ *Ibid*

Regional performance 4.10 The benefits of improved labour market performance have been spread widely across the country. In every region, with the exception of London, employment rates today are higher than in 1997, as shown in Chart 4.4. A technical note reporting on the Government’s progress in delivering its regional economic performance Public Service Agreement is being published alongside this Pre-Budget Report.⁸

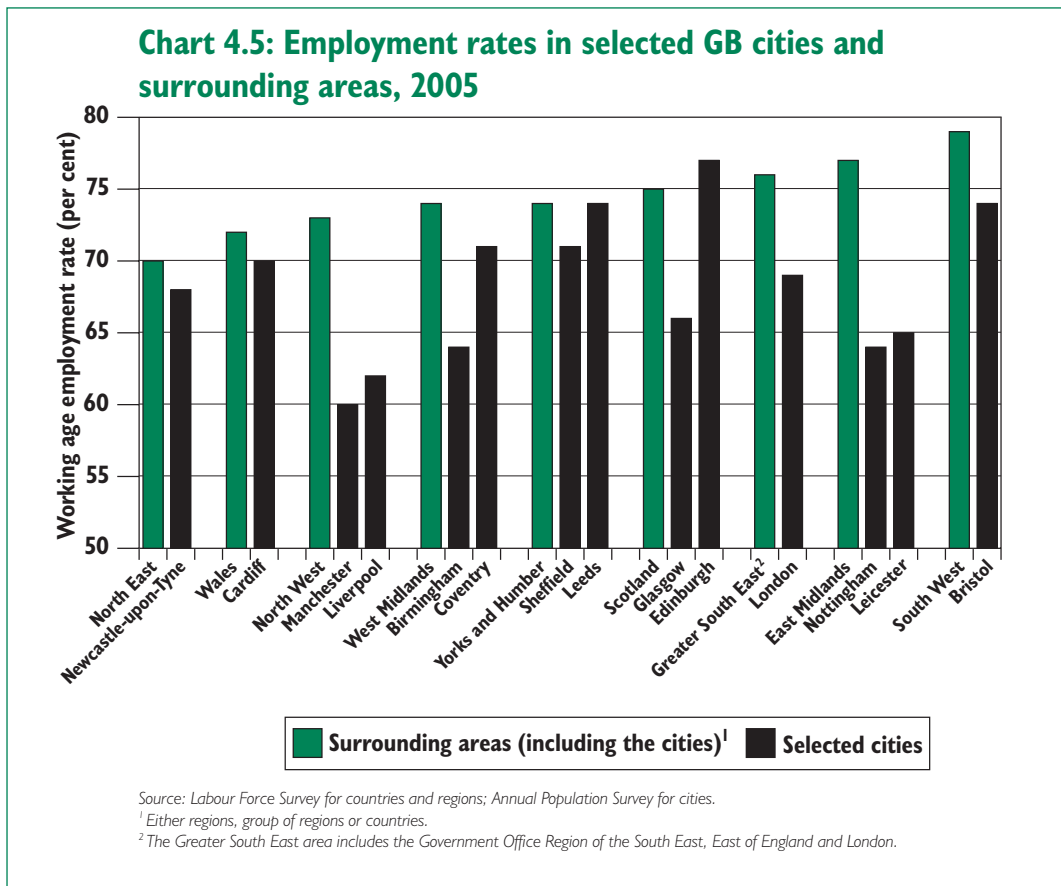


London 4.11 The reasons for London’s labour market performance were considered in *Employment opportunity for all: Analysing labour market trends in London*,⁹ published alongside Budget 2006. This analysis showed that London’s lower headline employment rate largely (though not entirely) reflects differences in the composition of London’s population compared with the rest of the UK. However, living in London, and especially in Inner London, is associated with a higher risk of labour market exclusion for lone parents and those with low skills. Why this should be the case remains unclear, and work is ongoing to understand the reasons.

Cities 4.12 London is both a city and a region; and as Chart 4.5 demonstrates, the employment rate in London is below that of the area that surrounds it. This pattern is reflected elsewhere in the UK, with the employment rate in a city usually lower than that of the surrounding area.

⁸ *Regional Economic Performance: Progress to date*, HM Treasury, DTI, DCLG, December 2006

⁹ HM Treasury, 2006



4.13 Local labour markets differ by sectoral mix, geographical reach and mobility of their labour force. It is therefore important that solutions to local needs are developed using local knowledge. Box 4.1 describes the steps that are being taken to integrate labour market and human capital investment strategies at the local level.

Box 4.1 Integrating labour market and human capital investment strategies at the local level

Helping the most disadvantaged people to find work and stay in work requires the coordinated efforts of local partners. Those furthest from the labour market need help with jobsearch support, training in basic employability skills to overcome initial barriers to work, and ongoing vocational training to ensure that they can thrive in work. A number of initiatives have been established to bring Jobcentre Plus, training providers and employers, along with local authorities and other partners, together to ensure that people get the end-to-end help they need.

As announced by the Secretary of State for Work and Pensions in July 2006, consortia consisting of Jobcentre Plus, local authorities, training providers, employers, the third sector and other partners will establish strategies for helping the most disadvantaged people in fifteen Cities Strategy pilot areas. The consortia will coordinate delivery of employment and training, with flexibility to pool their resources, set local targets and deliver support that better meets the needs of their local communities.

The three Fair Cities pilots, meanwhile, bring together training providers, Jobcentre Plus and employers to design pre-work training and support for disadvantaged people in areas with high ethnic minority populations so that they meet the skill needs of local employers.

Building on this experience, the Leitch Review of Skills, published on 5 December 2006, highlights the importance of ensuring that people receive an integrated employment and skills service that helps them move into work, stay in work and progress in work. The review sets out a number of measures that will deliver this, as discussed in Chapter 3.

EXTENDING EMPLOYMENT OPPORTUNITY TO ALL

People with a health condition or disability

4.14 Of the nearly 5.6 million people of working age with a health condition or disability, only around half are in employment. Ensuring that many more are able to take up the opportunity to work is central to achieving the Government's long term employment rate aspiration, and requires the reduction and removal of the barriers that prevent individuals in this group from finding, remaining in and progressing in work.

Growth in incapacity benefits claims **4.15** During the 1980s and early 1990s, the welfare system did little to support people with a health condition or disability back to work. As a result, many people drifted into long-term benefit receipt, despite the fact that as many as 90 per cent of people expect to get back to work when they start a claim for incapacity benefits. As a consequence, the number of incapacity benefits claimants in the UK more than trebled between the early 1980s and mid 1990s, despite ongoing improvements in general health and life expectancy.

Support for a return to work 4.16 For many incapacity benefits claimants, a return to work is possible with appropriate help and support. Reforms to the system of support mean that incapacity benefits claimants now receive active encouragement and support via a variety of means to plan their return to work, including:

- ensuring that incapacity benefits claimants have access to early and ongoing work focused advice from Jobcentre Plus;
- helping disabled people to identify and move into employment. By May 2006, the New Deal for disabled people (NDDP) had helped over 116,000 disabled people into work;
- tackling discrimination against disabled people through the Disability Discrimination Act 2005 and improving their opportunities to participate in society, as discussed in Chapter 5; and
- ensuring that work pays through the Working Tax Credit and National Minimum Wage.

Pathways 4.17 The Government's Pathways to Work pilots are providing additional support to help incapacity benefits claimants to return to work. These pilots are testing a new framework that combines ongoing mandatory contact with highly skilled Personal Advisers at Jobcentre Plus, and high quality employment, health and financial support. The OECD has described Pathways to Work as a "considerable success",¹⁰ and this is demonstrated by:

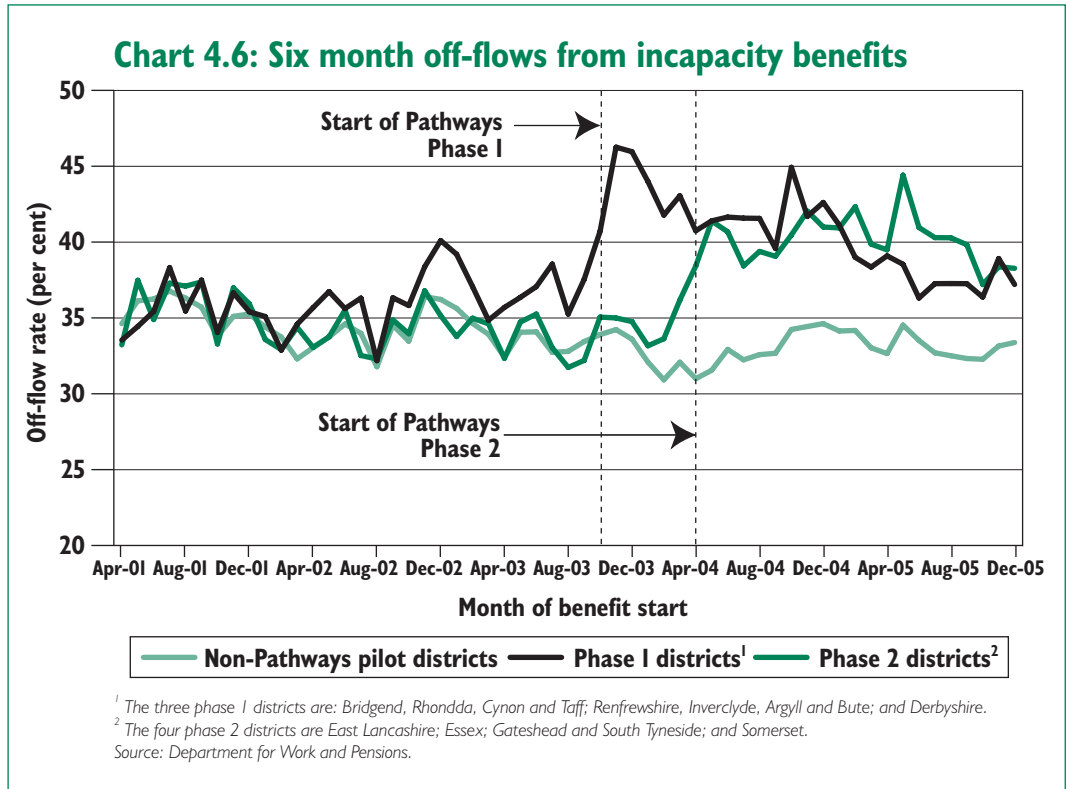
- a significant increase in off-flows from incapacity benefits after six months of a claim, as shown in Chart 4.6.¹¹ Independent evaluation by the Institute for Fiscal Studies¹² has confirmed this effect, finding an 8 percentage point increase in people leaving benefits in Pathways areas compared to matched non-Pathways areas ten and a half months after an initial enquiry to claim benefits;
- over 25,000 job entries through the Pathways to Work pilots by February 2006;
- following the initial Work Focused Interview (WFI), over 21 per cent of claimants have taken up elements of the Choices package,¹³ with over 8,000 referrals to the new Condition Management Programmes; and
- nearly 10 per cent of participants in the pilots are longer-term claimants who were not required to participate in the programme, but volunteered to take part after hearing about the support on offer. In February 2005, the Government extended a mandatory WFI regime to some existing claimants, alongside a new Job Preparation Premium of £20 per week to encourage steps towards finding work.

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

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

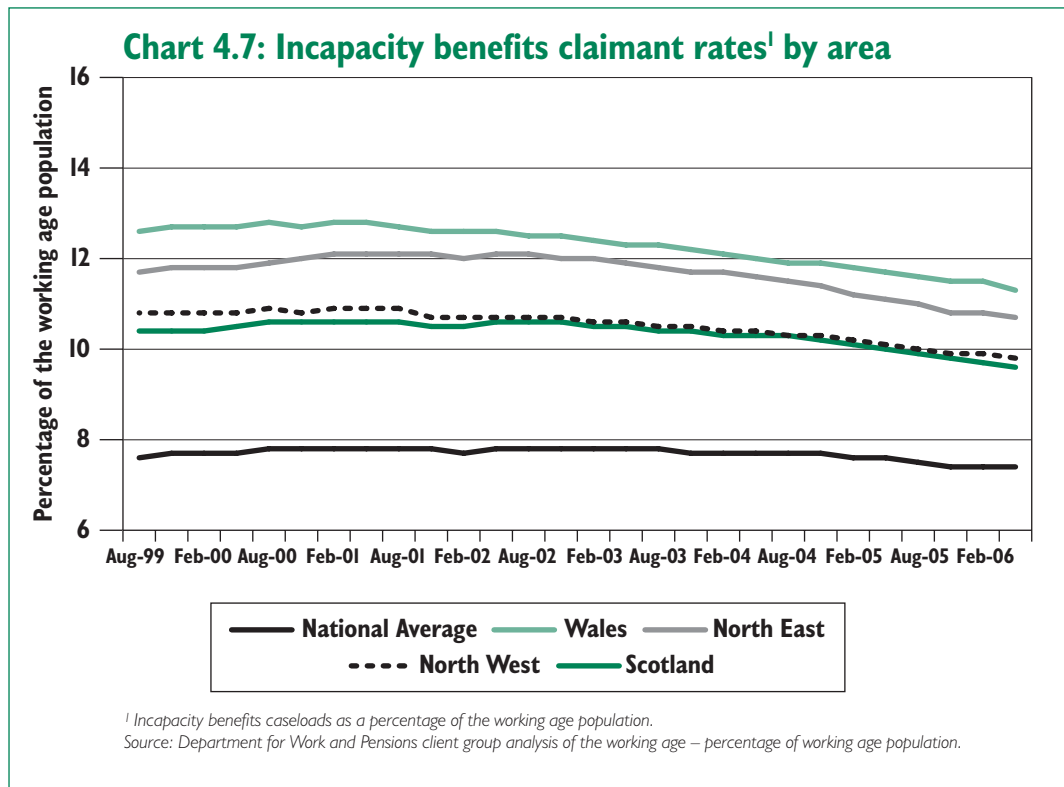
¹² *Early quantitative evidence on the impact of the Pathways to Work pilots*, Institute of Fiscal Studies, on behalf of the Department for Work and Pensions, June 2006.

¹³ The Choices package is a range of provision aimed at improving labour market readiness and opportunities. This includes NDDP and the Condition Management Programmes.



Changes in caseload 4.18 These reforms have started to change the attitudes and expectations of incapacity benefits claimants. The longstanding rising trend in the number of claimants has stopped and the caseload is now beginning to fall. Annual inflows to the benefits have fallen by a third since the mid 1990s, and the total number of incapacity benefits claimants in May 2006, at 2.69 million, was over 50,000 lower than the previous year.

Trends in claims by area 4.19 As Chart 4.7 shows, the incapacity benefits claimant rate is falling fastest in the areas where it was highest during the 1980s and 1990s. The total number of incapacity benefits claimants in Wales, the North East, the North West and Scotland has decreased by almost 100,000 in the last five years. These areas have also seen particularly strong increases in their employment rates since 1997, as seen in Chart 4.4. At the same time, however, the average duration of claims for incapacity benefits has increased, as has the proportion of claimants citing mental health conditions as the primary cause of their incapacity. Notwithstanding recent and considerable success, there is more to be done.



4.20 To inform the 2007 Comprehensive Spending Review, a number of long-term policy studies have been launched. Among them is a study of mental health and employment outcomes, and Box 4.2 sets this out in more detail.

Box 4.2 Review of Mental Health and Employment Outcomes

Budget 2006 announced a review of the policies needed to improve mental health and employment outcomes. The Government recognises that too many people of working age are excluded from work when, with proper help and support, it should be possible for them to find or remain in work, benefiting both their health and the wider economy. Individuals with mental health conditions are less likely to be employed and more likely to be economically inactive than those without mental health conditions. Nearly 40 per cent of all Incapacity Benefit (IB) claimants report a mental health condition as their main health issue and remain on IB for longer than with almost any other health condition.

Since 1997 much has been done to reform the help and support offered to people of working age with a health condition or disability to remain in or return to work. It can, however, be difficult to determine the impact of the different interventions currently available for this group on individuals with a mental health condition. Emerging evidence and consultation with stakeholders and service users suggests that more could be done, both to reduce and to remove the particular barriers that can prevent people from finding, remaining in and progressing in work. More could also be done to support the development of effective evidence-based interventions that individuals with mental health conditions need to achieve their full potential.

Building on the research and consultation already undertaken, the review is considering a number of areas and issues where appropriate responses focused around the key challenges of prevention, remaining in work and rehabilitation to return to work may be appropriate, including:

- incentivising better national and local level delivery of services, including improved coordination between healthcare and employment services;
- working with primary care professionals to recognise employment as an effective part of the rehabilitation process for some people with mental health conditions;
- raising awareness of mental wellbeing among employers and employees and improving the 'signposting' of support and advice when needed;
- developing the current evidence base on the potential of psychological therapies, such as Cognitive Behavioural Therapy, to improve employment outcomes for people with mental health conditions;
- developing flexible, tailored help and support for individuals to tackle the variety of barriers which can prevent them from returning to work; and
- enhancing the role and contribution of the third sector in supporting people with mental health conditions to remain in or return to work.

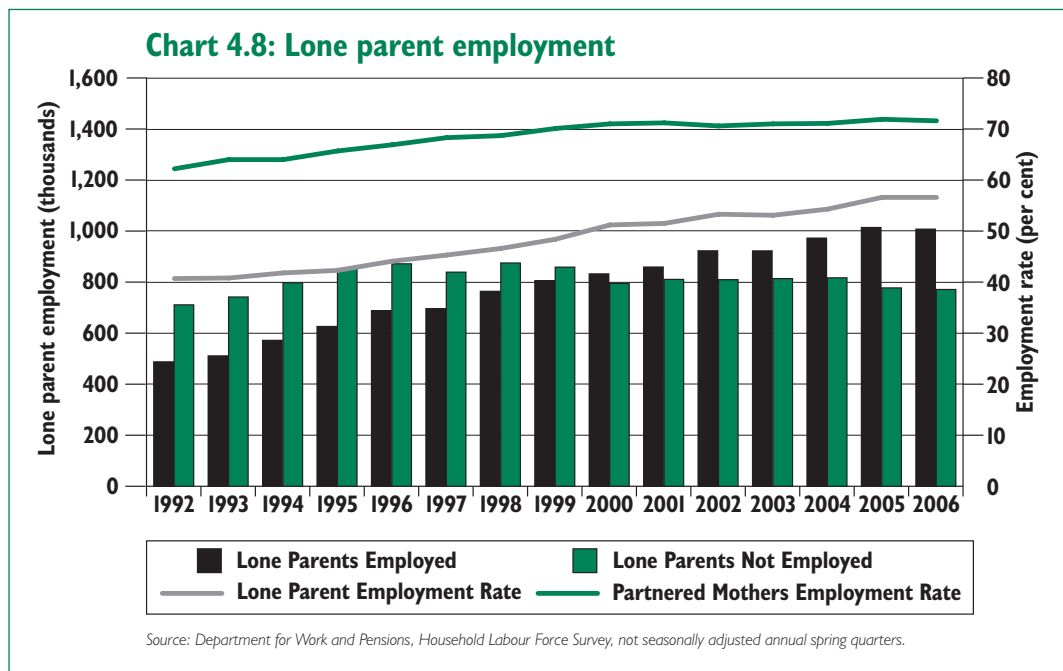
Welfare Reform Bill 4.21 Building on Pathways to Work, the Welfare Reform Bill, presented to Parliament in July 2006, is a key part of the Government's welfare reform programme. The Bill's main provision is for the introduction of a new, integrated and simplified Employment and Support Allowance (ESA), to replace the current system of incapacity benefits for new claimants from 2008. The success of the Pathways to Work pilots has demonstrated that, with the right help and support, many people on incapacity benefits can move back into work.

Employment and Support Allowance **4.22** The new ESA will have a clearer balance of rights and responsibilities than the current system. For most people full receipt of the new benefit will require: attendance at Work-Focused Interviews; an agreed action plan; and, as resources allow, engagement in work related activity. People with the most severe health conditions and disabilities will be supported by ESA at a higher level with no requirement for work related activity, although they will still be able to take up programme support on a voluntary basis. The Personal Capability Assessment, the eligibility test conducted at the start of an Incapacity Benefit claim, will be changed so that it focuses on what someone can do, not what they cannot. People will not be entitled to move onto higher levels of benefit until they have satisfied the eligibility test.

Lone parents

4.23 Worklessness remains a key cause of child poverty. Although there are now 440,000 fewer children in workless households than in 1997, there are still 1.7 million children living in households where no one works. Of those children living in a workless household 68 per cent live in a lone parent household. Helping lone parents move into work is therefore a central part of the Government's strategy – set out in Chapter 5 – to halve child poverty by 2010, on the way to eradicating it by 2020. The Government is committed to ensuring that lone parents receive a full range of support to enable them to move into work, thereby helping to improve the life chances of both themselves and their children.

Lone parent employment **4.24** Since 1997, the number of lone parents claiming Income Support has decreased by over 200,000; over 1 million lone parents are now in work. As Chart 4.8 shows, the lone parent employment rate remains at a record high of 56.6 per cent, an increase of 11.3 percentage points since spring 1997. The lone parent employment rate has also risen faster than that of partnered mothers; since spring 1997 the gap in the employment rates has narrowed from 22.9 to 14.9 percentage points.



New Deal for Lone Parents 4.25 Evaluation suggests that the support introduced by the Government since 1997 has been a significant reason for the rising lone parent employment rate, with Government policies accounting for about half of the gains.¹⁴ Steps have been taken to ensure that work pays through the introduction of policies such as Working Tax Credits and the National Minimum Wage, and that childcare provision is affordable and accessible.

4.26 Active labour market policies are delivered by trained Personal Advisers, who provide a comprehensive package of individualised support through Jobcentre Plus. The New Deal for lone parents (NDLP) has so far helped over 470,000 lone parents into work. Further independent evaluation suggests that participating in NDLP doubles an individual's chances of finding employment.¹⁵

Support for flexible working 4.27 Workplace rights have also been enhanced, and flexible working practices are increasingly being adopted by employers. Almost a quarter (22 per cent) of parents with children aged under six have requested flexible working since the law was introduced,¹⁶ and over 80 per cent of such requests have been granted.¹⁷ Maternity pay and child benefits have increased and childcare provision continues to be strengthened, providing the opportunities to better balance work and family life, and to ensure more lone parents make a move out of poverty. The ten year strategy for childcare, published alongside the 2004 Pre-Budget Report, sets out the Government's objective of high-quality, affordable childcare for all parents who need it. The Childcare Act 2006 creates the legislative framework for the strategy, including the introduction of a new duty for local authorities to work with childcare providers to secure sufficient childcare supply in their area.

New Deal Plus 4.28 The New Deal Plus for lone parents (NDLP+) pilots, launched at the end of April 2005 in five Jobcentre Plus areas, bring together all current lone parent initiatives to provide a coherent package of support. The package includes a range of financial incentives, including the In-Work Credit and the worksearch premium, as well as enhanced Personal Adviser support to help ensure that lone parents understand the gains to work through a "better off" calculation and are encouraged to make a move into sustainable employment. As announced in the 2005 Pre-Budget Report, NDLP+ was extended to two further Jobcentre Plus districts in Scotland and Wales¹⁸ and will run until April 2008.

Work Focused Interviews 4.29 The Government is continuing to extend and develop the support offered to lone parents. Work Focused Interviews (WFIs) have proved effective in conveying the benefits of work and encouraging people to move onto NDLP. As announced in Budget 2006, six-monthly WFIs will be rolled out from April 2007 to lone parents with a youngest child aged under 14. This will mean that all lone parents will receive a WFI at least every 6 months.

Work Related Activity Premium 4.30 The Government also recognises that regular contact with a Personal Adviser may not be sufficient to encourage lone parents to return to work. The Department for Work and Pensions (DWP) will pilot a Work Related Activity Premium (WRAP) from April 2007, to incentivise lone parents who have been on benefit for over 6 months and whose youngest child is aged over 11 to move closer to the labour market. Lone parents will be able to receive £20 per week if they take steps towards preparing for work.

¹⁴ *Welfare Reform and Lone Parents Employment in the UK*, CMPO working paper no 72, Gregg and Harkness, 2003

¹⁵ *New Deal for lone parents: Second synthesis report of the national evaluation*, Department for Work and Pensions, June 2003

¹⁶ *2nd Worklife Balance Survey* (Employment Relations Research Series), DTI, 2005.

¹⁷ *Executive Summary of 3rd Worklife Balance Survey* (Employment Relations Research Series), DTI, 2006.

¹⁸ Edinburgh; Lothian and Borders, and the former Cardiff and Vale sites within the new SE Wales district.

In-Work Credit 4.31 The Government recognises that work incentives may be affected by the higher costs of living in some areas of the country. Since April 2004, it has been piloting the In-Work Credit (IWC); a £40 a week payment for lone parents who have been on income support for more than 12 months, for their first 12 months back in work. The pilot areas, expanded in October 2005, now cover around 45 per cent of lone parents who have been on benefit for more than a year. **This Pre-Budget Report announces that the Government will extend the IWC in the current pilot areas until June 2007. This means that around 250,000 eligible lone parents will continue to benefit from improved financial gains to work.**

Partners

4.32 Over the past two decades, there has been a significant change in the way in which households organise their work. Between the 1970s and the early 1990s there was a decline in male employment from 92 per cent to a low of 75 per cent, while female employment increased from 56 per cent to 66 per cent. There was a significant shift away from single earning households, and towards a polarisation between 'work-rich' dual-earning households and 'work-poor' workless households, with the latter experiencing high levels of child poverty and social exclusion.

4.33 The Government's aim of reducing child and pensioner poverty and extending opportunity to all means that work-focused support is now provided to every workless adult. The introduction of WFIs in April 2004 for partners of benefit claimants ensures that they can benefit from help and advice on offer. The New Deal for partners (NDP) provides support and encouragement to partners of benefit claimants to acquire the skills and confidence they need to move into work. The NDP includes assistance with job search, advice on training and skills, and the identification and provision of support for registered childcare. Over 4,300 job entries have been recorded for partners who have either attended a WFI or joined NDP since April 2004.

Women returners

4.34 As well as focusing support on lone parents, over 90 per cent of whom are female, the Government has continued to take steps to increase opportunities for training and work for women. Around 70 per cent of the beneficiaries of the National Minimum Wage have been women. Additional Pension Credit entitlement is to be extended to those who have spent time out of the labour market due to caring responsibilities, many of whom will be women. The London Development Agency (LDA) pilot to understand barriers preventing women from returning to work is due to conclude in December 2006.

Women and Work Commission 4.35 In response to the Women and Work Commission's report,¹⁹ in September 2006 the Government published the *Government Action Plan: Implementing the Women and Work Commission recommendations*. As announced in this document, some of the additional incentives the Government will be implementing include:

- a £500,000 programme to increase the number of senior and quality jobs that are available part time;
- funding for Sector Skills Councils, matched by employers in industries with skills shortages, to develop new ways of recruiting and training women, benefiting over 10,000 women;

¹⁹*Shaping a Fairer Future*, Women and Work Commission, February 2006.

- establishing a Women's Enterprise Task Force to provide high profile leadership to accelerate women's enterprise development throughout the UK; and
- increasing the number of pilots delivering level 3 skills (the equivalent of 2 A levels) by 50 per cent and focusing an additional pilot on women with low skills. This will contribute to the vision set out in the Leitch Review of Skills.

Unemployed people (Jobseeker's Allowance claimants)

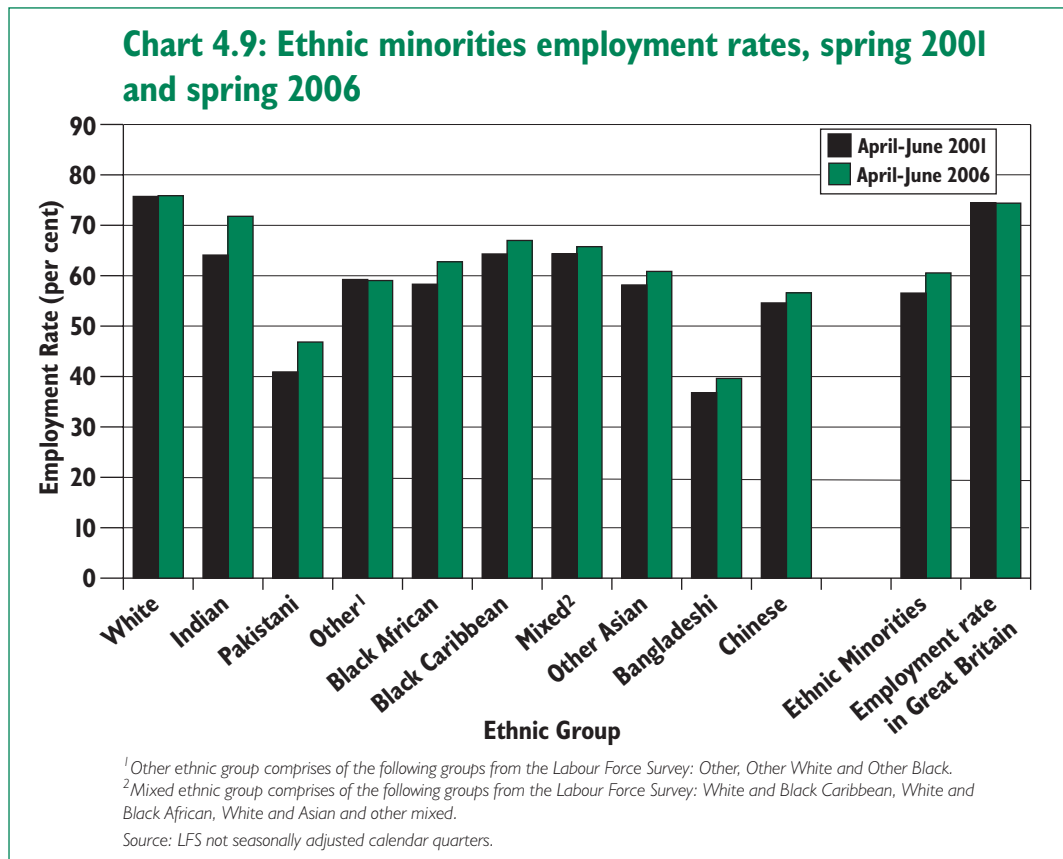
Intervention regime 4.36 For most jobseekers, unemployment is a short-term state; over 60 per cent of people who make a claim to JSA move off benefit within the first 3 months. The financial support offered by JSA is conditional on claimants taking responsibility for moving back into employment quickly, and the intervention regime is designed to ensure that claimants fulfil this responsibility by monitoring their jobsearch activity, offering support, and if necessary, imposing sanctions. Effective delivery of the intervention regime is central to helping people move back into work as quickly as possible.

4.37 It is important that new jobseekers start to look for work as soon as they become unemployed, and that they are given the help they need to move back into work as quickly as possible. Jobcentre Plus is currently re-engineering the benefit claim process to ensure that claims are processed as quickly as possible. This also provides an opportunity to improve the focus on jobsearch. **This Pre-Budget Report announces that every new Jobseeker's Allowance claimant will be offered expert help with jobsearch, delivered through Jobseeker Direct, as soon as they contact Jobcentre Plus to make a claim.**

Job Grant 4.38 The transition into work can itself create immediate financial difficulties, at least until the first wage is received. Since 2004, a Job Grant of £100, or £250 to claimants with children, has been available to support those who move into employment after having been in receipt of benefit for 26 weeks or more. 80 per cent of JSA claimants move into employment before this point. The job grant is a single tax-free payment intended to cover the one-off costs of moving into work. Together with Housing Benefit and Council Tax Benefit run-on, which are available for the first four weeks of employment, the Job Grant helps to ensure people have a period of financial stability in the period between getting a job and receiving their first wage. JSA claimants aged 18 to 24 already receive intensive support through the New Deal for Young People after being unemployed for 26 weeks, but to date have not been eligible for the Job Grant. **This Pre-Budget Report announces that, with immediate effect, the Job Grant will be extended to JSA claimants aged 18 to 24 who have been receiving benefit for 26 weeks or more. This will provide up to £250 to help young people to meet the one-off costs of moving into work.**

Ethnic minority groups

4.39 A rising employment rate for ethnic minority groups, to just over 60 per cent in April-June 2006, means that the gap between this and the overall national employment rate continues to narrow, as Chart 4.9 illustrates. The New Deals, Employment Zones, Action Teams, Ethnic Minority Outreach, the Flexible Fund and Specialist Employment Advisers have together helped people from ethnic minority groups into over 227,000 jobs.



4.40 These positive overall trends mask distinct differences in the labour market performance of some groups. The national female employment rate is around 70 per cent, while the employment rate of women of Pakistani origin is 26 per cent and for women of Bangladeshi origin, 22 per cent. The average employment rate of women from other ethnic minority backgrounds is 51 per cent. The Government's response to such differences in experience and concentrations of worklessness is increasingly focused on ensuring that local employment and skills services respond to local needs and effectively direct help towards those who most need it.

Fair Cities 4.41 Announced in Budget 2004, Fair Cities pilots have been established in Birmingham, Bradford and Brent. They work with local employers and public sector partners to ensure disadvantaged people are ready for employment and have the skills that local employers demand. A full evaluation of the pilots will be carried out in 2008. The Government will look closely at the lessons they offer for delivering more effective services locally.

Business Commission 4.42 In the 2005 Pre-Budget Report, the Chancellor announced that he would ask a group of private sector leaders to advise on policies and practical measures to increase the recruitment, retention and progression of ethnic minorities in the private sector. The National Employment Panel's Business Commission, chaired by Gordon Pell, will submit its recommendations to the Chancellor in time for Budget 2007.

Extending Working Lives

Extending working lives 4.43 The Government is committed to ensuring that everyone who wishes to extend his or her working life should have the opportunity to do so. Evidence suggests that remaining in work can increase social inclusion and improve health. Raising employment among older people of working age will be a key element in realising the Government's long-term aspiration of an employment rate equivalent to 80 per cent of the working age population. In line with the European Employment Directive, the Government introduced legislation in October 2006 that outlaws age discrimination in employment and vocational training. The financial incentive to work, meanwhile, has been enhanced through the Working Tax Credit, which includes additional support for people over 50.

4.44 These measures have, in the context of a strong and stable economy, delivered impressive results. Since May 1997, the employment rate of people aged between 50 and State Pension Age has increased from less than 65 per cent to over 70 per cent. Furthermore, there are now nearly 1.2 million people over State Pension Age in employment. The increase in the UK female state pension age from 60 years to 65 years between 2010 and 2020 is expected to lead to significant growth in female labour market participation rates.

Helping people to stay in employment

Promoting retention 4.45 In a dynamic, flexible labour market, it is inevitable that some people who move into work will return to benefits or cycle between benefits and work. This does not, however, preclude a focus on reducing the number of those who return from work to benefits; around two thirds of new JSA claims, for example, are from people who have made previous claims for benefits.

4.46 While the probability of lone parents leaving work fell from 14 per cent in 1992 to around 10 per cent in 2003, lone parents are still more likely to leave their job than non-lone parents and single childless women.²⁰ The Employment Retention and Advancement (ERA) demonstration project, which focuses on promoting retention and advancement among lone parents, continues to be evaluated in six pilot areas. From 2003 to 2006, a group of lone parents on NDLP and in receipt of the Working Tax Credit for work of 16-29 hours per week have, alongside adults moving into work from the New Deal, been receiving individual support from an Advancement Support Adviser to assist them to:

- find suitable work;
- remain in work by avoiding some of the early pitfalls that sometimes cause new jobs to be short-lived; and
- progress in their jobs either through greater job security or better pay and conditions.

Additional financial incentives are also being evaluated including a retention bonus, cash payments for training and access to an emergency payment to overcome short-term barriers to retaining work.

²⁰ *Lone Parents cycling between work and benefits*, DWP research report 217, September 2004.

The role of skills 4.47 Both effective job-matching and ensuring that people have the opportunity to receive the training they need, are central to helping people remain in work and in the labour market. Jobcentre Plus already has an important role in helping benefit claimants get the basic employability skills they need to get a job in the first place. The basic skills and vocational training funded by the Learning and Skills Council is key to increasing people's productivity and helping them progress in work. This is particularly so where training that meets employers' specific needs is delivered in the workplace, as in Train to Gain. Jobcentre Plus and training providers hold the pieces of the jigsaw, but no single agency is currently responsible for putting them together.

New Deal for skills 4.48 The New Deal for skills has started to bring training providers, the Learning and Skills Council and Jobcentre Plus closer together to meet more effectively the needs of low-skilled benefit claimants. Skills Coaches have been introduced in Jobcentre Plus to provide advice on training needs and the Adult Learning Option is testing the impact of allowing benefit claimants access to full time training where a lack of skills is the main barrier to work. Jobcentre Plus can also contribute to promoting skills and progression by signposting employers to Train to Gain when securing jobs for people with low skills.

The Leitch Review of Skills 4.49 The Leitch Review of Skills, published on 5 December 2006, builds on this joint working and recommends that Jobcentre Plus, the Learning and Skills Council and training providers should together have responsibility for helping people get into work, stay in work, and progress in work. A joined-up approach to delivery is also central to delivering the Government's wider skills agenda, helping people to progress in the labour market by gaining the skills employers need. As described in Chapter 3, the review makes a number of recommendations to drive this forward, including the need for an integrated objective of employment retention and progression for Jobcentre Plus and training providers.

4.50 The Leitch Review recommends that employment and skills support should be integrated in order to provide seamless support from benefits to in-work training thereby enhancing employment progression, and that Employment and Skills Boards (ESBs) should be established to ensure joined-up support by delivery agencies. As part of its response to the Leitch Review, the Government will be reviewing the best way to ensure that a wide range of stakeholders are appropriately involved in the new arrangements. Sir David Varney's report, *Service Transformation*, described in Chapter 6, sets out recommendations for further reform to join up service provision across the public sector.

Delivering responsive and personalised support

Personalisation 4.51 Delivery of Welfare to Work support through Jobcentre Plus needs to combine a standard and appropriate level of service for everyone, with the flexibility for local managers and front line staff to direct extra support to those who need it most. Effective delivery also entails making best use of local delivery partners' resources to deliver the more holistic, intensive support which is needed to get the most disadvantaged clients into work. A recent report for DWP highlighted the importance of tailored Jobcentre Plus support for parents to enable progression in work and support the Government's child poverty target.²²

Cities strategy 4.52 Those people furthest from the labour market tend to have multiple barriers to work, many of which go beyond the remit of Jobcentre Plus, such as poor skills, lack of transport to jobs, or ingrained assumptions that their potential as workers is not valued by employers. Overcoming these barriers requires a joined-up approach, involving the different delivery agencies, local authorities and local employers. The DWP Cities Strategy is a good example of this approach. In 15 areas, city-level consortia – consisting of Jobcentre Plus, local authorities,

²² *Delivering on child poverty: what would it take?* Lisa Harker, November 2006

training providers, employers, the third sector and other partners – have set out their strategies for tackling the employment needs of disadvantaged groups in their areas. The Government is reviewing how best to give consortia discretion over national policy in order to deliver their strategies more effectively, while maintaining an appropriate degree of support for everyone and ensuring value for money.

Delivery by the private and third sector

4.53 Private sector and third sector organisations can bring a distinctive approach to service delivery, based on their specialist knowledge, experience and skills. Given flexibility to deliver personalised support based on individual needs, and paid on outcomes, private and third sector providers can make a real difference. Chapter 6 sets out measures to support third sector delivery of public services and the supplementary document *The future role of the third sector in social and economic regeneration: interim report*, detailed in Chapter 5, presents findings from consultation with the third sector on the range of roles the third sector plays in society, including in transforming public services.

4.54 Since 2000, the Government has been systematically testing the impact of opening up the design and delivery of labour market support to competition in the 13 Employment Zones, as well as in New Deal for Disabled People, and Action Teams. The Government will be increasing the focus on contestability with the roll-out of Pathways to Work to the remaining two thirds of the country being delivered primarily by the private and third sectors, and exploring ways to involve private and third sector organisations more fully in efforts to tackle worklessness at a local level.

REFORMING HOUSING BENEFIT

4.55 Over 4 million low income tenants receive help with their rent costs from Housing Benefit. It is important for Housing Benefit claims to be dealt with quickly and accurately, as this influences the mobility and employment choices of claimants. Effective delivery of Housing Benefit supports people into work and lifts children out of poverty. Therefore, the Government is reforming Housing Benefit by introducing administrative improvements, putting structural reform in place and streamlining and aligning benefits.

Administrative improvements

4.56 Government investment in local authorities' I.T. has led to considerable improvements in processing times. In the first quarter of 2002-03, local authorities took an average of 57 days to process a new Housing Benefit claim. By the first quarter of 2006-07 this had been reduced to an average of 36 days, with the 60 worst performing local authorities reducing their processing times by an average of 44 days over the same period. **The Government will make additional investment in this area to complete the roll-out of the National Performance Management Framework, which will allow local authorities to benchmark and track their performance. In addition, the Government will fund improved data transfer between DWP and local authorities.**

4.57 Spending on Housing Benefit has been rising in real terms since 2000-01. There have been a number of reasons for this, including above-inflation increases in private sector rents. While ensuring that tenants continue to receive appropriate levels of Housing Benefit, the Government is keen to reduce fraud and error in the administration of the benefit. Building on the considerable investment already made in this area, **this Pre-Budget Report announces funding to consolidate the Local Authority Housing Benefit data scan and I.T. matching service, which will deliver a streamlined and effective risk-based referral and interventions tool.**

Structural reform 4.58 The Government is introducing structural reform of Housing Benefit through the flat-rate Local Housing Allowance (LHA). LHA was first piloted in 9 local authorities from November 2003 and in a further 9 from April 2005 and is a simpler and more transparent way of administering Housing Benefit. The LHA rates are based on household size and the area in which the tenant lives, and are published monthly. This makes it easier for tenants to find out in advance how much rent can be covered by Housing Benefit, allowing them to make more informed housing choices. LHA is normally paid direct to tenants, rather than the landlord, thereby increasing financial inclusion and helping tenants develop budgeting skills as a step towards employment.

4.59 The Government has commissioned comprehensive independent evaluation of the LHA pathfinders, and has found that:

- overall, tenants are increasingly occupying suitably sized private rented accommodation, and are not moving to smaller accommodation to keep part of their LHA;
- the overall number of lettings has increased in a buoyant market and those landlords who leave the Housing Benefit market are being replaced by new entrants;
- around 91 per cent of claimants on LHA now have a bank or building society account, with a quarter of these saying that they opened the account specifically to have their LHA paid into; and
- the safeguards put in place to protect vulnerable customers are working well, with no evidence that the LHA has led to increased levels of arrears or increased numbers of evictions.

4.60 Subject to the successful passage of the Welfare Reform Bill, the Government will introduce the Local Housing Allowance across the private rented sector for all new Housing Benefit claimants and those who move house from April 2008.

Housing Benefit take-up 4.61 The latest statistics show a high take-up of Housing Benefit, with between 84 and 91 per cent of eligible people claiming.²² However, recent research shows that there is low awareness that Housing Benefit is available to people who are working.²³ Therefore in order for Housing Benefit to act as a work incentive, it is necessary to raise awareness that the benefit is available and can contribute to in-work income. **This Pre-Budget Report announces a package of measures to raise awareness of Housing Benefit as an in-work benefit, including:**

- **providing awareness material to highlight the availability of Housing Benefit as an in-work benefit;**
- **working with local authorities and Housing Associations to promote financial inclusion; and**
- **working with Jobcentre Plus to develop improved in-work calculations for customers.**

²² *Income Related Benefits, Estimates of Take-Up in 2004-05*, Department for Work and Pensions, 2006.

²³ *Housing Benefit and Council Tax Benefit as in-work benefits; claimants and advisors knowledge, attitudes, and experiences*. Department for Work and Pensions, September 2006.

Improving benefit delivery and accuracy

Simplification and error reduction **4.62** The vast majority of benefits (just under 98 per cent)²⁴ are paid correctly. The Government's strategy for reducing error in the benefits system is based on checking the accuracy of new claims, reminding customers and staff of their responsibilities, and identifying and correcting error which is already in the system. Simplifying the benefits system will also help to reduce error by making the system easier to understand and operate. **This Pre-Budget Report announces a review of the accuracy of all data held for Pension Credit claimants; the removal of Adult Dependency Increases (ADIs) in Carer's Allowance for new claims from 2010, aligning with the planned treatment of ADIs in state pensions and other benefits; and action to prevent and reduce error in JSA and IS payments.**

MAKING WORK PAY

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

National Minimum Wage **4.64** The National Minimum Wage guarantees a fair minimum income from work. In February 2006, the Government accepted the Low Pay Commission's recommendations to increase the adult rate to £5.35 from October 2006. The youth rate, for workers aged between 18 and 21, also rose to £4.45 from October 2006.

4.65 For the National Minimum Wage to be effective, British workers must not be undercut by illegal rates. The Government is therefore determined to ensure that the National Minimum Wage is properly enforced, in line with the Hampton principles outlined in Chapter 3, and that enforcement procedures adjust to the changing UK labour market. **The Government will therefore increase the resources devoted to National Minimum Wage enforcement by 50 per cent from April 2007, to raise the standards of enforcement by providing better, risk-based and targeted enforcement action.** This will include better information and advice for workers and employers, investigations of specific sectors thought to pose the greatest enforcement risks, joint working with other Government agencies and improved procedures for managing compliance investigations.

4.66 In January next year, responding to the Low Pay Commission's reports, the Government will also raise the penalties for the minority of employers who are persistently non-compliant, as well as taking criminal prosecutions in extreme cases.

Working Tax Credit **4.67** The WTC provides financial support on top of earnings for households with low incomes. In April 2006, 2.2 million working families and over 320,000 low income working households without children were benefiting from the WTC. Some 90,000 households were benefiting from the disabled worker element of the WTC, more than double the number who received support through its predecessor, the Disabled Person's Tax Credit.

4.68 **To ensure that people claiming Housing Benefit or Council Tax Benefit gain from the increases in the rates of WTC, this Pre-Budget Report announces that the earnings disregard in Housing Benefit and Council Tax Benefit will also be raised in line with indexation, increasing to £15.45 in April 2007.**

²⁴DWP Resource Accounts 2005-06

Tackling the unemployment trap **4.69** The unemployment trap occurs when those without work find the difference between in-work and out-of-work incomes too small to provide an incentive to enter the labour market. Table 4.1 shows that, since the introduction of the National Minimum Wage in April 1999, the Government has increased the minimum income that people can expect when moving into work, thereby reducing the unemployment trap.

Table 4.1: Weekly Minimum Income Guarantees (MIGs)

	April 1999	April 2007	Percentage increase in real terms ²
Family ¹ with one child, full-time work	£182	£275	22%
Family ¹ with one child, part-time work	£136	£215	27%
Single person, 25 or over, full-time work	£113	£178	27%
Couple, no children, 25 or over, full-time work	£117	£211	45%
Single disabled person in full-time work	£139	£222	29%
Single disabled person in part-time work	£109	£163	20%

Assumes single earner household, the prevailing rate of NMW and that the family receives the full entitlement of Family Credit/Disability Working Allowance or Working Tax Credit/Child Tax Credit.

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

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

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

Tackling the poverty trap **4.70** The poverty trap occurs when those in work have limited incentives to move up the earnings ladder because it may leave them little better off. Marginal deduction rates (MDRs) measure the extent of the poverty trap by showing how much of each additional pound of gross earnings is lost through higher taxes and withdrawn benefits or tax credits.

4.71 The Government's reforms are ensuring that workers have improved incentives to progress in work. Table 4.2 shows that, as a result of these reforms, about half a million fewer low income households now face MDRs in excess of 70 per cent than in April 1997. The increase in the number of households facing MDRs of between 60 and 70 per cent is primarily due to the introduction of tax credits, which have extended financial support so that far more families benefit, including low income working people without children. These financial incentives to progress in work will be supported by the focus on progression in the Leitch Review of Skills.

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

Marginal deduction rate ¹	Before Budget 1998	2007-08 system of tax and benefits
Over 100 per cent	5,000	0
Over 90 per cent	130,000	45,000
Over 80 per cent	300,000	165,000
Over 70 per cent	740,000	205,000
Over 60 per cent	760,000	1,680,000

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

Note: Figures are cumulative. Before Budget 1998 based on 1997-98 estimated caseload and take-up rates; the 2007-08 system of tax and benefits is based on 2004-05 caseload and take-up rates.

Funding for Welfare to Work

4.72 The Welfare to Work programme is delivered by DWP. When first established in 1997, the programme was funded from the excess profits of the privatised utilities. Since 2003-04, Welfare to Work has been increasingly funded from within DWP's own resources as the Windfall Tax receipts have been exhausted. The DWP Annual Report sets out expenditure plans and outturn information.

Table 4.3: Allocation of the Windfall Tax

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

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

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

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

⁴ Includes funding for the Innovation Fund.

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

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

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

⁸ Includes £219 million funding for Employer Training Pilots.

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

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

